

Area III SWCD Technical Service Area
Duluth, Minnesota

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Adjustments See Notes	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$187,725		\$187,725
Accounts receivable	\$0		\$0
Due from other governments	\$0		\$0
Prepaid items	\$2,927		\$2,927
Capital Assets:			
Equipment (net of accumulated depreciation)		\$67,611	\$67,611
Total Assets	\$190,652	\$67,611	\$258,263
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$0		\$0
Salaries payable	\$4,263		\$4,263
Deferred revenue	\$10,786		\$10,786
Long-term liabilities:			\$0
Due within one year	\$904		\$904
Due after one year		\$8,680	\$8,680
Total Liabilities	\$15,954	\$8,680	\$24,634
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Reserved for prepaid items			\$0
Unreserved			
Designated for future projects		\$0	\$0
Undesignated	\$174,698	-\$174,698	\$0
Total Fund Balance	\$174,698	-\$174,698	\$0
Net Assets			
Invested in capital assets		\$67,611	\$67,611
Unrestricted		\$166,018	\$166,018
Total Net Assets		\$233,629	\$233,629

Notes are an integral part of the basic financial statements.

Area III SWCD Technical Service Area
Duluth, Minnesota

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$386,259	\$0	\$386,259
Charges for services	\$7,930	\$0	\$7,930
Investment earnings	\$396	\$0	\$396
Miscellaneous	\$1,994	\$0	\$1,994
Total Revenues	<u>\$396,580</u>	<u>\$0</u>	<u>\$396,580</u>
Expenditures/Expenses			
Conservation			
Current	\$315,904	\$9,685	\$325,589
Capital outlay	\$29,279	-\$29,279	\$0
Total Expenditures/Expenses	<u>\$345,184</u>	<u>-\$19,594</u>	<u>\$325,589</u>
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$51,396	\$19,594	\$70,990
Fund Balance/Net Assets July 1	<u>\$123,303</u>	<u>\$39,337</u>	<u>\$162,639</u>
Fund Balance/Net Assets June 30	<u><u>\$174,698</u></u>	<u><u>\$58,931</u></u>	<u><u>\$233,629</u></u>

Notes are an integral part of the basic financial statements.

Area III SWCD Technical Service Area
Duluth, Minnesota

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
Revenues			
Intergovernmental			
County	0	0	0
Local	133,200	147,781	14,581
Federal	0	0	0
State grant	244,152	238,478	-5,674
Total intergovernmental	377,352	386,259	8,907
Charges for services	1,800	7,930	6,130
Miscellaneous			
Interest earnings	600	396	-204
Other	100	1,994	1,894
Total miscellaneous	700	2,390	1,690
Total Revenues	379,852	396,580	16,728
Expenditures			
District operations			
Personnel services	282,677	277,581	5,096
Other services and charges	53,475	36,925	16,550
Supplies	1,700	1,398	302
Capital outlay	27,000	29,279	-2,279
Total district operations	364,852	345,184	19,668
Project expenditures			
District	0	0	0
State	0	0	0
Total project expenditures	0	0	0
Total Expenditures	364,852	345,184	19,668
Excess of Revenues Over (Under)			
Expenditures	15,000	51,396	36,396
Fund Balance - July 1	123,303	123,303	123,303
Fund Balance - June 30	138,303	174,698	174,698

Notes are an integral part of the basic financial statements.

**DEFERRED REVENUE BREAKDOWN
2011**

Balance of BWSR Service Grants:	\$0
Subtotal of other funds:	\$10,786
TOTAL OF ALL DEFERRED REVENUE:	<u>\$10,786</u>

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Area 3 SWCD Technical Service Area (TSA 3) conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. Financial Reporting Entity

TSA 3 is organized under the provisions of Minnesota Statutes Chapter 103C and 457 and is governed by a Board of Supervisors composed of nine members selected by Member District and that are elected to four-year terms by the voters of the County of their member SWCD.

The purpose of the TSA is to assist member SWCDs and land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The TSA and Soil and Water Conservation Districts, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

Each fiscal year member SWCDs develop work plans that are used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plans includes guidelines for employees and technicians to follow in order to achieve the SWCD's and TSA's objectives.

