

**SOUTH ST. LOUIS SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2011**

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
South St. Louis Soil and Water Conservation District  
Duluth, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the South St. Louis Soil and Water Conservation District, Duluth, Minnesota as of and for the year ended December 31, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District 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 South St. Louis Soil and Water Conservation District, Duluth, Minnesota as of December 31, 2011, 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 for 2011, the District 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 June 30, 2012 on my consideration of the District'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

June 30, 2012  
Waconia, Minnesota

**South St. Louis Soil & Water Conservation District  
For the Year ended December 31, 2011**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The South St. Louis SWCD's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended 2011. 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 SWCD'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 South St. Louis Soil & Water Conservation District as a whole and present a longer-term view of the SWCD'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 SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since Soil & Water Conservation Districts are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. South St. Louis SWCD 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 South St. Louis SWCD's finances is, "Is the South St. Louis SWCD 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 SWCD as a whole and about its activities in a way that answers 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 South St. Louis SWCD's net assets and changes in them. You can think of the SWCD's net assets — the difference between assets and liabilities—as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the SWCD'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 South St. Louis SWCD presents Governmental activities. All of the SWCD's basic services are reported here. Appropriations from the county and state finance most activities.

## Reporting the South St. Louis SWCD's General Fund - Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD'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 SWCD'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 SWCD'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 SOUTH ST LOUIS SWCD AS A WHOLE

The South St. Louis SWCD's combined net assets decreased at the end 2011 to **\$188,170** compared to **\$188,352** at the end of 2010. Our analysis below focuses on the net assets and changes in net assets of the South St. Louis SWCD's governmental activities.

**Table 1, Net Assets**

	<b><u>Governmental Activities</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Current and other assets	\$330,413	\$331,502
Capital assets	<u>\$8,363</u>	<u>\$10,226</u>
Total assets	\$338,776	\$341,728
Long-term liabilities	\$2,661	\$1,973
Current liabilities	<u>\$147,945</u>	<u>\$151,403</u>
Total Liabilities	\$150,606	\$153,376
Net Assets:		
Invested in capital assets	\$8,363	\$10,226
Unrestricted	<u>\$179,807</u>	<u>\$178,127</u>
<b>Total net assets</b>	<b>\$188,170</b>	<b>\$188,352</b>

At the end of 2011 the net assets of the South St. Louis SWCD governmental activities decreased by \$182. 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—changed from a \$178,127 surplus at December 31, 2010 to a \$179,807 surplus at the end of this year.

**Table 2, Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Intergovernmental	\$302,034	\$150,091
Charges for services	\$38,967	\$71,033
Investment earnings	\$ 1,073	\$1,201
Miscellaneous	<u>\$ 10,494</u>	<u>\$ 2,525</u>
<b>Total Revenues</b>	<b>\$352,568</b>	<b>\$224,851</b>
Expenses		
Conservation	\$352,750	\$237,199
<b>Total Expenses</b>	<b>\$352,750</b>	<b>\$237,199</b>
<b>Increase (decrease) in net assets</b>	<b><u>(\$182)</u></b>	<b><u>(\$12,348)</u></b>

At the end of 2011 South St. Louis SWCD's total revenues increased by \$127,717 compared to 2010. This increase is due largely to the following: Revenue for the Clean Water Legacy Act Miller Creek Jumbo Gully Project and the Clean Water Fund Knife River Implementation project deferred from 2010 was recognized in 2011 due to project completion. The total cost of all programs and services increased by \$115,551 in 2011. This was largely due to expenses for completion of the above mentioned projects.

### **Governmental Activities**

The cost of all governmental activities this year was \$352,750 compared to \$237,199 last year. The South St. Louis SWCD 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 major exception is expenses for the tree and shrub sale (\$22,412) are paid entirely by customers that purchase trees or shrubs. Of course many of these customers are ultimately taxpayers, but these customers choose to participate in the program and derive benefit from the purchase of trees and shrubs.

### **THE SOUTH ST. LOUIS SOIL & WATER CONSERVATION DISTRICT'S FUNDS**

As the South St. Louis SWCD completed the year, its general fund reported a combined fund balance of \$182,468 which is above last year's total of \$180,099.

### **General Fund Budgetary Highlights**

Over the course of the year, the South St. Louis SWCD Board of Supervisors did not revise the SWCD's budget. The Budget approved in January 2011 was used by management for the entirety of 2011.

The actual charges to appropriations (expenditures) were \$239,918 less than the final budget amounts. A significant variance (\$222,104) occurred in the SWCD's State Project expenditures. Major factors contributing to less spending than budgeted is just a matter of timing. Two projects, CWF Miller Creek and MPCA Amity Creek Project were not completed in 2011. Much of the funds associated with these projects will be recognized as revenue in 2012.

