

**2010
Financial Report
Of the
Lac qui Parle
Soil & Water
Conservation District**



PERIOD COVERED
January 1, 2010 to December 31, 2010

122 8th Avenue South, Suite 1
Madison, MN 56256

2010 Financial Report of the Lac qui Parle Soil and Water Conservation District
Period Covered: January 1, 2010 to December 31, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lac qui Parle Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's Financial Statements.

FINANCIAL HIGHLIGHTS

A major change took place in 2010, with the addition of new subaccounts within the revenue and expenditure codes. This was done to enable easier visibility when viewing expenditures and revenues that dealt with carry-over funds, and current year funds. With the inclusion of the new codes, the SWCD has the ability to view 2010 transactions that used current year or prior year funds within the same report. We feel this was a necessary change to our coding system, as it helps to eliminate some of the confusion when viewing the budget, and the seemingly skewed and over inflated figures. For that reason, we also used the new codes when we updated our 2010 Budget.

USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Basic Financial Statements.

- Management's Discussion and Analysis
 - The report you are currently reading
- The Basic Financial Statements
 - The Statement of Net Assets and the Statement of Activities
 - Provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances.
 - Fund Financial Statements
 - Tell how services were financed in the short term as well as what remains for future spending.
 - Report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds.

Note: Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. The Lac qui Parle Soil and Water Conservation District 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 SWCD's finances is, "Is the 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 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 current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the 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. You will need to consider other nonfinancial factors, however to assess the overall health of the SWCD.

In the Statement of Net Assets and the Statement of Activities, the 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 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 LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT AS A WHOLE

The SWCD's combined net assets were higher, increasing from \$ 110,209 to \$111,528. In contrast, last year net assets decreased by \$ 1,319. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the SWCD's governmental and business-type activities.

**Table 1
Net Assets**

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Current and Other Assets	162,151	210,353
Capital Assets	15,217	24,771
Total Assets	177,368	235,124
Long-term Debt Outstanding	5,344	6,456
Other Liabilities	59,495	118,460
Total Liabilities	65,839	124,916
Net Assets		
Invested in Capital, net		
Of Debt	15,217	16,650
Restricted		
Unrestricted	96,311	93,559
Total Net Assets	111,528	110,209

Net assets of the SWCD governmental activities changed by \$ 1,319 which reflects a 1.2% increase. (\$110,209 compared to \$111,528). 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 \$ 93,559 surplus at December 31, 2009 to a \$ 96,311 surplus at the end of 2010.

**TABLE 2
Changes in Net Assets**

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenues:		
Charges for Service	68,442	70,093
Federal Grants		
State Grants and Entitlements	114,656	96,153
County Grants and Entitlements	131,167	125,844
Other General Revenues	9,449	7,645
TOTAL Revenues	323,714	299,735
Expenses		
Program Expenses:		
General Government		
Conservation	321,073	266,180
TOTAL Expenses	321,073	266,180
Increase (decrease) in net assets	2,641	33,555

The SWCD's total revenues increased by 8 percent (\$23,979). The total cost of all programs and services increased by \$54,893, or just over 20 percent. Our analysis below separately considers the operations of governmental activities.

Revenues:

As a SWCD we did not receive additional funding as may be perceived with a quick view of our books. The District actually received a substantial decrease in funding from the State, but due to the accounting practices in place, it may appear to be the opposite. These revenue differences may be explained as follows:

- Charges for Services:
 - No significant change
- State Grants and Entitlements:
 - The District paid out on a significant number of cost-share projects in 2010. The cost-share years included 2007, 2008, 2009, and 2010, as well as Native Buffer from 2008. With the current accounting system, revenues are not actually considered revenue, until costs are incurred and expended. For example: We paid out a total of \$ 21,047.50 using 2008 cost-share funds. Because that total amount was disbursed, we were able to include (code) the same amount as revenue. This is a demonstration of carry-over funds, and how they work.
 - In reality, the District received the following “new money” for:

State of Minnesota Board of Water and Soil Resources SWCD Base Grant:

	<u>2010</u>	<u>2009</u>
Easement Services Base Grant:	\$ 11,856	\$ 12,098
General Service Base Grant	22,193	22,918
State Cost Share Base Grant	<u>19,669</u>	<u>38,341</u>
TOTAL BWSR Revenue:	\$ 53,718	\$ 73,357

The difference in State Funding reflects a significant decrease of 26% at \$ 19,639.

