

**ROOT RIVER SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2010**

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

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44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of and for the year ended December 31, 2010 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. My responsibility is to express opinions on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of December 31, 2010, and the results of operations and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information is not a required part of the basic financial statements but it is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 11, 2011 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations,

contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Root River SWCD's discussion and analysis provides an overview of the SWCD'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 SWCD's financial statements.

### USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements for governmental activities statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Root River SWCD has elected to present in this format.

#### **The Statement of Net Assets and the Statement of Activities**

One of the most important questions asked about the 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.

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 SWCD AS A WHOLE

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

#### Net Assets

	Governmental Activities	
	2010	2009
Current Assets	\$1,136,395	\$1,380,821
Capital Assets, net of depreciation	<u>16,504</u>	<u>24,914</u>
Total Assets	<u>\$1,152,899</u>	<u>\$1,405,735</u>
Current Liabilities	\$936,380	\$1,134,610
Long term liabilities	<u>33,002</u>	<u>33,995</u>
Total Liabilities	<u>\$969,382</u>	<u>\$1,168,605</u>
Total Net Assets	<u>\$183,517</u>	<u>\$237,130</u>

Net assets of the District governmental activities decreased by \$53,613. 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 \$212,216 at December 31, 2009 to \$167,013 at the end of this year.

#### The District's Statement of Activities

	Governmental Activities	
	2010	2009
Revenues		
Intergovernmental	\$746,064	\$947,662
Charges for services	10,554	10,518
Investment earnings	7,083	12,055
Miscellaneous	<u>21,000</u>	<u>7,958</u>
Total Revenues	<u>\$784,701</u>	<u>\$978,193</u>
Expenses		
Conservation	<u>\$838,314</u>	<u>\$958,329</u>
Increase (decrease) in net assets	<u>(\$53,613)</u>	<u>\$19,864</u>

The District's total revenues decreased by \$193,492. The total cost of programs and services decreased by \$120,015.

The SWCD's combined net assets were lower, decreasing by \$53,613. In contrast, last year net assets increased by \$19,864.

**Governmental Activities**

In 2010, state revenues were under budget by \$48,603. Deferred revenue decreased by \$226,670 to \$895,302. This decrease reflects the 2007 Flood progress made on recovery efforts in Houston County. The high deferred revenue is primarily due to State Cost-Share assistance on flood recovery underway.

**THE SWCD's FUNDS**

As the SWCD completed the year, its general fund reported a combined fund balance of \$200,015, which is below last year's total of \$246,211. This reflects an overall reduction in state and local funding.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital Assets - At the end of 2010, the District had \$16,504 invested in capital assets, including vehicles and office and field equipment.

Long-Term Liabilities - At the end of 2010, the District had \$33,002 in accrued compensated absences. This compares to \$33,995 in 2009.

**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 Root River SWCD, 805 N. Hwy. 44/76, Suite 1, Caledonia, MN 55921, (507) 724-5261 ext. 3.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2010

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 994,744	\$ -	\$ 994,744
Due From Other Governments	137,903	-	137,903
Prepaid Items	3,748	-	3,748
Capital Assets:			
Equipment (net of accumulated depreciation)	-	16,504	16,504
Total Assets	\$ 1,136,395	\$ 16,504	\$ 1,152,899
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts Payable	\$ 31,359	\$ -	\$ 31,359
Accrued Payroll Payable	8,734	-	8,734
Deferred Revenue	895,302	-	895,302
Deposit on Sales	985	-	985
Long-term liabilities:			
Due within one year	-	33,002	33,002
Due after one year	-	-	-
Total Liabilities	\$ 936,380	\$ 33,002	\$ 969,382
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Unreserved			
Designated, Compensated Absences	\$ 209,743	\$ (209,743)	\$ -
Undesignated	(9,728)	9,728	-
Total Fund Balance	\$ 200,015	\$ (200,015)	\$ -
Net Assets			
Invested in capital assets		\$ 16,504	\$ 16,504
Unrestricted		167,013	167,013
Total Net Assets		\$ 183,517	\$ 183,517

Notes are an integral part of the basic financial statements.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

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

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 746,064	\$ -	\$ 746,064
Charges for services	10,554	-	10,554
Investment earnings	7,083	-	7,083
Miscellaneous	21,000	-	21,000
Total Revenues	<u>\$ 784,701</u>	<u>\$ -</u>	<u>\$ 784,701</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 830,897	\$ 7,417	\$ 838,314
Capital outlay	-	-	-
Total Expenditures/Expenses	<u>\$ 830,897</u>	<u>\$ 7,417</u>	<u>\$ 838,314</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ (46,196)</u>	<u>\$ (7,417)</u>	<u>\$ (53,613)</u>
Fund Balance/Net Assets January 1	<u>\$ 246,211</u>	<u>\$ (9,081)</u>	<u>\$ 237,130</u>
Fund Balance/Net Assets December 31	<u><u>\$ 200,015</u></u>	<u><u>\$ (16,498)</u></u>	<u><u>\$ 183,517</u></u>