On the other hand, resources available for appropriation (revenue) were \$237,549 below the final budgeted amount. The most significant variance (\$214,208) occurred in the State Grant revenue account. Potential revenue in this account has been deferred to 2012 as explained above. Overall, having less revenue available than budgeted is not a negative factor impacting the SWCD's general fund significantly, because the budget deficit is mainly due to revenues being deferred to 2012.

## **CAPITAL ASSETS AND LONG-TERM LIABILITIES**

### **Capital Assets**

At the end of 2011, the South St. Louis SWCD had \$8,363 invested in capital assets, including a van, computers, furniture and other equipment. This amount represents a net decrease (including additions and deductions) of \$1,863 under last year.

Capital Assets at Year-end		
	<u>2011</u>	<u>2010</u>
Equipment	\$8,363	\$10,226

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The South St. Louis SWCD'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 SWCD projects and goals. The current state budget uncertainty will be a factor in completing the 2012 budget.

## **CONTACTING THE SOUTH ST LOUIS SWCD'S FINANCIAL MANAGEMENT**

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

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).

SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT  
DULUTH, MINNESOTA

STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2011

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 329,511	\$ -	\$ 329,511
Prepaid Items	902	-	902
Capital Assets:			
Equipment (net of accumulated depreciation)	-	8,363	8,363
Total Assets	<u>\$ 330,413</u>	<u>\$ 8,363</u>	<u>\$ 338,776</u>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accrued Payroll Payable	\$ 2,067	\$ -	\$ 2,067
Deferred Revenue	144,213	-	144,213
Deposits on Trees	1,665	-	1,665
Long-term liabilities:			
Due within one year	-	2,661	2,661
Due after one year	-	-	-
Total Liabilities	<u>\$ 147,945</u>	<u>\$ 2,661</u>	<u>\$ 150,606</u>
<b><u>Fund Balance/Net Assets</u></b>			
Nonspendable:			
Prepays	\$ 902	\$ (902)	\$ -
Unassigned	181,566	(181,566)	-
Total Fund Balance	<u>\$ 182,468</u>	<u>\$ (182,468)</u>	<u>\$ -</u>
Net Assets			
Invested in capital assets		\$ 8,363	\$ 8,363
Unrestricted		179,807	179,807
Total Net Assets		<u>\$ 188,170</u>	<u>\$ 188,170</u>

Notes are an integral part of the basic financial statements.



SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT  
DULUTH, MINNESOTA

STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 302,034	\$ -	\$ 302,034
Charges for services	38,967	-	38,967
Investment earnings	1,073	-	1,073
Miscellaneous	10,494	-	10,494
<b>Total Revenues</b>	<u>\$ 352,568</u>	<u>\$ -</u>	<u>\$ 352,568</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 349,121	\$ 3,629	\$ 352,750
Capital outlay	1,078	(1,078)	-
<b>Total Expenditures/Expenses</b>	<u>\$ 350,199</u>	<u>\$ 2,551</u>	<u>\$ 352,750</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 2,369</u>	<u>\$ (2,551)</u>	<u>\$ (182)</u>
Fund Balance/Net Assets January 1	<u>\$ 180,099</u>	<u>\$ 8,253</u>	<u>\$ 188,352</u>
Fund Balance/Net Assets December 31	<u><u>\$ 182,468</u></u>	<u><u>\$ 5,702</u></u>	<u><u>\$ 188,170</u></u>

Notes are an integral part of the basic financial statements.

SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT  
DULUTH, MINNESOTA

BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2011

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
<b>Revenues</b>			
Intergovernmental			
Local	\$ 18,100	\$ 2,238	\$ (15,862)
County	85,668	78,335	(7,333)
State Grant	435,149	220,941	(214,208)
Federal	1,700	520	(1,180)
Total intergovernmental	<u>\$ 540,617</u>	<u>\$ 302,034</u>	<u>\$ (238,583)</u>
Charges for services	<u>\$ 45,100</u>	<u>\$ 38,967</u>	<u>\$ (6,133)</u>
Miscellaneous			
Interest earnings	\$ 1,000	\$ 1,073	\$ 73
Other	3,400	10,494	7,094
Total miscellaneous	<u>\$ 4,400</u>	<u>\$ 11,567</u>	<u>\$ 7,167</u>
Total Revenues	<u>\$ 590,117</u>	<u>\$ 352,568</u>	<u>\$ (237,549)</u>
<b>Expenditures</b>			
District operations			
Personnel services	\$ 139,426	\$ 138,187	\$ 1,239
Other services and charges	42,906	35,406	7,500
Supplies	2,800	2,735	65
Capital outlay	2,500	1,078	1,422
Total district operations	<u>\$ 187,632</u>	<u>\$ 177,406</u>	<u>\$ 10,226</u>
Project expenditures			
District	\$ 30,000	\$ 22,412	\$ 7,588
State	372,485	150,381	222,104
Total project expenditures	<u>\$ 402,485</u>	<u>\$ 172,793</u>	<u>\$ 229,692</u>
Total Expenditures	<u>\$ 590,117</u>	<u>\$ 350,199</u>	<u>\$ 239,918</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ -</u>	<u>\$ 2,369</u>	<u>\$ 2,369</u>
Fund Balance - January 1	<u>\$ 180,099</u>	<u>\$ 180,099</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 180,099</u>	<u>\$ 182,468</u>	<u>\$ 2,369</u>

Notes are an integral part of the basic financial statements.

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

The financial reporting policies of the South St. Louis Soil and Water Conservation District 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 South St. Louis Soil and Water Conservation District is organized under the provisions of Minnesota Statutes Chapter 103C. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District 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 South St. Louis 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 District 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 District's objectives.

The District is not considered a part of St. Louis County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the district.

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.

**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 District.

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 District considers all revenues, except reimbursement grants, to

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

be available if they are collected within 60 days of the end of the current fiscal period.

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. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the Cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

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 District 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 District 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 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 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:

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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.

Classification of Fund Balances

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition* in 2011.

Fund balance is divided into five classifications based primarily on the extent to which the District 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 District 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 District 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 District 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 District 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 district 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.

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011**

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

Vacation and Sick Leave

Under the District'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 district, employees are paid accumulated annual leave and up to 20 hours of accrued sick leave

Risk Management

The District 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 Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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

**Note 2 – Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$17,056	\$1,078	\$ 913	\$17,221
Less: Accumulated Depreciation	<u>6,830</u>	2,941	\$ 913	<u>8,858</u>
Net Capital Assets	<u>\$ 10,226</u>			<u>\$ 8,363</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 \$2,941.

The district uses the threshold of \$200 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 December 31, 2011 is as follows: BWSR Cost Share Programs, \$16,149; Clean Water Funds, Miller Creek, \$128,064; Total, \$144,213.

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2011 are:

Balance January 1, 2011	\$1,973
Net Change in Compensated Absences	<u>688</u>
Balance December 31, 2011	<u>\$2,661</u>

Deposits

Minn. Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all district 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 December 31, 2011, the District's deposits totaled \$329,511 of which \$220,295 were cash deposits and \$109,216 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District's deposits were not exposed to custodial credit risk.

**Note 3 - Defined Benefit Pension Plans – Statewide**

Plan Description - Public Employees Retirement Association

The district 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 District 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 District is required to contribute 7.25% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$6,880, \$7,777, and \$8,469 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**SOUTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**Note 4 – Operating Leases**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2011 were \$10,697.

**Note 5– Reconciliation of Fund Balance to Net Assets**

Governmental Fund Balance, January 1	\$180,099
Plus: Excess of Revenue Over Expenditures	<u>2,369</u>
Governmental Fund Balance, December 31	<u>\$182,468</u>
Adjustments from Fund Balance to Net Assets:	
Plus: Capital Assets	\$ 8,363
Less: Long Term Liabilities	<u>( 2,661)</u>
Net Assets	<u>\$188,170</u>

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

Change in fund balance	\$2,369
Capital Outlay	1,078
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(2,941)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>( 688)</u>
Net change in net assets	<u>(\$182)</u>



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

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**REPORT ON LEGAL COMPLIANCE**

Board of Supervisors  
South St. Louis Soil and Water Conservation District  
Duluth, Minnesota

I have audited the accompanying financial statements of the governmental activities, and the General fund of the South St. Louis Soil and Water Conservation District, Duluth, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued my report thereon dated June 30, 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 District is not allowed to issue debt.

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

This report is intended solely for the information and use of the District, 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

June 30, 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 Supervisors  
South St. Louis Soil and Water Conservation District  
Duluth, Minnesota

I have audited the financial statements of the governmental activities, and the General fund of the South St. Louis Soil and Water Conservation District as of and for the year ended December 31, 2011, and have issued my report thereon dated June 30, 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 South St. Louis Soil and Water Conservation District, Duluth, Minnesota as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered the District'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 District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 South St. Louis Soil and Water Conservation District's 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

June 30, 2012  
Waconia, Minnesota