Note of Interest: The General Service Base Grant noted above, was at the same rate of \$22,918 for about the past ten years. With the decrease in Base Grant Funds in 2010, and no increase from the previous years, the actual decrease in funding could be viewed as substantially greater than the 26%. The District anticipates that in 2011 there will be even more decreases in funding.

- County Grants and Entitlements:
 - The Lac qui Parle County contribution remained the same at \$ 99,087.
 - The SWCD administers the County Water Plan. Although there was a slight reduction in funds, the revenue total above includes carry-over funds, which were not recognized until spent.
- Other General Revenue:
 - Changes in these accounts reflect a decrease in interest, fewer refunds and reimbursements, and a decrease in affiliate membership contributions.

Expenditures:

The District saw an increase in Conservation Expenses. A majority of the expenses are reflected below.

- Conservation:
 - The increase was due in part to paying out for cost-share projects indicated in the revenue paragraph above. The Lac qui Parle Soil and Water Conservation District paid out a total of \$ 85,679.75 in cost-share related projects in 2010.
 - The District used some Capital Outlay funds to purchase a new printer/copier for the office.

Governmental Activities

Revenues for the District Governmental Activities increased a little more than 8 percent (\$ 23,979), while total expenses increased approximately 20 percent (\$ 54,893).

**Table 3
Governmental Activities**

	Total Cost Of Services	
	2010	2009
	Conservation	\$ 321,073
Totals	<u>\$ 321,073</u>	<u>\$ 266,180</u>

THE SWCD’s FUNDS

As the District completed the year, its general fund reported a combined fund balance of \$ 111,528, which is above last year’s total of \$ 110,209. Included in this year’s total change in fund balance however, is an increase of \$ 2,641 in the District’s General Fund.

General Fund Budgetary Highlights

Over the course of the year, the District did what might be considered a significant revision of the original budget. There has been an overall skewed vision of the budget, when viewing the monthly Profit Loss Budget vs. Actual Report at the monthly meetings. Shortly after the beginning of the new year, transfers are made (as required), to reverse some of the year-end entries that were made. In so doing, the carry-over funds from the previous year appear to be new money, and they go against the current year budget codes. This practice is very confusing to the viewer, as it presents an unrealistic picture of the actual funds received in the current year. To clarify the difference between the money from prior year, and the money for the current year, we created residuum codes within our revenue and expenditure funds. These residuum codes were used for budget purposes, as well as tracking carry-over funds. With the inclusion of the new codes, the SWCD has the ability to view 2010 transactions that used current year or prior year funds within the same report. We feel this was a necessary change to our coding system. It helps eliminate some of the confusion when viewing the budget, and the seemingly skewed and over inflated figures. This is the first year of this practice, and

we hope that it will make a significant difference in the comprehension and interpretation of the reports. We would like to maintain this practice for a two to three year span, to determine if it is a successful in sharing and tracking the information we need. Should this practice not meet the standards of the experts and those in authority, we will revert to the previous system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had \$ 15,217 invested in capital assets, including a lot and cooling unit in the tree storage building, vehicles, fabric mulch machine, no-till drill, and computer (See Table 4 below). This amount represents a net decrease (including additions and deductions) of \$ 1,434.

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

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Land	\$ 1,000	\$ 1,000
Buildings and improvements	666	666
Equipment	13,551	14,985
	<u>\$ 15,217</u>	<u>\$ 16,651</u>

The District purchased a new printer/copier in 2010. Although funds were set aside, should the purchase of a new computer be needed, the District made it through the year without needing to make any additional technology purchases.