The TSA is not considered a part of any county or SWCD because, even though some SWCDs may provide some amount of the TSA's revenue in the form of an appropriation, no SWCD retains any control over the operations of the TSA.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

B. Basis of Presentation - Fund Accounting

The accounts of Area 3 SWCD Technical Service Area (TSA 3) are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

B. Basis of Presentation - Fund Accounting (Continued)

1. Governmental Funds: General Fund

The General Fund is used to account for all revenues and expenditures incurred in operating the TSA.

2. General Fixed Assets Account Group

This account group is used to record the TSA's general fixed assets, which include furniture and equipment.

3. General Long-Term Debt Account Group

This account group records earned but unpaid vacation and sick leave that has vested or is expected to vest.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the TSA. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. TSA expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

The TSA's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

D. Budget Information

The TSA adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The TSA does not use encumbrance accounting.

E. Assets, Liabilities, and Equity Accounts

1. Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Fixed assets (capital assets) are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General fixed assets are still valued at historical or estimated historical cost.

2. Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the General Long-Term Debt Account Group.

3. Equity

Investment in general fixed assets represents the TSA's equity in general fixed assets.

Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriable for spending.

Unreserved, designated account indicates the portion of fund equity that the TSA has set aside for planned future expenditures.

Unreserved, undesignated fund balance account indicates the portion of fund balance that is available for budgeting and spending in future periods.

F. Explanation of Adjustments Column in Statements

1. Capital Assets: In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made if the TSA has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount report in Note IV.
2. Long-Term liabilities: In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the TSA has as of the report date. See Note 1-G below.
3. Depreciation and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and in Note I-G below.

G. Vacation and Sick Leave

Under the TSA's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from four to eight hours per bi-weekly pay period. Sick leave accrual is four hours per bi-weekly pay period. The limit on the accumulation and carry over to the next calendar year of annual leave is 240 hours. There is no limit on the accumulation of sick leave. Upon termination from the District by retirement, employees are paid accrued vacation leave and accrued sick leave in limited circumstances. On termination of employment by illness or death, employees are paid accrued vacation and accrued sick leave in some circumstances.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

Area 3 SWCD Technical Service Area (TSA 3) did not have a General Fund Deficit at June 30, 2011

B. Excess of Expenditures Over Budget

Area 3 SWCD Technical Service Area (TSA 3) did not have Excess Expenditures over Budget at June 30, 2011

C. Uncollateralized deposits

During 2011, the TSA's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At June 30, 2011, the TSA's deposits totaled **\$187,725**, of which **\$128,692** was cash deposits and **\$58,733** was invested in certificates of deposit. Minnesota Statutes require that all TSA deposits be covered by insurance, surety

bond, or collateral. At June 30, 2011 all the JPB's deposits were covered by insurance or collateralized with securities held by the TSA or its agent in the TSA's name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

Balance July 1, 2010	\$78,855
Additions	\$29,279
Deletions	\$10,721
2011 depreciation	\$15,561
Balance June 30, 2011	\$67,611

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$29,803 as of June 30, 2011.

The TSA uses a threshold of \$200 for capitalizing assets purchased. Those physical assets under \$200 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and/or other various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$10,786 for 2011

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended June 30, 2010 are:

Balance July 1, 2010	\$14,556
Net Changes in Compensated Absences	\$5,876
Balance June 30, 2010	\$8,680

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

The TSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. To cover these risks, the TSA has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The TSA is covered for errors and omissions through Minnesota Counties Intergovernmental Trust.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

VIII. PENSION PLAN

A. Plan Description

The TSA contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. PERA administers the Public Employees Retirement Fund (PERF.) The plan and its benefits are established and administered in accordance with Minnesota Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The JPB makes annual contributions to the pension plans equal to the amount required by state statutes. The TSA was required to contribute the following percentages of annual covered payroll: 7.25% for Coordinated Plan PERF members. The TSA's employer share of contributions to PERA for the years ending June 30, 2011, 2010, and 2009 were equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASES

The TSA leases office space on a yearly basis from the South St. Louis SWCD for the Duluth Office, and from Lyle Katterhagen for the Mora Office. Under the current agreements costs for 2011 were \$3,096 for the Duluth Office and \$5,390 for the Mora Office.

