

**2012
Financial Report
Of the
Lac qui Parle
Soil & Water
Conservation District**



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

PERIOD COVERED
January 1, 2012 to December 31, 2012

**2012 Financial Report of the Lac qui Parle Soil and Water Conservation District
Period Covered: January 1, 2012 to December 31, 2012**

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The Lac qui Parle Soil and Water Conservation District is an EEO Employer/Provider

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, 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 District's Financial Statements.

FINANCIAL HIGHLIGHTS

This was the third year of implementation of some major changes that we initiated in 2010. In that year we added new subaccounts within the revenue and expenditure accounts to enable easier visibility when viewing transactions associated with carry-over funds (residuum) and current-year funds. With the inclusion of the new codes, the Lac qui Parle SWCD had the ability to budget and view 2012 transactions that used current year or carry-over funds. We have found the changes to be relatively helpful. We are also utilizing the feature of categorizing the different programs into classes. That practice has been extremely helpful in balancing the various programs and matching totals with eLINK and other reporting and tracking systems.

USING THIS ANNUAL REPORT

This annual report consists of two basic parts: Management's Discussion and Analysis (this section) and the Basic Financial Statements.

- Management's Discussion and Analysis
 - Includes an overall narrative and description of the financial state of the Lac qui Parle Soil and Water Conservation District.
 - Includes tables demonstrating Net Assets, Changes in Net Assets, Governmental Activities, and Capital Assets at year-end.
- Basic Financial Statements
 - The Statement of Net Assets and the Statement of Activities
 - Provide information about the Lac qui Parle SWCD as a whole and present a longer-term view of the District's finances.
 - Fund Financial Statements
 - Tell how governmental activities were financed as well as what remains for future spending.
 - Report the Lac qui Parle SWCD operations in more detail than the government-wide statements by providing information about 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 LqP SWCD has elected to present in this format.
- Notes to the Financial Statements
 - Help explain specific line items in the Basic Financial Statements, and demonstrates a comprehensive evaluation of the District's financial state.
 - Give brief or detailed explanations on how the financial numbers were derived.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Lac qui Parle Soil and Water Conservation District'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 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 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, such as changes in the SWCD's property tax base and the condition of SWCD roads, 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.

Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the Soil and Water Conservation District 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 Lac qui Parle Soil and Water Conservation District's combined assets were lower than last year, decreasing from \$115,013 to \$96,438, a negative difference of \$18,575 or 16%. Looking at the net assets and net expenses of governmental and business-type activities separately, two 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>2012</u>	<u>2011</u>
Current and Other Assets	203,308	166,942
Capital Assets	<u>8,922</u>	<u>12,226</u>
Total Assets	212,230	179,168
Liabilities due within a year	-0-	6,700
Liabilities due after a year	<u>115,792</u>	<u>57,455</u>
Total Liabilities	115,792	64,155
Net Assets		
Invested in Capital, net of Debt	8,922	12,226
Restricted	44,952	66,079
Unrestricted	<u>42,564</u>	<u>36,708</u>
Total Net Assets	96,438	115,013

Net assets of the SWCD governmental activities changed by \$18,575 which reflects a 16% decrease. (\$96,438 compared to \$115,013). Restricted net assets were \$44,952 at the end of 2012. Unrestricted net assets, which may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$42,564 at the end of 2012.

TABLE 2
Changes in Net Assets

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues		
Program Revenues:		
Charges for Service	28,222	45,219
Federal Grants	-0-	-0-
State Grants and Entitlements	61,738	76,661
County Grants and Entitlements	117,276	121,878
Other General Revenues	<u>8424</u>	<u>24,227</u>
TOTAL Revenues	215,660	267,985
Expenses		
Program Expenses:		
General Government		
Conservation	<u>236,787</u>	<u>254,134</u>
TOTAL Expenses	236,787	254,134
Increase (decrease) in net assets	(21,127)	13,851

SWCD's total revenues decreased by \$52,325, or a little over 19%. The total cost of all programs and services decreased by \$17,347, or just over 6%. Our analysis below separately considers the operations of governmental activities.