The SWCD’s fiscal-year 2011 capital budget calls for the District to spend another \$5,000 for capital projects, principally for the purchase of a computer. The District would also like to replace the District van in 2011, but due to financial constraints that upgrade may not be feasible and it was not included as a budget item for 2011.

Long-Term Liabilities

Other obligations include accrued vacation pay and sick leave. More detailed information about the District’s long-term liabilities is presented in Note VI. COMPENSATED ABSENCES PAYABLE to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The SWCD’s elected and appointed officials considered many factors when setting the fiscal-year 2011 budget and fees that will be charged for the business-type activities. Due to the difficult

financial times and stress, State of Minnesota funding to the Soil and Water Conservation Districts through the Board of Water and Soil Resources continue to be reduced. In order to see a more complete picture, we should look as far back as 2008. In 2008, the Total Grant Total was \$ 73,657; in 2009 it was \$ 73,357; in 2010 it was \$ 53,718; and in 2011 the projections are \$ 47,777. This shows a reduction of 35% in funding, over the past four years. In reviewing the funding from Lac qui Parle County, in 2008 they awarded the District \$ 95,368; \$ 99,087 in 2009, 2010, and the projections are the same for 2011. The Lac qui Parle Soil and Water Conservation District is grateful for all of the funding, from both the State of Minnesota and Lac qui Parle County. The District anticipates no major personnel changes. The District currently has three full-time employees, and one retired employee (less than 60 hours annually). The District anticipates the need for a Summer Assistant, to help with the Tree Program planting workload, and to assist with other in-house projects.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the 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 Lac qui Parle Soil and Water Conservation District at 122 8th Avenue South, Madison, Minnesota, or call 320-598-7321 x3.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Adjustments See Notes	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$159,037		\$159,037
Accounts receivable	448		448
Due from other governments	2,665		2,665
Prepaid inventory items			
Capital Assets:			0
Equipment (net of accumulated depreciation)		15,217	15,217
Total Assets	<u>\$162,150</u>	<u>\$15,217</u>	<u>\$177,367</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$0		\$0
Salaries payable			0
Deferred revenue	59,495		59,495
Long-term liabilities:			0
Due within one year			0
Due after one year		6,344	6,344
Total Liabilities	<u>\$59,495</u>	<u>\$6,344</u>	<u>\$65,839</u>
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Reserved for prepaid items			
Unreserved			
Designated for future projects			0
Undesignated	102,655	(102,655)	0
Total Fund Balance	<u>\$102,655</u>	<u>(\$102,655)</u>	<u>\$0</u>
Net Assets			
Invested in capital assets		\$15,217	\$15,217
Unrestricted		96,311	96,311
Total Net Assets		<u>\$111,528</u>	<u>\$111,528</u>

Notes are an integral part of the basic financial statements.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$245,823	\$0	\$245,823
Charges for services	68,443	0	68,443
Investment earnings	2,694	0	2,694
Miscellaneous	6,754	0	6,754
Total Revenues	\$323,714	\$0	\$323,714
Expenditures/Expenses			
Conservation			
Current	\$318,711	\$3,684	\$322,395
Capital outlay	2,362	(2,362)	0
Total Expenditures/Expenses	\$321,073	\$1,323	\$322,395
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$2,641	(\$1,323)	\$1,319
Fund Balance/Net Assets January 1	100,014	10,195	110,209
Fund Balance/Net Assets December 31	102,655	\$8,872	\$111,528