Notes are an integral part of the basic financial statements.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

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

	Original/Final Budget	Actual	Variance with Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
Local	\$ 10,000	\$ 8,859	\$ (1,141)
County	165,264	162,190	(3,074)
State Grant	466,961	418,358	(48,603)
Federal	212,729	156,657	(56,072)
Total intergovernmental	<u>\$ 854,954</u>	<u>\$ 746,064</u>	<u>\$ (108,890)</u>
Charges for services	<u>\$ 10,600</u>	<u>\$ 10,554</u>	<u>\$ (46)</u>
Miscellaneous			
Interest earnings	\$ 10,500	\$ 7,083	\$ (3,417)
Other	6,800	21,000	14,200
Total miscellaneous	<u>\$ 17,300</u>	<u>\$ 28,083</u>	<u>\$ 10,783</u>
Total Revenues	<u>\$ 882,854</u>	<u>\$ 784,701</u>	<u>\$ (98,153)</u>
<b>Expenditures</b>			
District operations			
Personnel services	\$ 296,160	\$ 297,071	\$ (911)
Other services and charges	48,907	47,976	931
Supplies	400	41	359
Capital outlay	-	-	-
Total district operations	<u>\$ 345,467</u>	<u>\$ 345,088</u>	<u>\$ 379</u>
Project expenditures			
District	\$ 17,806	\$ 10,829	\$ 6,977
State	541,517	474,980	66,537
Total project expenditures	<u>\$ 559,323</u>	<u>\$ 485,809</u>	<u>\$ 73,514</u>
Total Expenditures	<u>\$ 904,790</u>	<u>\$ 830,897</u>	<u>\$ 73,893</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ (21,936)</u>	<u>\$ (46,196)</u>	<u>\$ (24,260)</u>
Fund Balance - January 1	<u>\$ 246,211</u>	<u>\$ 246,211</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 224,275</u>	<u>\$ 200,015</u>	<u>\$ (24,260)</u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

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

Financial Reporting Entity

The Root River 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 Root River 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 Houston County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the district.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Financial Statements

The government-wide financial statements (ie., the Statement of Net Assets and The Statement of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to 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.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

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

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

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Budget Information

The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Fund Equity Accounts

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposits, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Capital assets are reported on a net (depreciated) basis. General capital assets are still valued at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for as an adjustment to Net Assets.

Equity

Reserved fund balance indicates the portion of fund equity, which 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.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

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 12 days per year. The limit on the accumulation of annual leave is 192 hours and the limit on sick leave is 800 hours. Upon termination of employment from the district, employees are paid accumulated annual leave and 50% of accrued sick leave hours not to exceed 360 hours.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**Note 2 – Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$63,277	\$ 0	\$ 0	\$63,277
Less: Accumulated Depreciation	<u>38,363</u>	8,410	0	<u>46,773</u>
Net Capital Assets	<u>\$24,914</u>			<u>\$16,504</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and equipment 5 to 10 years. Current year depreciation is \$8,410.

The district uses the threshold of \$5,000 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, 2010, consists of the following: BWSR Cost Share Programs \$895,302

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2010 are:

Balance January 1, 2010	\$33,995
Net Change in Compensated Absences	<u>(993)</u>
Balance December 31, 2010	<u>\$33,002</u>

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

Deposits

Minn. Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

At December 31, 2010, the District's deposits totaled \$994,744, of which \$694,744 were cash deposits and 300,000 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2010, the District's deposits were not exposed to custodial credit risk.

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

Plan Description - Public Employees Retirement Association

The district contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.0% of their annual covered salary. The District is required to contribute 7.0% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$14,402, \$13,402, and \$13,296 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 4 – Due From Other Governments**

Represents reimbursement due from other governmental units for services provided and grant funds expended.