Revenues:

- State Revenue:
 - With the current accounting system, income is not actually considered revenue, until costs are incurred and expended. Two new grants were applied for and received in 2012 but a small amount was spent due to the time when the grants were received and plans were implemented. The District paid out on a small number of cost-share projects in 2012 due in part to the very dry weather conditions. The cost-share years included 2009, 2010, 2011 and 2012. 2009 and 2010 were closed out and a sum of \$6,700 was returned to the State. Cost Share Funds, Conservation Delivery Grants, Easement Delivery Grants, Accelerated Implementation Grants, and Clean Water Assistance Grants that are received but not expended are considered carry-over. Here is an example of carry-over funds, and how they work: In 2012 the District paid out a total of \$1,670.25 using 2011 cost-share funds. Because that total amount was disbursed in 2012, we were able to include (code) the same amount as revenue in 2012.
 - In reality, the District received the following Grant money for 2012, meaning that these funds were directly issued to the District by the State of Minnesota Board of Water and Soil Resources:

	<u>2012</u>	<u>2011</u>
Easement Services Base Grant:	\$ 9,581	\$ 9,761
Conservation Delivery Grant	\$ 18,750	\$ 18,145
State Cost Share Base Grant	\$ 26,677	\$ 19,871
Accelerated Implementation Grant (Feedlot)	\$ 15,447	-0-
Cleanwater Assistance Grant (Retrofit Wellpit)	<u>\$ 26,767</u>	<u>-0-</u>
TOTAL BWSR Funds Receipts:	\$ 97,222	\$ 47,777

The difference in State Funding reflects an increase of 51% at \$ 49,445.

- County Grants and Entitlements:
 - The Lac qui Parle County contribution remained the same at \$ 99,087. The District greatly appreciates the continuous support demonstrated by Lac qui Parle County.
 - The SWCD administers the Lac qui Parle County Water Plan. There was a slight increase in funds (from \$15,193 in 2011 to \$ 15,453). The revenue total includes a minimal amount of carry-over funds, which are not recognized until spent.
- Charges for Services:
 - Charges for Services, from 2011 to 2012 decreased by \$16,997, or roughly 38%. Probably the main reason for the decrease is due to a reduction in tree sales and planting, as well as a reduction in fabric purchases and installation. Due to very dry weather conditions people were very cautious in their decision to plant trees this year.

- Other General Revenue:
 - Changes in these accounts reflect a large decrease, in 2012. The decrease is due to not receiving the additional revenue again from the Contribution Agreement with NRCS.

Expenditures:

- Conservation:
 - The District saw a 7% decrease in Conservation Expenses. A majority of the expenses are reflected below. The decrease was due in part to, paying out less for State Project Expenses, WCA and Cost-share (the District paid out a total of \$12,098.75 for Cost-share in 2012 as opposed to \$48,435.75 in 2011). There were also less expenses relating to District projects such as tree plantings.
 - The District was awarded a Conservation Corps Apprentice, which provided the District with Summer Assistance to help with specialized projects as well as the annual tree plantings and general tasks. The MN Conservation Corp paid the Apprentice a stipend, relieving the District of expending payroll funds.

Governmental Activities

Revenues for the District Governmental Activities decreased by 20 percent or \$52,325 (from \$267,985 to \$215,660) while total expenses decreased by 7 percent or \$17,347 (from \$254,134 to \$236,787). See previous section Changes in Net Assets, for detailed information

Table 3
Governmental Activities

	<u>Total Cost</u> <u>Of Services</u>	
	<u>2012</u>	<u>2011</u>
Conservation	\$236,787	\$254,134
Totals	<u>\$236,787</u>	<u>\$254,134</u>

The cost of all governmental activities relating to project expenses this year was \$52,563 compared to \$92,176 last year, a decrease of \$39,613. In 2011 the District paid out a substantial amount on cost-share projects compared to a minimal amount in 2012.

THE SWCD's FUNDS

As the Lac qui Parle Soil and Water Conservation District completed the year, its general fund reported a combined fund balance of \$96,438 which is below last year's total of \$115,013. Included in this year's total change in fund balance however, is a deficit of \$21,127 in the District's General Fund. Although the District Revenues were lower than anticipated, the District Expenditures decreased as well, but not enough to change the result of an unfavorable ending balance. Return to the section See **THE LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT AS A WHOLE** to review a detailed synopsis of the 2012 District Revenues and Expenses.

General Fund Budgetary Highlights

The District did not revise the original budget. Good faith efforts and financial projections were made to create the original budget.