Notes are an integral part of the basic financial statements

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive (Neg)</u>
Revenues				
Intergovernmental				
County	\$127,829	\$132,740	\$131,167	(\$ 1,573)
Local	0	0	0	0
Federal	0	0	0	0
State grant	77,343	170,446	114,656	(\$ 55,790)
Total intergovernmental	\$ 205,172	\$ 303,186	\$ 245,823	(\$ 57,363)
Charges for services	\$68,660	\$ 60,695	\$68,442	\$ 7,747
Miscellaneous				
Interest earnings	\$3,000	\$3,000	\$2,694	(\$ 306)
Other	7,899	9,039	6,755	(2,284)
Total miscellaneous	\$10,889	\$12,039	\$9,449	(\$2,590)
Total Revenues	\$284,721	\$375,920	\$323,714	(\$52,206)
Expenditures				
District operations				
Personnel services	\$161,577	\$156,877	\$153,031	3,846
Other services and charges	47,500	13,934	19,928	(5,994)
Supplies	850	850	419	431
Capital outlay	5,000	5,000	2,362	2,638
Total district operations	\$214,927	\$176,661	\$175,741	\$ 920
Project expenditures				
District	\$29,580	\$29,580	\$27,483	\$2,097
State	24,669	143,265	95,680	47,585
County	23,742	26,414	22,169	4,245
Total project expenditures	\$77,991	\$199,259	\$145,332	\$53,924
Total Expenditures	\$292,918	\$375,920	\$321,073	\$54,847
Excess of Revenues Over (Under)				
Expenditures	(\$ 8,197)	\$0	\$ 2,641	(\$ 2,641)
Fund Balance - January 1	\$100,014	\$100,014	100,014	
Fund Balance - December 31	\$91,817	\$100,014	\$102,655	(\$ 2,641)

Notes are an integral part of the basic financial statements.

**BREAKDOWN OF COUNTY REVENUE
2010**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$ 99,087.00
WATER PLAN MONEY	\$ 22,169.20
WETLAND CONSERVATION ACT MONEY	\$ 9,910.90
FEEDLOT MONEY	\$
ABANDONED WELL	\$
DNR SHORELAND	\$
OTHER (specify)	\$
 TOTAL	 <u>\$ 131,167.10</u>

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

It should be noted that the Lac qui Parle SWCD received the budget sums as follows:

Annual Allocation of \$ 99,087.00, was received and spent in 2010

Water Plan Money of \$ 22,169.20 (includes Levy money). The figure above reflects money received in 2010, carry-over into 2010, and spent in 2010, resulting in a balance defined as received.

Wetland Money of \$ 9,910.90 which reflects money received in 2010, carry-over into 2010, and spent in 2010, resulting in a balance defined as received.

Revenues are to be recognized when the related expenditures are recorded. This may result in the appearance of slightly less revenue than actually received, or more revenue than is actually received. This is due in part to overlapping fund years and expenses that may be disbursed in more than one calendar year.

**DEFERRED REVENUE BREAKDOWN
2010**

Balance of BWSR Service Grants: \$ -0-

Balance of unencumbered BWSR Cost-Share Grants: Current fiscal year \$ 19,871.00
2010 \$ 8,122.75
2008 \$ 4,178.50

Balance of encumbered BWSR Cost-Share Grant (list each contract separately):

<u>FY</u>	<u>Contract No</u>	<u>Contract Amount</u>	<u>T&A Encumbered</u>	<u>TOTAL CS</u>
2009	CS 8 (08-09)	2,842.00	710.50	3,552.50
2009	CS 12 (08-09)	1,950.00	487.50	2,437.50
2009	CS 17 (08-09)	5,781.00	1,445.25	7,226.25
2009	CS 8 (08-09)	0	(535.25)	(535.25)
	Unused T&A			
2010	CS 2010-01	1,007.00	251.75	1,258.75
2010	CS 2010-02	<u>920.00</u>	<u>230.00</u>	<u>1,150.00</u>
	Column Totals	12,500.00	2,589.75	15,089.75

Total of all Cost-Share Encumbrances **\$ 15,089.75**

Balance of other funds being deferred (list if any):

Balance of County Water Plan \$ 1,042.31

BWSR General Services \$ 11,190.95

Subtotal of other funds: \$ 12,233.26

TOTAL OF ALL DEFERRED REVENUE: \$ 59,495.26

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Lac qui Parle 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.

