

Area 3 SWCD Technical Service Area  
DULUTH, MINNESOTA

STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Adjustments See Notes	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$204,244		\$204,244
Accounts receivable	\$0		\$0
Due from other governments	\$0		\$0
Prepaid items	\$2,900		\$2,900
Capital Assets:			
Equipment (net of accumulated depreciation)		\$58,284	\$58,284
<b>Total Assets</b>	<b>\$207,143</b>	<b>\$58,284</b>	<b>\$265,428</b>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable			\$0
Salaries payable	\$3,614		\$3,614
Deferred revenue	\$19,741		\$19,741
Long-term liabilities:			\$0
Due within one year	\$725	\$10,578	\$11,304
Due after one year		\$0	\$0
<b>Total Liabilities</b>	<b>\$24,081</b>	<b>\$10,578</b>	<b>\$34,659</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Nonspendable (Prepays, Inventories)	\$2,900	-\$2,900	\$0
Unrestricted			
Committed or Assigned	\$0	\$0	\$0
Unassigned	\$180,163	-\$180,163	\$0
<b>Total Fund Balance</b>	<b>\$183,063</b>	<b>-\$183,063</b>	<b>\$0</b>
Net Assets			
Invested in capital assets		\$58,284	\$58,284
Unassigned		\$172,484	\$172,484
<b>Total Net Assets</b>		<b>\$230,769</b>	<b>\$230,769</b>

Notes are an integral part of the basic financial statements.

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 See Notes	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$316,151	\$0	\$316,151
Charges for services	\$13,566	\$0	\$13,566
Investment earnings	\$285	\$0	\$285
Miscellaneous	\$3,513	\$0	\$3,513
<b>Total Revenues</b>	<b><u>\$333,515</u></b>	<b><u>\$0</u></b>	<b><u>\$333,515</u></b>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$319,452	\$16,923	\$336,375
Capital outlay	\$5,698	-\$5,698	\$0
<b>Total Expenditures/Expenses</b>	<b><u>\$325,150</u></b>	<b><u>\$11,225</u></b>	<b><u>\$336,375</u></b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures/Expenses</b>	<b>\$8,364</b>	<b>-\$11,225</b>	<b>-\$2,860</b>
<b>Fund Balance/Net Assets January 1</b>	<b><u>\$174,698</u></b>	<b><u>\$58,931</u></b>	<b><u>\$233,629</u></b>
<b>Fund Balance/Net Assets December 31</b>	<b><u><u>\$183,063</u></u></b>	<b><u><u>\$47,706</u></u></b>	<b><u><u>\$230,769</u></u></b>

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>				
<b>Intergovernmental</b>				
Local	\$209,478	\$227,203	\$185,167	-\$42,036
State grant	\$130,000	\$130,000	\$130,984	\$984
<b>Total intergovernmental</b>	<b>\$339,478</b>	<b>\$357,203</b>	<b>\$316,151</b>	<b>-\$41,052</b>
<b>Charges for services</b>	<b>\$1,000</b>	<b>\$1,000</b>	<b>\$13,566</b>	<b>\$12,566</b>
<b>Miscellaneous</b>				
Interest earnings	\$400	\$400	\$285	-\$115
Other	\$100	\$100	\$3,513	\$3,413
<b>Total miscellaneous</b>	<b>\$500</b>	<b>\$500</b>	<b>\$3,798</b>	<b>\$3,298</b>
<b>Total Revenues</b>	<b>\$340,978</b>	<b>\$358,703</b>	<b>\$333,515</b>	<b>-\$25,188</b>
<b>Expenditures</b>				
<b>TSA Operations</b>				
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
<b>Total TSA Operations</b>	<b>\$324,447</b>	<b>\$342,172</b>	<b>\$325,150</b>	<b>\$17,022</b>
<b>Total Expenditures</b>	<b>\$324,447</b>	<b>\$342,172</b>	<b>\$325,150</b>	<b>\$17,022</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$16,531</b>	<b>\$16,531</b>	<b>\$8,364</b>	<b>-\$8,167</b>
<b>Fund Balance - July 1</b>	<b>\$178,236</b>	<b>\$178,236</b>	<b>\$174,698</b>	<b>-\$3,538</b>
<b>Fund Balance -June 30</b>	<b>\$194,767</b>	<b>\$194,767</b>	<b>\$183,063</b>	<b>-\$11,704</b>

Notes are an integral part of the basic financial statements.

**DEFERRED REVENUE BREAKDOWN  
2012**

Balance of BWSR Service Grants:	\$0
Balance of <u>other</u> funds being deferred (list if any):	
<u>Vegetation Restoration</u>	\$19,741.08
Subtotal of other funds:	\$19,741.08
<b>TOTAL OF ALL DEFERRED REVENUE:</b>	<b>\$19,741.08</b>

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of Area 3 SWCD Technical Service Area (TSA) 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

The TSA 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 District, 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 the TSA develops a work plan that 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.