**Note 5 – Operating Leases**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2010 were \$14,558.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

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

Governmental Fund Balance, January 1	\$246,211
Plus: Excess of Revenue Over Expenditures	<u>(46,196)</u>
Governmental Fund Balance, December 31	<u>\$200,015</u>
Adjustments from Fund Balance to Net Assets:	
Plus: Capital Assets	\$ 16,504
Less: Long Term Liabilities	<u>(33,002)</u>
Net Assets	<u>\$183,517</u>

**Note 7 – Reconciliation of Change in Fund Balance to Change in Net Assets**

Change in fund balance	(\$46,196)
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(8,410)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>993</u>
Net change in net assets	<u>(\$53,613)</u>

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

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**REPORT ON LEGAL COMPLIANCE**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

I have audited the accompanying financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota, as of and for the year ended December 31, 2010 which collectively comprise the District's basic financial statements and have issued my report thereon dated August 11, 2011.

My audit was made in accordance with auditing standards generally accepted in the United States of America and provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as I considered necessary in the circumstances.

The Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. My study included all of the listed categories except public indebtedness. The public indebtedness category was not tested because the District is not allowed to issue debt.

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

This report is intended solely for the information and use of the District, Board of Soil and Water Resources, State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

  
JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota

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**JAMES MAISER  
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

I have audited the financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District as of and for the year ended December 31, 2010 and have issued my report thereon dated August 11, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control**

In planning and performing my audit of the financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of and for the year ended December 31, 2010 in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Root River Soil and Water Conservation District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the organization and the Board of Supervisors, Board of Soil and Water Resources, State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota



**ROOT RIVER SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2011**

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

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44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of and for the year ended December 31, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. My responsibility is to express opinions on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of December 31, 2011, and the results of operations and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements for 2011, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis information is not a required part of the basic financial statements but it is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 31, 2012 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



JAMES MAISER  
Certified Public Accountant and Consultant

August 31, 2012  
Waconia, Minnesota

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Root River SWCD's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2011. 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 SWCD's financial statements.

### USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements for governmental activities tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Root River SWCD has elected to present in this format.

### The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the 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.

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 SWCD AS A WHOLE

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

### Net Assets

	Governmental Activities	
	2011	2010
Current Assets	\$774,114	\$1,136,395
Capital Assets, net of depreciation	<u>8,057</u>	<u>16,504</u>
Total Assets	<u>\$782,171</u>	<u>\$1,152,899</u>
Current Liabilities	\$520,798	\$936,380
Long term liabilities	<u>28,926</u>	<u>33,002</u>
Total Liabilities	<u>\$549,724</u>	<u>\$969,382</u>
Total Net Assets	<u>\$232,447</u>	<u>\$183,517</u>

Net assets of the District governmental activities increased by \$48,930. 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 \$167,013 at December 31, 2010 to \$224,390 at the end of this year.

### The District's Statement of Activities

Governmental Activities	2011	2010
Revenues		
Intergovernmental	\$896,874	\$746,064
Charges for services	8,015	10,554
Investment earnings	7,612	7,083
Miscellaneous	<u>7,803</u>	<u>21,000</u>
Total Revenues	<u>\$920,304</u>	<u>\$784,701</u>
Expenses		
Conservation	<u>\$871,374</u>	<u>\$838,314</u>
Increase (decrease) in net assets	<u>\$ 48,930</u>	<u>(\$53,613)</u>

The District's total revenue increased by \$135,603. The total cost of programs and services increased by \$33,060.

The SWCD's combined net assets were higher, increasing by \$48,930. In contrast, last year net assets decreased by \$53,613.

### Governmental Activities

In 2011, state revenues were under budget by \$305,128. Deferred revenue decreased by \$387,270 to \$508,032. This decrease reflects the 2007 Flood progress made on recovery efforts in Houston County. The deferred revenue is primarily due to State Cost-Share assistance on flood recovery underway.

## **THE SWCD's FUNDS**

As the SWCD completed the year, its general fund reported a combined fund balance of \$253,316, which is above last year's total of \$200,015. This reflects an overall increase in state and local funding.

### **General Fund Budgetary Highlights**

The most significant variance (\$186,140) occurred in the SWCD's intergovernmental revenue accounts. Revenues were down for state grants as noted above and up significantly in local and federal funding category. Total District Operations expenses were less than budgeted.

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

Capital Assets – At the end of 2011, the District had \$8,057 invested in capital assets, including vehicles and office and field equipment.

Long-Term Liabilities – At the end of 2011, the District had \$28,926 in accrued compensated absences. This compares to \$33,002 in 2010.