A. Financial Reporting Entity

The District is organized under the provisions of Minnesota Statutes Chapter 103C and 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 Lac qui Parle 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 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 District's objectives.

The District is not considered a part of Lac qui Parle County because, even though the County provides a significant amount of the District's revenue 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.

B. Basis of Presentation - Fund Accounting

The accounts of the Lac qui Parle Soil and Water Conservation District 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.

1. Governmental Funds: General Fund

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

2. General Fixed Assets Account Group

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

3. General Long-Term Debt Account Group

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

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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 District'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. If the District also receives an annual appropriation from the County, it 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 revenues from the 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.

D. 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.

E. Assets, Liabilities, and Equity Accounts

1. Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost. 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 District's equity in general fixed assets. Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriate for spending.

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

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

F. Explanation of Adjustments Column in Statements

1. Capital Assets

In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made if the District 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 District has as of the report date. See Note 1-G below.

3. Depreciation and Change in Compensated Absences for the year

In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and in Note I-G below.

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 17 hours per month. Sick leave accrual is 13 days per year. The limit on the accumulation of annual leave carry-over is 240 hours and there is no limit to the accumulation of sick leave hours. When an employee accumulates over 800 hours of sick leave, at the end of each year they may be compensated at current salary for one-fourth of those hours over 800. Upon termination from the District by retirement, employees are paid

accrued vacation leave and up to one-fourth of the hours of accrued sick leave. All employees who retire or terminate their employment in good standing and who have been employed for one year shall be entitled to pay for all unused vacation and 25% of all unused sick leave at the rate of wage at time of separation. Severance pay shall be paid in a manner mutually agreeable to the employee and the employer over a period not to exceed five years from retirement or termination of employment. Severance pay may be paid to the surviving spouse, dependents, or estate upon death of employee. Payment may be withheld if the employee is in any way indebted to the District or in possession of District or property.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

N/A

B. Excess of Expenditures Over Budget

N/A

C. Uncollateralized deposits

During 2010, the District's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2010, the District's deposits totaled \$159,036.57 of which \$104,036.57 was cash deposits and \$55,000.00 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2010, all the District's deposits were covered by insurance or collateralized with securities held by the District or its agent in the District's name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

Balance January 1, 2010	\$	16,651
Additions	\$	2,362
Deletions	\$	-0-
2009 depreciation	\$	3,796
Balance December 31, 2010	\$	15,217

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$71,804 as of December 31, 2010. Deleted item of \$ 4,430 was fully depreciated, and therefore had no effect on the ending balance.

The District uses a threshold of \$ 1,000 for capitalizing assets purchased. Those physical assets under \$ 999.99 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and Lac qui Parle County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2010, consists of the following: BWSR Cost-Share Programs: \$ 47,262.00; LqP County Water Plan \$ 1,042.31; BWSR General Services \$ 11,190.95. The total of Deferred Revenue is \$ 59,495.26.

Total Deferred Revenue as itemized on “Deferred Revenue Breakdown” is \$ 59,495.26.

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2009 are:

Balance January 1, 2010	\$ 6,455.60
Net Changes in Compensated Absences	(\$ 111.55)
Balance December 31, 2010	\$ 6,344.05

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

The District 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 District has purchased commercial insurance. Property and casualty liabilities and workers’ compensation are insured through Minnesota Counties Insurance Trust. The District is covered for errors and omissions through Minnesota Counties Insurance Trust.

The Minnesota Counties Insurance 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 District 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 District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF (Public Employee Retirement Fund) Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7.25% effective January 1, 2011. The District's employer share of contributions to PERA for the years ending December 31, 2010, 2009, and 2008 were \$ 7,563.18, \$ 6,933.72, \$ 6,496.06, respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASES

The District leases office space on a yearly basis, with monthly payments made directly to the property owner. Under the current agreement, total costs for 2010 were \$ 16,689.72.