**Area 3 SWCD Technical Service Area
For the Year ended June 30, 2011**

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Area 3 SWCD Technical Service Area’s (TSA 3) discussion and analysis provides an overview of the TSA’s financial activities for the fiscal year ended 2010. Since this information is designed to focus on the 2011 activities, resulting changes, and currently known facts, it should be read in conjunction with the JPB’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the TSA 3 as a whole and present a longer-term view of the TSA’s finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the TSA’s operations in more detail than the government-wide statements by providing information about the TSA’s most significant funds. Since TSAs are joint powers entities created by single-purpose special purpose governments (SWCDs) they are generally able to combine the government-wide and fund financial statements into single presentations. TSA 3 has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the TSA 3’s finances is, “Is the JPB as a whole better or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the TSA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the 2011’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the TSA’s net assets and changes in them. You can think of the JPB’s net assets — the difference between assets and liabilities—as one way to measure the TSA’s financial health, or financial position. Over time, increases or decreases in the TSA’s net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the TSA presents Governmental activities. All of the TSA’s basic services are reported here. Appropriations from the state and local sources finance most activities.

Reporting the TSA 3’s General Fund

Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the TSA as a whole. The TSA presents only a general fund, which is a governmental fund. All of the TSA’s basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the TSA’s general government operations and the basic services it provides. Governmental fund information helps you determine

whether there are more or fewer financial resources that can be spent in the near future to finance the TSA’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE Area 3 SWCD TSA AS A WHOLE

The TSA 3’s combined net assets increased at the end 2011 to \$233,629 compared to \$162,639 at the end of 2010. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the TSA 3’s governmental and business-type activities.

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$190,652	\$132,200
Capital assets	\$67,611	\$53,892
Total assets	\$258,263	\$186,092
Long-term debt outstanding	\$8,680	\$14,556
Other liabilities	\$15,954	\$8,8897
Total liabilities	\$24,634	\$23,453
Net assets		
Invested in capital assets,	\$67,611	\$53,892
Unrestricted	\$166,018	\$108,747
Total net assets	\$233,629	\$162,639

At the end of 2011 net assets of the TSA 3’s governmental activities increased by \$70,990. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased by \$52,271 at the end of this year.

**TABLE 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues:		
Local	\$147,781	\$229,788
County	\$0	\$0
State grants and entitlements	\$190,984	\$179,241
General revenues		
Other general revenues	\$57,814	\$5,552
Total revenues	\$396,580	\$414,582
Program expenses		
General government		
Conservation	\$345,184	\$340,759
Total expenses	\$345,184	\$340,759
Increase (decrease) in net assets	\$51,396	\$73,822

At the end of 2011 TSA 3’s total revenues decreased \$18,002 compared to 2010. The total cost of all programs and services increased by \$4,425.

Governmental Activities

The cost of all governmental activities this year was \$345,184 compared to \$340,759 last year. The TSA does not collect any tax revenue directly from tax payers. However, taxpayers ultimately financed most of these activities through taxes collected by other agencies.

THE AREA 3 SWCD TSA's FUNDS

As the TSA completed the year, its general fund reported a combined fund balance of \$174,698 which is above last year's total of \$123,303.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the TSA #3 had \$67,611 invested in capital assets, including vehicles, computers, furniture and other equipment. (See Table 4 below.) This amount represents a net increase (including additions, depreciation and deductions) of \$35,190 above last year.

Table 4
Capital Assets at Year-end

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Equipment	\$67,611	\$53,892

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Area 3 SWCD Technical Service Area's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget. The budget is set primarily by analyzing anticipated revenues and required expenditures to complete TSA projects and goals. The current state budget deficit was a factor in completing the 2012 budget.

CONTACTING Area 3 SWCD Technical Service Area

This financial report is designed to provide our citizens, taxpayers, customers, with a general overview of the TSA 3's finances and to show the TSA accountability for the money it receives. If you have questions about this report or need additional financial information, contact the TSA at:

Area 3 SWCD Technical Service Area
C/O South St. Louis Soil & Water Conservation District
215 North 1st Ave East
Room 301
Duluth, MN 55802
(218) 723-4867
www.southstlouisswcd.org