## **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 Root River SWCD, 805 N. Hwy. 44/76, Suite 1, Caledonia, MN 55921, (507) 724-5261.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

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

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 721,004	\$ -	\$ 721,004
Due From Other Governments	47,813	-	47,813
Accrued Interest Receivable	681	-	681
Prepaid Items	4,616	-	4,616
Capital Assets:			
Equipment (net of accumulated depreciation)	-	8,057	8,057
Total Assets	\$ 774,114	\$ 8,057	\$ 782,171
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts Payable	\$ 2,087	\$ -	\$ 2,087
Salaries Payable	8,534	-	8,534
Deferred Revenue	508,032	-	508,032
Deposit on Sales	2,145	-	2,145
Long-term liabilities:			
Due within one year		4,432	4,432
Due after one year		24,494	24,494
Total Liabilities	\$ 520,798	\$ 28,926	\$ 549,724
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Unassigned	253,316	(253,316)	-
Total Fund Balance	\$ 253,316	\$ (253,316)	\$ -
Net Assets			
Invested in capital assets		\$ 8,057	\$ 8,057
Unrestricted		224,390	224,390
Total Net Assets		\$ 232,447	\$ 232,447

Notes are an integral part of the basic financial statements.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

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

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 896,874	\$ -	\$ 896,874
Charges for services	8,015	-	8,015
Investment earnings	7,612	-	7,612
Miscellaneous	7,803	-	7,803
<b>Total Revenues</b>	<u>\$ 920,304</u>	<u>\$ -</u>	<u>\$ 920,304</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 867,003	\$ 4,371	\$ 871,374
Capital outlay	-	-	-
<b>Total Expenditures/Expenses</b>	<u>\$ 867,003</u>	<u>\$ 4,371</u>	<u>\$ 871,374</u>
 Excess of Revenues Over (Under) Expenditures/Expenses	 <u>\$ 53,301</u>	 <u>\$ (4,371)</u>	 <u>\$ 48,930</u>
 Fund Balance/Net Assets January 1	 <u>\$ 200,015</u>	 <u>\$ (16,498)</u>	 <u>\$ 183,517</u>
 Fund Balance/Net Assets December 31	 <u><u>\$ 253,316</u></u>	 <u><u>\$ (20,869)</u></u>	 <u><u>\$ 232,447</u></u>

Notes are an integral part of the basic financial statements.

ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
CALEDONIA, MINNESOTA

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

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
<b>Revenues</b>			
Intergovernmental			
Local	\$ 18,000	\$ 45,409	\$ 27,409
County	180,392	198,638	18,246
State	863,089	557,961	(305,128)
Federal	21,533	94,866	73,333
Total intergovernmental	<u>\$ 1,083,014</u>	<u>\$ 896,874</u>	<u>\$ (186,140)</u>
Charges for services	<u>\$ 10,600</u>	<u>\$ 8,015</u>	<u>\$ (2,585)</u>
Miscellaneous			
Investment Earnings	\$ 8,000	\$ 7,612	\$ (388)
Other	5,700	7,803	2,103
Total miscellaneous	<u>\$ 13,700</u>	<u>\$ 15,415</u>	<u>\$ 1,715</u>
Total Revenues	<u>\$ 1,107,314</u>	<u>\$ 920,304</u>	<u>\$ (187,010)</u>
<b>Expenditures</b>			
District operations			
Personnel services	\$ 298,050	\$ 298,652	\$ (602)
Other services and charges	39,700	40,662	(962)
Supplies	3,175	1,376	1,799
Total district operations	<u>\$ 340,925</u>	<u>\$ 340,690</u>	<u>\$ 235</u>
Project expenditures			
District	\$ 14,700	\$ 13,396	\$ 1,304
County	6,635	2,017	4,618
State	765,000	471,222	293,778
Federal	-	39,678	(39,678)
Total project expenditures	<u>\$ 786,335</u>	<u>\$ 526,313</u>	<u>\$ 260,022</u>
Total Expenditures	<u>\$ 1,127,260</u>	<u>\$ 867,003</u>	<u>\$ 260,257</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (19,946)</u>	<u>\$ 53,301</u>	<u>\$ 73,247</u>
Fund Balance - January 1	<u>\$ 200,015</u>	<u>\$ 200,015</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 180,069</u>	<u>\$ 253,316</u>	<u>\$ 73,247</u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

The financial reporting policies of the Root River Soil and Water Conservation District conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

Financial Reporting Entity

The Root River 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 Root River 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 Houston County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the district.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Financial Statements

The government-wide financial statements (ie., the Statement of Net Assets and The Statement of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

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

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

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

#### Budget Information

The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### Assets, Liabilities and Equity Accounts

##### Assets

Investments are stated at fair value, except for non-negotiable certificates of deposits, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Capital assets are reported on a net (depreciated) basis. General capital assets are valued at historical or estimated historical cost.

##### Liabilities

Long-term liabilities, such as compensated absences, are accounted for as an adjustment to Net Assets.

