

**AREA 3 SWCD  
TECHNICAL SERVICE AREA**

**FINANCIAL STATEMENTS**

**June 30, 2012**

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Area 3 SWCD Technical Service Area  
Duluth, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Area 3 SWCD Technical Service Area (TSA), Duluth, Minnesota as of and for the year ended June 30, 2012 which collectively comprise the TSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TSA management. My responsibility is to express opinions on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the Area 3 SWCD Technical Service Area, Duluth, Minnesota as of June 30, 2012, and the results of operations and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the TSA adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis information is not a required part of the basic financial statements but it is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated November 28, 2012 on my consideration of the TSA's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



JAMES MAISER  
Certified Public Accountant and Consultant

November 28, 2012  
Waconia, Minnesota

## **AREA 3 SWCD TECHNICAL SERVICE AREA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Area 3 SWCD Technical Service Area discussion and analysis provides an overview of the TSA's financial activities for the fiscal year ended June 30, 2012. This information is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the TSA's financial statements.

### **USING THIS ANNUAL REPORT**

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. 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 as a whole. For governmental activities, these statements tell how these services were financed in the short term. 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 TSA's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. The Area 3 SWCD Technical Service Area has elected to present in this format.

### **The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the TSA as a whole. 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 current year'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 TSA'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 individual districts and state finance most activities.

Reporting the TSA's General Fund - 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 TSA AS A WHOLE

The TSA's combined net assets analysis below focuses on the net assets of the TSA's governmental activities.

<u>Net Assets</u>	<u>Governmental Activities</u>	
	<u>6-30-2012</u>	<u>6-30-2011</u>
Current and other assets	\$207,144	\$190,652
Capital assets	\$ 58,284	\$ 67,611
Total assets	<u>\$265,428</u>	<u>\$258,263</u>
Current Liabilities	\$ 24,081	\$ 15,954
Long Term Liabilities	\$ 10,578	\$ 8,680
Total liabilities	<u>\$34,659</u>	<u>\$ 24,634</u>
Net assets		
Invested in capital assets	\$ 58,284	\$ 67,611
Unassigned	<u>\$172,485</u>	<u>\$166,018</u>
Total net assets	<u>\$230,769</u>	<u>\$233,629</u>

Unassigned 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 is \$172,485.

<u>Changes in Net Assets</u>	<u>Governmental Activities</u>	
	<u>6-30-2012</u>	<u>6-30-2011</u>
Revenues		
Intergovernmental Revenue	\$ 316,151	\$ 386,259
Charges for Services	\$ 13,566	\$ 7,930
Investment Earnings	\$ 285	\$ 396
Miscellaneous	\$ 3,513	\$ 1,994
Total revenues	<u>\$ 333,515</u>	<u>\$ 396,580</u>
Program expenses		
Conservation	<u>\$ 336,375</u>	<u>\$325,589</u>
Increase (decrease) in net assets	<u>(\$ 2,860)</u>	<u>\$ 70,990</u>

### THE TSA's FUNDS

As the TSA completed the year, its general fund reported a fund balance of \$183,063.

General Fund Budgetary Highlights: The actual expenditures were \$17,022 under the final budget amounts. Revenues were \$25,188 under the final budgeted amount. The most significant negative variance was \$42,036 in Local Revenues. The State Challenge Grant State funding affected resources available for appropriation.

Capital Assets - As of June 30, 2012, the TSA had \$58,284 invested in a broad range of capital assets, including computers, surveying equipment and the necessary software associated with surveying.

Long-Term Liabilities - At the end of the fiscal year, the District had \$10,578 in accrued compensated absences.

### **CONTACTING THE TSA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the TSA's finances and to show the TSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the TSA's Fiscal Agent the S St. Louis Soil and Water Conservation District, 215 N 1<sup>st</sup> Avenue E, Duluth MN 55802. Phone # is 218-723-4867.

AREA 3 SWCD TECHNICAL SERVICE AREA  
DULUTH, MINNESOTA

STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2012

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 204,244	\$ -	\$ 204,244
Prepaid Items	2,900	-	2,900
Capital Assets:			
Equipment (net of accumulated depreciation)	-	58,284	58,284
Total Assets	<u>\$ 207,144</u>	<u>\$ 58,284</u>	<u>\$ 265,428</u>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts Payable	\$ 726	\$ -	\$ 726
Accrued Payroll Payable	3,614	-	3,614
Deferred Revenue	19,741	-	19,741
Long-term liabilities:			
Due within one year	-	10,578	10,578
Due after one year	-	-	-
Total Liabilities	<u>\$ 24,081</u>	<u>\$ 10,578</u>	<u>\$ 34,659</u>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Nonspendable (Prepaid)	2,900	(2,900)	-
Unassigned	180,163	(180,163)	-
Total Fund Balance	<u>\$ 183,063</u>	<u>\$ (183,063)</u>	<u>\$ -</u>
Net Assets			
Invested in capital assets		\$ 58,284	\$ 58,284
Unassigned		172,485	172,485
Total Net Assets		<u>\$ 230,769</u>	<u>\$ 230,769</u>