This was the third year we used what we are calling residuum codes, which helped immensely with how the budget was perceived and developed. They are sub codes within the standard codes. In using the residuum codes we have a more concise breakdown of revenues and expenditures, and are able to differentiate between current and prior year funds. At the same time, we may pull a certain program, using the class feature in our accounting system, and show a running program balance. With the inclusion of the new codes, our District also has the ability to view 2012 transactions that used current year or prior year funds within the same report. We felt this was a necessary change to our coding system and feel that it made a significant difference in the comprehension and interpretation of our monthly reports. We would like to continue this practice for at least another two to three years, to determine if it is worth the effort to maintain. From the bookkeeper's point of view, it has been a valuable tool. The District knows however, that should this practice not meet the standards of the experts and those in authority that reverting to the previous system may be required.

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2012, the District had \$8,922 invested in a broad range of capital assets, including a lot and cooling unit in the tree storage building, vehicles, fabric mulch machine, no-till drill, and 2 laptop computers. (See Table 4 below.) This amount represents a net decrease (including additions and deductions) of just under \$3,304, or 27 percent, under last year.

Table 4

Capital Assets at Year-end

	Governmental Activities	
	<u>2011</u>	<u>2011</u>
Land	\$ 1,000	\$ 1,000
Buildings and improvements	666	666
Equipment	<u>7,256</u>	<u>10,560</u>
	<u>\$8,922</u>	<u>\$12,226</u>

The District purchased a new laptop computer in 2012 as Quickbooks needed to be removed from the FSA/NRCS server for security reasons. The District also budgeted for the purchase of a desktop computer, should the need arise, but once again the District was able to avoid that expense.

The SWCD's fiscal year 2013 capital budget is set at \$8,000, taking into consideration that there may be a need to pay for replacement computers as opposed to accepting refurbished computers.

Long-Term Liabilities

Other obligations include accrued vacation pay and sick leave. Due to two District Staff members leaving we paid out a large amount of accrued 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 Lac qui Parle Soil and Water Conservation District's elected officials considered many factors when setting the fiscal-year 2013 budget and fees that will be charged for the business-type activities. Due to difficult financial times and stress, the State of Minnesota funding to the Soil and Water Conservation Districts through the Board of Water and Soil Resources continue to be reduced in many areas, while at the same time new grant opportunities are presented. The District welcomes the new funding opportunities, but express concern that many hours are invested into each grant application process, with no guarantee of funds. In 2008 Minnesota voters passed a Legacy Amendment, which was intended to dedicate funds for specific environmental and cultural purposes. The District hopes that funding for Districts will once again become stable, and that the Legacy Funds will be used for special projects as opposed to being used to appease the State's budget challenges. The District will be implementing a freeze on the customary cost of living payroll increase in 2013, as they did in 2012 and 2011 due to the recommendation by the Federal Government.

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 any 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, 2012

	<u>General Fund</u>	<u>Adjustments See Notes</u>	<u>Statement of Net Assets</u>
<u>Assets</u>			
Cash and investments	196,819		196,819
Accounts receivable	345	-	345
Due from other governments	2,373		2,373
Prepaid items	-	3,771	3,771
Capital Assets:			
Equipment (net of accumulated depreciation)	-	8,922	8,922
Total Assets	199,537	12,693	212,230
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	-	-	-
Salaries payable	-	-	-
Deferred revenue	107,930	-	107,930
Long-term liabilities:			
Due within one year	-	-	-
Due after one year	-	7,862	7,862
Total Liabilities	107,930	7,862	115,792
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Nonspendable (Prepays, Inventories)	-	-	-
Unrestricted			
Committed or Assigned	95,379	(95,379)	-
Unassigned	-	-	-
Total Fund Balance	95,379	(95,379)	-
Net Assets			
Invested in capital assets	-	8,922	8,922
Unassigned	-	87,516	87,516
Total Net Assets		96,438	96,438

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, 2012

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	179,015	-	179,015
Charges for services	28,222	-	28,222
Investment earnings	965	-	965
Miscellaneous	7,458	3,771	11,229
Total Revenues	215,660	3,771	219,431
Expenditures/Expenses			
Conservation			
Current	235,444	2,561	238,005
Capital outlay	1,343	(1,343)	-
Total Expenditures/Expenses	236,787	1,218	238,005
Excess of Revenues Over (Under)			
Expenditures/Expenses	(21,127)	2,553	(18,574)
Fund Balance/Net Assets January 1	116,506	(1,494)	115,012
Fund Balance/Net Assets December 31	95,379	1,059	96,438