##### Classification of Net Assets

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

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

Restricted net assets – the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Classification of Fund Balances

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

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the District Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Explanation of Adjustments Column in Statements

Capital Assets: In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made if the district has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount reported in the Capital Assets Note.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

Long-Term Liabilities: In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence liability the district has as of the report date. See note on Long-Term Liabilities.

Depreciation and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in the note on Long-Term Liabilities.

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 17 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 192 hours and the limit on sick leave is 800 hours. Upon termination of employment from the district, employees are paid accumulated annual leave and 50% of accrued sick leave hours not to exceed 360 hours.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**Note 2 – Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$63,277	\$ 0	\$ 0	\$63,277
Less: Accumulated Depreciation	<u>46,773</u>	8,447	0	<u>55,220</u>
Net Capital Assets	<u>\$16,504</u>			<u>\$ 8,057</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and equipment 5 to 10 years. Current year depreciation is \$8,447.

The district uses the threshold of \$5,000 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, 2011, consists of the following: BWSR Cost Share Programs \$508,032.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

Long-Term Liabilities - Compensated Absences Payable

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

Balance January 1, 2011	\$33,002
Net Change in Compensated Absences	<u>(4,076)</u>
Balance December 31, 2011	<u>\$28,926</u>

Deposits

Minn. Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

At December 31, 2011, the District's deposits totaled \$721,004, of which \$646,004 were cash deposits and \$75,000 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District's deposits were not exposed to custodial credit risk.

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

Plan Description - Public Employees Retirement Association

The district contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.25% of their annual covered salary. The District is required to contribute 7.25% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$13,721, \$14,403, and \$13,402 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**Note 4 – Due From Other Governments**

Represents reimbursement due from Other Governments for grant funds expended and services provided.

**Note 5 – Operating Leases**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2011 were \$12,132.

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

Governmental Fund Balance, January 1	\$200,015
Plus: Excess of Revenue Over Expenditures	<u>53,301</u>
Governmental Fund Balance, December 31	<u>\$253,316</u>
Adjustments from Fund Balance to Net Assets:	
Plus: Capital Assets	\$ 8,057
Less: Long Term Liabilities	<u>(28,926)</u>
Net Assets	<u>\$232,447</u>

**Note 7 – Reconciliation of Change in Fund Balance to Change in Net Assets**

Change in fund balance	\$53,301
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(8,447)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>4,076</u>
Net change in net assets	<u>\$48,930</u>

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**JAMES MAISER  
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**REPORT ON LEGAL COMPLIANCE**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

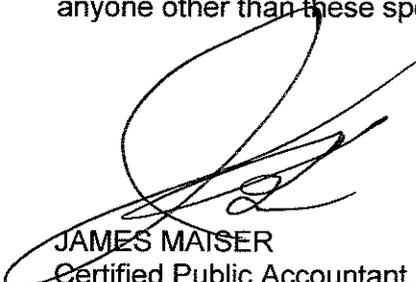
I have audited the accompanying financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued my report thereon dated August 31, 2012.

My audit was made in accordance with auditing standards generally accepted in the United States of America and provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as I considered necessary in the circumstances.

The Legal Compliance Audit Guide for Political Subdivisions covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. My study included all of the listed categories except public indebtedness. The public indebtedness category was not tested because the District is not allowed to issue debt.

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

This report is intended solely for the information and use of the District, Board of Water and Soil Resources, State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



JAMES MAISER  
Certified Public Accountant and Consultant

August 31, 2012  
Waconia, Minnesota

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**JAMES MAISER  
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**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  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

I have audited the financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District as of and for the year ended December 31, 2011, and have issued my report thereon dated August 31, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control**

In planning and performing my audit of the financial statements of the governmental activities, and the General fund of the Root River Soil and Water Conservation District, Caledonia, Minnesota as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

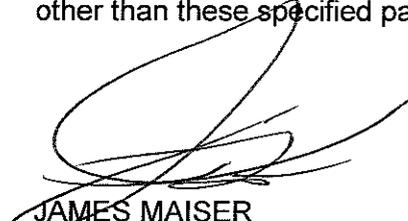
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Root River Soil and Water Conservation District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the organization and the Board of Supervisors, Board of Water and Soil Resources, State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



**JAMES MAISER**  
Certified Public Accountant and Consultant

August 31, 2012  
Waconia, Minnesota

**ROOT RIVER SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Root River Soil and Water Conservation District, Caledonia, 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.

## **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 Root River 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 3–5 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 August 27, 2013, on our consideration of the Root River 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 Root River Soil and Water Conservation District's internal control over financial reporting and compliance.

