

## **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, 2007. 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.

### **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 District as a whole and present a longer-term view of the District's finances. For governmental activities, the fund financial 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 District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Since Soil and 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. 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 District's finances is, "Is the District, 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 District 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 District's net assets and changes in them. You can think of the District's net assets — the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District'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 District presents Governmental activities. All of the District's basic services are reported here. Appropriations from the county and state and charges for services finance most activities.

## Reporting the District's General Fund

### Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District'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 District'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 District'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 District's combined net assets were higher, increasing from \$84,812 to \$98,025. In contrast, last year net assets decreased by \$4,464. 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 District's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Current and other assets	219,060	179,689
Capital assets	7,657	13,560
Total assets	226,717	192,249
Long-term debt outstanding	13,962	12,880
Other liabilities	114,730	94,557
Total liabilities	128,692	107,437
Net assets		
Invested in capital assets, net of debt	7,657	13,560
Restricted		
Unrestricted	90,368	71,242
Total net assets	98,025	84,812

Net assets of the District's governmental activities increased \$13,213 or by 15.6 percent (\$84,812 compared to \$98,025). 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 \$71,242 surplus at December 31, 2006 to a \$90,368 surplus at the end of this year.

**TABLE 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Program revenues:		
Charges for service	60,505	67,959
Federal grants		
State grants and entitlements	193,039	107,976
County grants and entitlements	115,091	112,921
Other general revenues	28,122	29,801
Total revenues	396,757	318,657
<b>Program expenses</b>		
General government		
Conservation	376,558	316,977
Total expenses	376,558	316,977
<b>Increase (decrease) in net assets</b>	<b>20,199</b>	<b>1,680</b>

The District’s total revenues increased by a little under 24.5 percent (\$78,100). The total cost of all programs and services increased by \$59,581, or just under 18.8 percent. The District covered this year’s costs. Our analysis below separately considers the operations of governmental activities.

**Governmental Activities**

Revenues for the District governmental activities increased by just under 24.5 percent (\$78,100), while total expenses increased just under 18.8 percent (\$59,581). The increase in net assets for governmental activities was widened by \$20,199 in 2007. This compares to a \$1,680 increase in net assets in 2006.

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>	
	<u>2007</u>	<u>2006</u>
Conservation	\$ 376.56	\$ 316.98
Totals	<b><u>\$ 376.56</u></b>	<b><u>\$ 316.98</u></b>

**THE LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT’S FUNDS**

As the District completed the year, its general fund reported a combined fund balance of \$104,331, which is above last year's total of \$84,132. Included in this year's total change in fund balance, however, is a surplus of \$20,199 in the District's General Fund. The primary reasons for the General Fund's surplus mirror the governmental activities analysis.

### **General Fund Budgetary Highlights**

Over the course of the year, the District did not revise the District's budget although two significant changes in the District's financial picture occurred during the year. As a result, total revenues were \$72,369 (22 per cent) above the final budget amount and total expenditures were \$53,751 (16.7 percent) above the final budget amounts.

The District was awarded a Clean Water Legacy grant of \$122,000 from the State of Minnesota and incurred a subsequent expense of \$107,557 with \$14,443 carried over into 2008 to complete the project.

The District experienced several personnel changes during the year. Technical staff was reduced from two full-time to one full-time person, resulting in a reduction of \$21,063 (15.7 per cent) in employee salary plus reductions in benefits such as FICA match, health insurance, PERA and employee expense.

Miscellaneous Revenues were \$7,822 (38.5 percent) higher than budgeted.

Income from Charges for Services was \$20,856 less than anticipated, but District Project Expense was correspondingly \$17,842 less than budgeted.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2007, the District had \$7,655 invested in capital assets, including a lot and cooling unit in the tree storage building, vehicles, fabric mulch machine and computer. (See Table 4 below.) This amount represents a net decrease (including additions and deductions) of \$5,905, or just under 44 percent from last year.

**Table 4**  
**Capital Assets at Year-end**  
 (Net of Depreciation, in Thousands)

	Governmental	
	<u>Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 1.00	\$ 1.00
Buildings and improvements	.66	1.31
Equipment	<u>6.00</u>	<u>11.25</u>
	<u>\$ 7.66</u>	<u>\$13.56</u>

The District made no capital asset purchases in 2007.

The District’s fiscal-year 2008 capital budget calls for it to spend another \$18,000 for capital projects, principally for the replacement of the District’s pickup. The District will draw upon its Fund Balance to finance this purchase. More detailed information about the District’s capital assets is presented in Note IV CHANGES IN CAPITAL ASSETS to the financial statements.

**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 District’s elected and appointed officials considered many factors when setting the fiscal-year 2008 budget and fees that will be charged for the for the business-type activities. Fees charged will remain the same. The District anticipates additional personnel changes. Since personal services comprise a significant portion of the District’s budget, its impact will also be significant.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 122 8<sup>th</sup> Avenue South, Madison, Minnesota, or call 320-598-7321, Extension 3.