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 TSA does not have any component units.

## B. Basis of Presentation - Fund Accounting

The accounts of the Area 3 SWCD Technical Service Area (TSA) 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.

## C. 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.

## D. 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. 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 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 and other revenues are recognized when earned.

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.

E. 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.

F. 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.

Beginning with statement year 2004, 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.

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

Unrestrictive, committed or assigned account indicates the portion of fund equity that the TSA has set aside for planned future expenditures.

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

G. 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.

H. 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 pay period. Sick leave accrual is four hours per pay period. The limit on the accumulation of annual leave is 240 hours and there is no limit on sick leave. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 80 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 80 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At June 30, 2012, the TSA did not have a General Fund had a deficit.

B. Excess of Expenditures Over Budget

During 2012, actual expenditures, \$325,150, were less than budgeted expenditures, \$342,172, by \$17,022.

C. Uncollateralized deposits

During 2012, 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 TSA to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At June 30, 2012, the TSA's deposits totaled \$204,244, of which \$145,308 was cash deposits and \$58,936 was invested in certificates of deposit. Minnesota Statutes require that all TSA deposits be covered by insurance, surety bond, or collateral. At June 30, 2012, all the TSA'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, 2011	\$67,611
Additions	\$5,698
Deletions	\$7,305
2012 depreciation	\$15,025
Balance June 30, 2012	\$58,668

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$37,522 as of June 30, 2012.

The District uses a threshold of \$500 for capitalizing assets purchased. Those physical assets under \$500 are expenses directly and not capitalized.

#### V. DEFERRED REVENUE

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

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$19,741.

#### VI. COMPENSATED ABSENCES PAYABLE

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

Balance July 1, 2011	\$8,680
Net Changes in Compensated Absences	\$1,898
Balance June 30, 2012	\$10,578

#### 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 TSA 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, 2012, 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 2012 were \$3,252 for the Duluth Office and \$5,640 for the Mora Office.

**Area 3 SWCD Technical Service Area  
For the Year ended June 30, 2012**

**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 2012. Since this information is designed to focus on the 2012 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 2012’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 2012 to \$230,769 compared to \$233,629 at the end of 2011. 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>2012</u>	<u>2011</u>
Current and other assets	\$207,143	\$190,652
Capital assets	\$58,284	\$67,611
Total assets	\$265,428	\$258,263
Long-term debt outstanding	\$11,304	\$8,680
Other liabilities	\$23,355	\$15,954
Total liabilities	<b>\$34,659</b>	<b>\$24,634</b>
Net assets		
Invested in capital assets,	\$58,284	\$67,611
Unrestricted	\$172,484	\$166,018
Total net assets	<b>\$230,769</b>	<b>\$233,629</b>

At the end of 2012, net assets of the TSA 3’s governmental activities decreased by \$2,860. This decrease is primarily due to the increase in staff vacation balances (compensated absences) that are reported as liabilities in the financial statement. 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 \$6,466 at the end of this year.

**TABLE 2  
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues:		
Local	\$185,167	\$147,781
County	\$0	\$0
State grants and entitlements	\$130,984	\$190,984
General revenues		
Other general revenues	\$17,364	\$57,814
Total revenues	\$333,515	\$396,580
<b>Program expenses</b>		
General government		
Conservation	\$325,150	\$345,184
Total expenses	\$325,150	\$345,184
<b>Increase (decrease) in net assets</b>	<b>\$8,364</b>	<b>\$51,396</b>

At the end of 2012 TSA 3’s total revenues decreased by \$63,065 compared to 2011. Compared to 2011, the total cost of all programs and services decreased by \$20,034 for 2012. The decrease was primarily due to staff vacancies that occurred during 2012.

## Governmental Activities

The cost of all governmental activities this year was \$325,150 compared to \$345,184 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 \$183,063 which is above last year's total of \$174,698.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2012, the TSA #3 had \$58,284 invested in capital assets, including vehicles, computers, furniture and other equipment. (See Table 4 below) This amount represents a net decrease (including additions, depreciation and deductions) of \$9,327 below last year.

**Table 4**  
**Capital Assets at Year-end**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Equipment	\$58,284	\$67,611

## 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 2013 budget. The budget is set primarily by analyzing anticipated revenues and required expenditures to complete TSA projects and goals.

## 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 1<sup>st</sup> Ave East  
Room 301  
Duluth, MN 55802  
(218) 723-4867  
[www.southstlouisswcd.org](http://www.southstlouisswcd.org)