  
PETERSON COMPANY, LTD.  
Certified Public Accountants  
Waconia, Minnesota  
August 27, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
DECEMBER 31, 2012**

The Root River SWCD's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2012. 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 Root River SWCD's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position 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 for governmental activities tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose, special-purpose government units they are generally able to combine the government-wide and fund financial statements into a single presentation. The Root River SWCD has elected to present in this format.

**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.

**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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

## THE SWCD AS A WHOLE

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

### Net Position:

	<b>Governmental Activities</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Current Assets	\$ 484,263	\$ 774,114
Capital Assets, net of depreciation	-	8,057
Total Assets	<u>\$ 484,263</u>	<u>\$ 782,171</u>
Current Liabilities, Deferred Revenue	\$ 171,329	\$ 520,798
Long-Term Liabilities	25,810	28,926
Total Liabilities	<u>\$ 197,139</u>	<u>\$ 549,724</u>
Investment in Capital Assets	\$ -	\$ 8,057
Unrestricted	287,124	224,390
Total Net Position	<u><u>\$ 287,124</u></u>	<u><u>\$ 232,447</u></u>

Net position of the District governmental activities increased by \$54,677. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$224,390 at December 31, 2011 to \$287,124 at the end of this year.

### The District's Statement of Activities:

	<b>Governmental Activities</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Revenues</b>		
Intergovernmental	\$ 695,825	\$ 896,874
Charges for Services	10,202	8,015
Investment Earnings	3,238	7,612
Miscellaneous	5,301	7,803
Total Revenues	<u>\$ 714,566</u>	<u>\$ 920,304</u>
<b>Expenses</b>		
Conservation	\$ 659,889	\$ 871,374
Total Expenses	<u>\$ 659,889</u>	<u>\$ 871,374</u>
Increase in Net Position	<u>\$ 54,677</u>	<u>\$ 48,930</u>

The District's total revenues decreased by \$205,738. The total cost of programs and services decreased by \$211,485. The SWCD's combined net position was higher increasing by \$54,677. In contract, last year's net position increased by \$48,930.

### **Governmental Activities**

In 2012, state revenues were under budget by \$104,706. Deferred revenue decreased by \$352,340 to \$155,692. This decrease reflects the 2007 Flood progress made on recovery efforts in Houston County. The deferred revenue is primarily due to State Cost-Share assistance on flood recovery underway.

### **THE SWCD'S FUNDS**

As the SWCD completed the year, its general fund reported a combined fund balance of \$312,934, which is above last year's total of \$253,316. This reflects an overall increase in local funding.

### **General Fund Budgetary Highlights**

The most significant variance (\$104,706) occurred in the SWCD's intergovernmental revenue account. Revenue was down for state grants as noted above and up in the local and county funding categories. The county funding increase was due to re-categorizing state funds as county funds and compares to when the budget was created. Total expenditures were slightly less than budgeted.

### **CAPITAL ASSET & LONG-TERM LIABILITIES**

#### **Capital Assets**

At the end of 2012, the District had no funds invested in capital assets, including vehicles and office and field equipment.

#### **Long-Term Liabilities**

At the end of 2012, the District had \$25,810 in accrued compensated absences. This compares to \$28,926 in 2011.

### **CONTACTING THE SWCD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 Root River SWCD, 805 N. Hwy. 44/76, Suite 1, Caledonia, MN 55921, (507) 724-5261 ext. 3.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, MINNESOTA  
 STATEMENT OF NET POSITION AND  
 GOVERNMENTAL FUND BALANCE SHEET  
 DECEMBER 31, 2012**