AREA 3 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, 2012

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 316,151	\$ -	\$ 316,151
Charges for Services	13,566	-	13,566
Investment earnings	285	-	285
Other Miscellaneous Income	3,513	-	3,513
<b>Total Revenues</b>	<u>\$ 333,515</u>	<u>\$ -</u>	<u>\$ 333,515</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 319,452	\$ 16,923	\$ 336,375
Capital outlay	5,698	(5,698)	-
<b>Total Expenditures/Expenses</b>	<u>\$ 325,150</u>	<u>\$ 11,225</u>	<u>\$ 336,375</u>
 Excess of Revenues Over (Under) Expenditures/Expenses	 <u>\$ 8,365</u>	 <u>\$ (11,225)</u>	 <u>\$ (2,860)</u>
 Fund Balance/Net Assets July 1, 2011	 <u>\$ 174,698</u>	 <u>\$ 58,931</u>	 <u>\$ 233,629</u>
 Fund Balance/Net Assets June 30, 2012	 <u><u>\$ 183,063</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 230,769</u></u>

Notes are an integral part of the basic financial statements.



AREA 3 SWCD TECHNICAL SERVICE AREA  
DULUTH, MINNESOTA

BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
<b>Revenues</b>				
Intergovernmental				
Local	\$ 209,478	\$ 227,203	\$ 185,167	\$ (42,036)
State Grant	130,000	130,000	130,984	984
Total intergovernmental	<u>\$ 339,478</u>	<u>\$ 357,203</u>	<u>\$ 316,151</u>	<u>\$ (41,052)</u>
Charges for Services	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 13,566</u>	<u>\$ 12,566</u>
Miscellaneous				
Investment earnings	\$ 400	\$ 400	\$ 285	\$ (115)
Other	100	100	3,513	3,413
Total miscellaneous	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 3,798</u>	<u>\$ 3,298</u>
Total Revenues	<u>\$ 340,978</u>	<u>\$ 358,703</u>	<u>\$ 333,515</u>	<u>\$ (25,188)</u>
<b>Expenditures</b>				
TSA operations				
Personnel services	\$ 278,375	\$ 296,100	\$ 273,869	\$ 22,231
Other services and charges	37,572	37,572	44,057	(6,485)
Supplies	1,500	1,500	1,526	(26)
Capital Outlay	7,000	7,000	5,698	1,302
Total district operations	<u>\$ 324,447</u>	<u>\$ 342,172</u>	<u>\$ 325,150</u>	<u>\$ 17,022</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ 16,531</u>	<u>\$ 16,531</u>	<u>\$ 8,365</u>	<u>\$ (8,166)</u>
Fund Balance - July 1, 2011	<u>\$ 178,236</u>	<u>\$ 178,236</u>	<u>\$ 174,698</u>	<u>\$ -</u>
Fund Balance - June 30, 2012	<u>\$ 194,767</u>	<u>\$ 194,767</u>	<u>\$ 183,063</u>	<u>\$ (8,166)</u>

Notes are an integral part of the basic financial statements.

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

**Note 1 - Summary of Significant Accounting Policies**

The financial reporting policies of the Area 3 SWCD Technical Service Area 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.

**Financial Reporting Entity**

The Area 3 SWCD Technical Service Area (TSA) was organized July 1, 2009. The Area 3 SWCD Technical Service Area was organized under provisions of MN Statute. The TSA is governed by a Board of Supervisors composed of 9 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 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 Area 3 SWCD Technical Service Area 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 the Area 3 SWCD Technical Service Area develops a work plan which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the TSA's objectives.

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 TSA does not have any component units.

**Government-Wide Financial Statements**

The government-wide financial statements (ie., the Statement of Net Assets and The Statement of Activities) report information on all of 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. Direct 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 revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the TSA considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

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.

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.

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 TSA approval. Appropriations lapse at year-end. The TSA does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Fund Equity Accounts

Assets

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

Capital assets are reported on a net (depreciated) basis. General capital assets are still valued at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for as an adjustment to Net Assets.

Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets – the amount of net assets representing capital assets net of accumulated depreciation.

Restricted net assets – the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

Classification of Fund Balances

The TSA adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*.

Fund balance is divided into five classifications based primarily on the extent to which the TSA is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the TSA Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the TSA intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the TSA Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

The TSA applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Explanation of Adjustments Column in Statements

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 reported in the Capital Assets Note.

Long-Term Liabilities: In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence liability the TSA has as of the report date. See note on Long-Term Liabilities.

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

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

Absences between the reporting year and the previous year. This number is supported by figures in the note on Long-Term Liabilities.

