

**EAST POLK SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2012

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
East Polk Soil and Water Conservation District
McIntosh, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of East Polk Soil and Water Conservation District, McIntosh, Minnesota, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our 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 East Polk Soil and Water Conservation District as of December 31, 2012, and the respective changes in financial position, and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2013, on our consideration of the East Polk Soil and Water Conservation District's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Polk Soil and Water Conservation District's internal control over financial reporting and compliance.


PETERSON COMPANY, LTD.
Certified Public Accountants
Waconia, Minnesota

September 14, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS
EAST POLK SOIL AND WATER CONSERVATION DISTRICT
DECEMBER 31, 2012**

The East Polk Soil and Water Conservation District's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2012. This analysis should be read in conjunction with the SWCD's financial statements on the following pages.

FINANCIAL HIGHLIGHTS

The total net position is \$263,125 of which \$31,627 was invested in capital assets and \$231,498 was unrestricted.

At the close of 2012, East Polk SWCD's fund balance was \$238,847. The fund balance decreased by \$695 from the previous year. The total fund balance is available to spend at the SWCD's discretion and is noted as unreserved, undesignated fund balance. An adequate fund balance is a necessity to maintain the SWCD's services.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and Notes to the Financial Statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 7 and 8) 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 start on page 9. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

The Statement of Net Position 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 Position 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 position and changes in them. You can think of the SWCD's net position — 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 position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position 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, with the District generating some revenue from Charges for Services.

Reporting the SWCD's General Fund

The SWCD presents only a general fund, which is a governmental fund. Our analysis of the general fund begins on page 9. 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.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

THE EAST POLK SWCD AS A WHOLE

Our analysis focuses on the net position and changes in net position of the District's governmental activities.

Net Position:

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current Assets	\$ 436,071	\$ 467,668
Capital Assets, Net of Depreciation	31,627	37,587
Total Assets	<u>\$ 467,698</u>	<u>\$ 505,255</u>
Liabilities, Deferred Revenue	\$ 197,224	\$ 228,126
Long-Term Liabilities	7,349	10,067
Total Liabilities	<u>\$ 204,573</u>	<u>\$ 238,193</u>
Invested in Capital Assets	\$ 31,627	\$ 37,587
Unrestricted	231,498	229,475
Total Net Position	<u>\$ 263,125</u>	<u>\$ 267,062</u>

The SWCD's net position was lower, decreasing from \$267,062 to \$263,125.

The amount invested in capital assets is \$31,627. These assets are not available for future spending. The unrestricted amount of \$231,498 may be used to meet the SWCD's obligations. See Statement of Net Position on page 7.

Net position of the East Polk SWCD's governmental activities decreased by one percent (\$263,125 compared to \$267,062).

Changes in Net Position:

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
<u>Revenues</u>		
Intergovernmental	\$ 285,391	\$ 328,691
Charges for Services	11,028	16,469
Investment Earnings	1,981	3,113
Miscellaneous	60,799	23,697
Total Revenues	<u>\$ 359,199</u>	<u>\$ 371,970</u>
<u>Expenditures</u>		
Conservation	<u>\$ 363,136</u>	<u>\$ 388,150</u>
Total Expenditures		
Increase (Decrease) in Net Position	<u>\$ (3,937)</u>	<u>\$ (16,180)</u>

The District's total revenues decreased by \$12,771. The total cost of programs and services decreased by \$25,014.

The SWCD's Funds

As the SWCD completed the year, its general fund (as presented in the balance sheet on page 7) reported a combined fund balance of \$238,847, which is below last year's total of \$239,542. Included in this year's total change in fund balance, however, is a deficit of \$695 in the SWCD's General Fund. The primary reasons for the general fund's deficit mirror the governmental activities analysis highlights on page 9.

General Fund Budgetary Highlights

Over the course of the year, the East Polk Soil and Water Conservation District did not revise its budget.

The actual expenditures were \$695 more than the revenues. The District had planned to use \$41,463 out of its fund balance. The main reason for the deficit is that the block grant funds come at a different time each year (sometimes in December and other times in January). There really isn't any significant variance in any one account. Every year since the unallotment in 2003, with the exception of 2007, the District has shown a deficit in its fund balance.

Resources available for appropriation were \$695 less than the final budgeted amount. The Block Grant Agreement was signed in November, but as of December 31st had not been received. The grant period started July 1st, 2012. Had the District received the grant, it would not be showing such a deficit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the SWCD had \$31,627 invested in a broad range of capital assets, including a garage/tree storage, a vehicle, computers, and miscellaneous office equipment. This

amount represents a net decrease (including additions and deductions) of \$5,960, or 14 percent, under last year.