	General Fund	Adjustments	Statement of Net Position
<b><u>Assets</u></b>			
Cash and Investments	\$ 432,772	\$ -	\$ 432,772
Prepaid Items	4,850	-	4,850
Due from Other Governments	46,641	-	46,641
Total Assets	<u>\$ 484,263</u>	<u>\$ -</u>	<u>\$ 484,263</u>
<b><u>Liabilities</u></b>			
Current Liabilities:			
Deferred Revenue Unearned	\$ 155,692	\$ -	\$ 155,692
Salaries Payable	6,582	-	6,582
Accounts Payable	7,631	-	7,631
Deposit of Sales	1,424	-	1,424
Long-Term Liabilities:			
Due after one year	-	25,810	25,810
Total Liabilities	<u>\$ 171,329</u>	<u>\$ 25,810</u>	<u>\$ 197,139</u>
<b><u>Fund Balance/Net Position</u></b>			
Fund Balance			
Nonspendable (Prepays)	\$ 4,850	\$ (4,850)	\$ -
Unassigned	308,084	(308,084)	-
Total Fund Balance	<u>\$ 312,934</u>	<u>\$ (312,934)</u>	<u>\$ -</u>
Net Position			
Unrestricted		<u>\$ 287,124</u>	<u>\$ 287,124</u>
Total Net Position		<u>\$ 287,124</u>	<u>\$ 287,124</u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, 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
<b>Revenues</b>			
Intergovernmental	\$ 695,825	\$ -	\$ 695,825
Charges for Services	10,202	-	10,202
Investment Earnings	3,238	-	3,238
Miscellaneous	5,301	-	5,301
Total Revenues	<u>\$ 714,566</u>	<u>\$ -</u>	<u>\$ 714,566</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 654,948	\$ 4,941	\$ 659,889
Total Expenditures/Expenses	<u>\$ 654,948</u>	<u>\$ 4,941</u>	<u>\$ 659,889</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 59,618</u>	<u>\$ (4,941)</u>	<u>\$ 54,677</u>
Fund Balance/Net Position January 1	<u>\$ 253,316</u>	<u>\$ (20,869)</u>	<u>\$ 232,447</u>
Fund Balance/Net Position December 31	<u><u>\$ 312,934</u></u>	<u><u>\$ (25,810)</u></u>	<u><u>\$ 287,124</u></u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, MINNESOTA  
 BUDGETARY COMPARISON STATEMENT  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Neg)
<b>Revenues</b>				
Intergovernmental				
County	\$ 111,770	\$ 111,770	\$ 174,992	\$ 63,222
Local	54,500	57,175	61,592	4,417
Federal	39,800	12,201	17,786	5,585
State Grant	258,465	546,161	441,455	(104,706)
Total Intergovernmental	<u>\$ 464,535</u>	<u>\$ 727,307</u>	<u>\$ 695,825</u>	<u>\$ (31,482)</u>
Charges for Services	<u>\$ 11,600</u>	<u>\$ 10,106</u>	<u>\$ 10,202</u>	<u>\$ 96</u>
Miscellaneous				
Interest Earnings	\$ 5,100	\$ 2,100	\$ 3,238	\$ 1,138
Other	3,000	2,500	5,301	2,801
Total Miscellaneous	<u>\$ 8,100</u>	<u>\$ 4,600</u>	<u>\$ 8,539</u>	<u>\$ 3,939</u>
Total Revenues	<u>\$ 484,235</u>	<u>\$ 742,013</u>	<u>\$ 714,566</u>	<u>\$ (27,447)</u>
<b>Expenditures</b>				
District Operations				
Personnel Services	\$ 290,322	\$ 221,172	\$ 251,050	\$ (29,878)
Other Services and Charges	28,000	29,400	25,981	3,419
Supplies	1,850	1,850	982	868
Total District Operations	<u>\$ 320,172</u>	<u>\$ 252,422</u>	<u>\$ 278,013</u>	<u>\$ (25,591)</u>
Project Expenditures				
District	\$ 13,000	\$ 10,150	\$ 14,390	\$ (4,240)
County	23,172	23,172	8,319	14,853
Federal	25,000	-	257	(257)
State	145,400	381,802	353,969	27,833
Total Project Expenditures	<u>\$ 206,572</u>	<u>\$ 415,124</u>	<u>\$ 376,935</u>	<u>\$ 38,189</u>
Total Expenditures	<u>\$ 526,744</u>	<u>\$ 667,546</u>	<u>\$ 654,948</u>	<u>\$ 12,598</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (42,509)</u>	<u>\$ 74,467</u>	<u>\$ 59,618</u>	<u>\$ (14,849)</u>
Fund Balance - January 1	<u>\$ 253,316</u>	<u>\$ 253,316</u>	<u>\$ 253,316</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 210,807</u>	<u>\$ 327,783</u>	<u>\$ 312,934</u>	<u>\$ (14,849)</u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER 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 Root River 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 Root River 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 Root River 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 Houston 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 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

**ROOT RIVER 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

**ROOT RIVER 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

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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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.

**ROOT RIVER 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 17 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of vacation leave is 192 hours and the limit on sick leave is 800 hours. Upon termination of employment from the district, employees are paid accumulated vacation leave and 50% of accrued sick leave hours not to exceed 360 hours.

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.

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Equipment	\$63,277	\$0	\$0	\$63,277
Less: Accumulated Depreciation	<u>55,220</u>	8,057	0	<u>63,277</u>
Net Capital Assets	<u>\$ 8,057</u>			<u>\$ 0</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and Equipment 5 to 10 years. Current year depreciation is \$8,057.