Risk Management

The TSA is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Insurance Trust. The TSA retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The TSA pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

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 4 to 8 hours per bi-weekly pay period. Sick leave accrual is 4 hours per bi-weekly pay period. The limit on the accumulation of annual leave is 240 hours and there is no limit on the accumulation of sick leave. Upon termination of employment from the TSA, employees are paid accumulated annual leave and up to 80 hours of accrued sick leave

**Note 2 – Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$97,413	\$ 5,698	\$7,305	\$95,806
Less: Accumulated Depreciation	<u>29,802</u>	15,025	7,305	<u>37,522</u>
Net Capital Assets	<u>\$67,611</u>			<u>\$58,284</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and equipment 5 to 10 years. Current year depreciation is \$15,025

The TSA uses the threshold of \$500 for capitalizing assets purchased.

Deferred Revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue as of June 30, 2012 is as follows: LSA Funds, \$1,297; Vegetation Restoration Funds, \$18,444; Total, \$19,741.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended June 30, 2012 are:

Balance July 1, 2011	\$8,680
Net Change in Compensated Absences	<u>1,898</u>
Balance June 30, 2012	<u>\$10,578</u>

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

Deposits

Minn. Statutes 118A.02 and 118A.04 authorize the TSA to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all TSA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard

letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

At June 30, 2012, the TSA's deposits totaled \$204,244 of which \$145,308 were cash deposits and \$58,936 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the TSA's deposits may not be returned to it. The TSA does not have a deposit policy for custodial credit risk. As of June 30, 2012, the TSA's deposits were not exposed to custodial credit risk.

**Note 3 – Fiscal Agent and Operating Leases**

The South St. Louis Soil and Water Conservation Service is the fiscal agent for the Technical Service Area.

**Note 4 - Defined Benefit Pension Plans – Statewide**

Plan Description - Public Employees Retirement Association

The TSA contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee 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. The plan and its benefits are established and administered in accordance with Minn. 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.

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 TSA makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.25% of their annual covered salary. The TSA is required to contribute 7.25% of annual covered payroll. The TSA's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 5– Operating Leases**

The TSA leases office space on a yearly basis. Under the current agreement, total costs for year-ended June 30, 2012 were \$8,892.

**AREA 3 SWCD TECHNICAL SERVICE AREA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

**Note 6– Reconciliation of Fund Balance to Net Assets**

Governmental Fund Balance, 7/1/2011	\$174,698
Plus: Excess of Revenue Over Expenditures	<u>8,365</u>
Governmental Fund Balance, 6/30/2012	<u>\$183,063</u>
Adjustments from Fund Balance to Net Assets:	
Plus: Capital Assets	\$58,284
Less: Long Term Liabilities	<u>(10,578)</u>
Net Assets	<u>\$230,769</u>

**Note 7– Reconciliation of Change in Fund Balance to Change in Net Assets**

Change in fund balance	\$8,365
Capital Outlay	5,698
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(15,025)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>(1,898)</u>
Net change in net assets	<u>(\$2,860)</u>

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**REPORT ON LEGAL COMPLIANCE**

Board of Directors  
Area 3 SWCD Technical Service Area  
Duluth, Minnesota

I have audited the accompanying financial statements of the governmental activities, and the General fund of Area 3 SWCD Technical Service Area (TSA), Duluth, Minnesota as of and for the year ended June 30, 2012, which collectively comprise the TSA's basic financial statements and have issued my report thereon dated November 28, 2012.

My audit was made in accordance with auditing standards generally accepted in the United States of America and provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as I considered necessary in the circumstances.

The Legal Compliance Audit Guide for Political Subdivisions covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. My study included all of the listed categories except public indebtedness. The public indebtedness category was not tested because the TSA is not allowed to issue debt.

The results of my test indicate that for the items tested, the TSA complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the TSA, Board of Water and Soil Resources, State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



**JAMES MAISER**  
Certified Public Accountant and Consultant

November 28, 2012  
Waconia, Minnesota



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**JAMES MAISER  
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Board of Directors  
Area 3 SWCD Technical Service Area  
Duluth, Minnesota

I have audited the financial statements of the governmental activities, and the General fund of the Area 3 SWCD Technical Service Area (TSA), Duluth, Minnesota as of and for the year ended June 30, 2012, and have issued my report thereon dated November 28, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control**

In planning and performing my audit of the financial statements of the governmental activities, and the General fund of the Area 3 SWCD Technical Service Area, Duluth, Minnesota as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the TSA's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TSA's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the TSA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material

weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Area 3 SWCD Technical Service Area, Duluth, Minnesota, financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the organization and the Board of Supervisors, Board of Water and Soil Resources, State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



JAMES MAISER

Certified Public Accountant and Consultant

November 28, 2012  
Waconia, Minnesota