More detailed information about the SWCD's capital assets is presented in the Notes to the Financial Statements.

Long-Term Liabilities

At the end of the fiscal year, the SWCD's obligations totaled \$7,349. This included accrued vacation pay and sick leave payable. The fund balance is the source the District will use to pay this long-term debt. More detailed information about the SWCD's long-term liabilities is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The East Polk SWCD anticipates a similar year to 2012. Tree sales should be about the same as they were in 2012. We don't anticipate any major purchases. We do not yet know what the Polk County allocation for 2013 will be. In 2012 East Polk SWCD had the same county appropriation of \$39,200. In the 2013 budget request to the county, we requested a 5% increase. If we get the increase, the county appropriation will be \$41,160. For the 2013 year, we are still working on the substantial grants that we received through the Clean Water Legacy funding, of which some of the funding can be used for administration/technical assistance.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This annual financial report is designed to provide our citizens with a general overview for those interested in 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 East Polk SWCD at 240 Cleveland Ave SW, PO Box 57, McIntosh, MN 56556. The phone number is (218) 563-2777.

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
MCINTOSH, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2012**

	General Fund	Adjustments	Statement of Net Position
<u>Assets</u>			
Cash and Investments	\$ 399,108	\$ -	\$ 399,108
Interest Receivable	301	-	301
Due from Other Governments	36,662	-	36,662
Capital Assets:			
Equipment (net of accumulated depreciation)	-	31,627	31,627
Total Assets	\$ 436,071	\$ 31,627	\$ 467,698
<u>Liabilities</u>			
Current Liabilities:			
Deferred Revenue Unearned	\$ 196,317	\$ -	\$ 196,317
Due to Other Governments	760	-	760
Sales Tax Payable	147	-	147
Long-Term Liabilities:			
Due after one year	-	7,349	7,349
Total Liabilities	\$ 197,224	\$ 7,349	\$ 204,573
<u>Fund Balance/Net Position</u>			
Fund Balance			
Unassigned	\$ 238,847	\$ (238,847)	\$ -
Total Fund Balance	\$ 238,847	\$ (238,847)	\$ -
Net Position			
Invested in Capital Assets		\$ 31,627	\$ 31,627
Unrestricted		231,498	231,498
Total Net Position		\$ 263,125	\$ 263,125

Notes are an integral part of the basic financial statements.

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
MCINTOSH, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 285,391	\$ -	\$ 285,391
Charges for Services	11,028	-	11,028
Investment Earnings	1,981	-	1,981
Miscellaneous	60,799	-	60,799
Total Revenues	<u>\$ 359,199</u>	<u>\$ -</u>	<u>\$ 359,199</u>
Expenditures/Expenses			
Conservation			
Current	\$ 359,894	\$ 3,242	\$ 363,136
Total Expenditures/Expenses	<u>\$ 359,894</u>	<u>\$ 3,242</u>	<u>\$ 363,136</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ (695)</u>	<u>\$ (3,242)</u>	<u>\$ (3,937)</u>
Fund Balance/Net Position January 1	<u>\$ 239,542</u>	<u>\$ 27,520</u>	<u>\$ 267,062</u>
Fund Balance/Net Position December 31	<u><u>\$ 238,847</u></u>	<u><u>\$ 24,278</u></u>	<u><u>\$ 263,125</u></u>

Notes are an integral part of the basic financial statements.

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
MCINTOSH, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
County	\$ 70,353	\$ 73,594	\$ 3,241
Federal	19,800	6,130	(13,670)
State Grant	23,373	205,667	182,294
Total Intergovernmental	<u>\$ 113,526</u>	<u>\$ 285,391</u>	<u>\$ 171,865</u>
 Charges for Services	 <u>\$ 13,000</u>	 <u>\$ 11,028</u>	 <u>\$ (1,972)</u>
 Miscellaneous			
Interest Earnings	\$ 1,000	\$ 1,981	\$ 981
Other	11,500	60,799	49,299
Total Miscellaneous	<u>\$ 12,500</u>	<u>\$ 62,780</u>	<u>\$ 50,280</u>
 Total Revenues	 <u>\$ 139,026</u>	 <u>\$ 359,199</u>	 <u>\$ 220,173</u>
 Expenditures			
District Operations			
Personnel Services	\$ 134,505	\$ 123,939	\$ 10,566
Other Services and Charges	24,500	21,035	3,465
Supplies	1,500	3,004	(1,504)
Capital Outlay	5,000	-	5,000
Total District Operations	<u>\$ 165,505</u>	<u>\$ 147,978</u>	<u>\$ 17,527</u>
 Project Expenditures			
District	\$ 10,000	\$ 8,471	\$ 1,529
State	4,984	203,445	(198,461)
Total Project Expenditures	<u>\$ 14,984</u>	<u>\$ 211,916</u>	<u>\$ (196,932)</u>
 Total Expenditures	 <u>\$ 180,489</u>	 <u>\$ 359,894</u>	 <u>\$ (179,405)</u>
 Excess of Revenues Over (Under)			
Expenditures	<u>\$ (41,463)</u>	<u>\$ (695)</u>	<u>\$ 40,768</u>
 Fund Balance - January 1	 <u>\$ 239,542</u>	 <u>\$ 239,542</u>	 <u>\$ -</u>
 Fund Balance - December 31	 <u><u>\$ 198,079</u></u>	 <u><u>\$ 238,847</u></u>	 <u><u>\$ 40,768</u></u>