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, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	122,482	122,482	117,276	(5,206)
Local	-	-	-	-
Federal	-	-	-	-
State grant	112,508	112,508	61,738	(50,770)
Total intergovernmental	234,990	234,990	179,015	(55,975)
Charges for services	47,349	47,349	28,222	(19,127)
Miscellaneous				
Interest earnings	2,000	2,000	965	(1,035)
Other	20,042	20,042	7,458	(12,584)
Total miscellaneous	22,042	22,042	8,423	(13,619)
Total Revenues	304,381	304,381	215,660	(88,721)
Expenditures				
District operations				
Personnel services	160,569	160,569	163,343	(2,774)
Other services and charges	28,190	28,190	18,776	9,414
Supplies	850	850	762	88
Capital outlay	8,000	8,000	1,343	6,657
Total district operations	197,609	197,609	184,223	13,386
Project expenditures				
District	21,700	21,700	13,952	7,748
State	66,066	66,066	24,811	41,255
County	19,006	19,006	13,800	5,206
Total project expenditures	106,772	106,772	52,563	54,209
Total Expenditures	304,381	304,381	236,787	67,594
Excess of Revenues Over (Under)				
Expenditures	-	-	(21,127)	(21,127)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	-	-	(21,127)	(21,127)

Notes are an integral part of the basic financial statements.

**BREAKDOWN OF COUNTY REVENUE
2012**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$	99,087.00
WATER PLAN MONEY	\$	13,800.00
WETLAND MONEY	\$	4,389.00
FEEDLOT MONEY	\$	-0-
ABANDONED WELL	\$	-0-
DNR SHORELAND	\$	-0-
OTHER (specify)	\$	-0-
 TOTAL	\$	<u>117,276.00</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 2012
- **Water Plan Money** of \$ 13,800 (includes Levy money). The figure above reflects money received in 2012, carry-over into 2012, and spent in 2012, resulting in a balance defined as received
- **Wetland Money** of \$ 4,389.00 was received and spent in 2012.

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 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
2012**

Balance of BWSR Conservation Delivery Grant: \$ 18,750.00

Balance of unencumbered BWSR Cost-Share Grants: Current fiscal year (2013) \$ 23,509.44

Previous fiscal year (2012) \$ (0.00)

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>
2012	CS 2012-03	\$ 4,002.00	\$ 1,000.50	\$ 5,002.50
2012	CS 2012-04	\$ 1,223.00	\$ 305.75	\$ 1,528.75
2012	CS 2012-07	\$ 1,092.65	\$ 273.16	\$ 1,365.81
2012	CS 2012-08	\$ 2,938.00	\$ 734.50	\$ 3,672.50
2012	CS 2012-09	\$ 1,467.95	\$ 366.99	\$ 1,834.94
2013	CS 2012-09	\$ 2,534.05	\$ 633.51	\$ 3,167.56
Column Totals		\$ 13,257.65	\$ 3,314.41	\$ 16,572.06

Total of all Cost-Share Encumbrances \$ 16,572.06

Balance of County WCA Funds: \$ 0.00

Balance of County Water Plan Funds: \$ 5,716.50

Balance of Level 3 Feedlot \$ 8,465.11

Balance of Retrofit Wellpit \$ 25,425.75

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

BWSR Easement Delivery Grant \$ 9,491.00

Subtotal of other funds: \$ 9,491.00

TOTAL OF ALL DEFERRED REVENUE: \$ 107,929.86

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Lac qui Parle Soil and Water Conservation District (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 one 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.

B. 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 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 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 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.
- * Nonspendable fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriate for spending.
- * Unrestricted, unassigned 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 is 240 hours and there is no limit on 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. 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 unpaid 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 equipment 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 2012, 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, 2012, the District's deposits totaled \$ 196,819, of which \$ 141,819 were cash deposits and \$ 55,000 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2012, 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, 2012	\$ 12,226
Additions	\$ 1,343
Deletions	\$ -0-
2012 depreciation	\$ 4647
Balance December 31, 2012	\$ 8,922

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$ 77,392 as of December 31, 2012.

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 and Lac qui Parle County for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$ 107,930

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2012 are:

Balance January 1, 2012	\$ 13,718.31
Net Changes in Compensated Absences	\$ 5,855.49
Balance December 31, 2012	\$ 7,862.82

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 MCIT - Minnesota Counties Intergovernmental Trust. The District is covered for errors and omissions through MCIT - 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 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 Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.00% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011. The District's employer share of contributions to PERA for the years ending December 31, 2012, 2011, 2010, and 2009 were \$7,824.31, \$ 7,820.59, \$ 7,563.18, and \$ 6,933.78 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. Under the current agreement, total costs for 2012 were \$ 16,689.72.