Notes are an integral part of the basic financial statements.

EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the East Polk Soil and Water Conservation District conform to generally accepted accounting principles. These statements are prepared in accordance with Statement No. 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

Financial Reporting Entity

The East Polk 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 East Polk 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 Polk 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.

Government-Wide Financial Statements

The government-wide financial statements (i.e., The Statement of Net Position 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.

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 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 revenues 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

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012. Under the new standards, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report *net position* instead of net assets.

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.

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 position.

Classification of Net Position

Net position in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position 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 position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

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

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 that 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 Position 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.

Long-Term Liabilities: In the Statement of Net Position and Governmental 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.

**EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 18 hours per month. Sick leave accrual is at the same rate as vacation. The limit on the accumulation of vacation leave is 80 hours and the limit on sick leave is 600 hours. Upon termination from the District by retirement, illness or death, employees are paid accrued vacation leave and up to 200 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; workers' 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	\$85,224	\$0	\$0	\$85,224
Less: Accumulated Depreciation	<u>47,637</u>	5,960	0	<u>53,597</u>
Net Capital Assets	<u>\$37,587</u>			<u>\$31,627</u>

The costs of property, plant and equipment are 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 \$5,960.

The District uses the threshold of \$1,000 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 for the year ended December 31, 2012, consists of the following: BWSR Cost-Share Programs, \$18,040; BWSR Service Grant, \$2,993; CWA I, \$54,522; CWA II, \$119,059; Co-op Weed Management Grant, \$1,703; Total, \$196,317.

EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Long-Term Liabilities - Compensated Absences Payable

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

Balance January 1, 2012	\$10,067
Net Change in Compensated Absences	<u>2,718</u>
Balance December 31, 2012	<u>\$ 7,349</u>

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 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, 2012, the District's deposits totaled \$399,108, of which \$138,404 were cash deposits and \$260,704 was invested in certificates of deposit. 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, 2012, 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 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. The plan and its benefits are established and administered in accordance with Minnesota Statutes 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

EAST POLK SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$5,918, \$5,472, and \$5,359 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota Statutes.

Note 4 - Stewardship, Compliance and Accountability

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$359,894; Budget \$180,489; Excess \$179,405.

Note 5 - Operating Leases

The District leases office space on a yearly basis. Under the current agreement, total costs for 2012 were \$1,710.

Note 6 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, January 1	\$239,542
Plus: Excess of Revenue Over Expenditures	<u>(695)</u>
Governmental Fund Balance, December 31	<u>\$238,847</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$ 31,627
Less: Long-Term Liabilities	<u>(7,349)</u>
Net Position	<u>\$263,125</u>

Note 7 - Reconciliation of Change in Fund Balance to Change in Net Position

Change in fund balance	\$ (695)
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.	(5,960)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>2,718</u>
Net change in net position	<u><u>\$(3,937)</u></u>

MINNESOTA LEGAL COMPLIANCE REPORT

Board of Supervisors
East Polk Soil and Water Conservation District
McIntosh, Minnesota

We have audited, 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 the financial statements of East Polk Soil and Water Conservation District of McIntosh, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the East Polk Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining the knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the East Polk Soil and Water Conservation District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.


PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

September 14, 2013

**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
East Polk Soil and Water Conservation District
McIntosh, Minnesota

We have audited the financial statements of the governmental activities, and the general fund of the East Polk Soil and Water Conservation District as of and for the year ended December 31, 2012, and have issued our report thereon dated September 14, 2013. We conducted our 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 Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, and the general fund of the East Polk Soil and Water Conservation District, McIntosh, Minnesota as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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, we 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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Polk Soil and Water Conservation District's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. 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.



PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

September 14, 2013