The District uses the threshold of \$5,000 for capitalizing assets purchased. Those physical assets under \$5,000 are expenses directly and not capitalized.

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, \$142,056; BWSR Service Grants, \$13,636; Total, \$155,692.

**ROOT RIVER 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	\$28,926
Net Change in Compensated Absences	<u>(3,116)</u>
Balance December 31, 2012	<u>\$25,810</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 \$432,772, all of which were cash deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 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

**ROOT RIVER 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 \$12,675, \$13,721, and \$14,403 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota Statutes.

**Note 4 - Operating Leases**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2012 were \$9,806.

**Note 5 - Reconciliation of Fund Balance to Net Position**

Governmental Fund Balance, January 1	\$253,316
Plus: Excess of Revenue Over Expenditures	<u>59,618</u>
Governmental Fund Balance, December 31	<u>\$312,934</u>
Adjustments from Fund Balance to Net Position:	
Less: Long Term-Liabilities	<u>\$ (25,810)</u>
Net Position	<u>\$287,124</u>

**Note 6 - Reconciliation of Change in Fund Balance to Change in Net Position**

Change in fund balance	\$59,618
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.	(8,057)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>3,116</u>
Net change in net position	<u>\$54,677</u>

**MINNESOTA LEGAL COMPLIANCE REPORT**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, 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 Root River Soil and Water Conservation District of Caledonia, 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 August 27, 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 Root River 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 Root River 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  
August 27, 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  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

We have audited the financial statements of the governmental activities, and the general fund of the Root River Soil and Water Conservation District as of and for the year ended December 31, 2012, and have issued our report thereon dated August 27, 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 Root River Soil and Water Conservation District, Caledonia, 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 Root River 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  
August 27, 2013

**ROOT RIVER SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

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## INDEPENDENT AUDITOR'S REPORT

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Root River Soil and Water Conservation District, Caledonia, Minnesota, as of and for the year ended December 31, 2014, 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.

## ***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 Root River Soil and Water Conservation District as of December 31, 2014, 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 3–5 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 October 16, 2015, on our consideration of the Root River 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 Root River Soil and Water Conservation District's internal control over financial reporting and compliance.

***Peterson Company Ltd***

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

October 16, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
DECEMBER 31, 2014**

The Root River 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, 2014. 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 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 Position 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, financial statements tell how 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 Districts are single-purpose, special-purpose government units, the District combines the government-wide and fund financial statements into a single presentation.

**The Statement of Net Position 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 Position 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 the 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 District's net position and changes in them. You can think of the District's net position — 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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the District.

In the Statement of Net Position 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 finance most activities.

**Reporting the District's General Fund**

Our analysis of the District's general fund is part of this report. 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 the fund 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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

## THE DISTRICT AS A WHOLE

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

Net Position:

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
Current Assets	\$ 493,496	\$ 584,197
Total Assets	<u>\$ 493,496</u>	<u>\$ 584,197</u>
Liabilities, Unearned Revenue	\$ 149,465	\$ 234,784
Long-Term Liabilities	23,083	32,822
Total Liabilities	<u>\$ 172,548</u>	<u>\$ 267,606</u>
Unrestricted	\$ 320,948	\$ 316,591
Total Net Position	<u>\$ 320,948</u>	<u>\$ 316,591</u>

Net position of the District's governmental activities increased by \$4,357. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from \$316,591 at December 31, 2013 to \$320,948 at the end of this year.

Change in Net Position:

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Intergovernmental	\$ 340,594	\$ 267,273
Charges for Services	10,489	10,803
Investment Earnings	1,657	1,763
Miscellaneous	124,201	115,908
<b>Total Revenues</b>	<b>\$ 476,941</b>	<b>\$ 395,747</b>
<b>Expenditures</b>		
Conservation	\$ 472,584	\$ 366,280
<b>Total Expenditures</b>	<b>\$ 472,584</b>	<b>\$ 366,280</b>
 Increase (decrease) in Net Position	 <b>\$ 4,357</b>	 <b>\$ 29,467</b>

The District's total revenues increased by \$81,194. The total cost of programs and services increased by \$106,304.

**THE DISTRICT'S FUNDS**

As the District completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$344,031, which is below last year's total of \$349,413.

**General Fund Budgetary Highlights**

The actual charges to appropriations (expenditures) were \$65,757 below the final budgeted amounts. The most significant negative variance of \$125,955 occurred in State Revenues. The most significant positive variance of \$56,034 occurred in State Project Expenditures.

**CAPITAL ASSETS & LONG-TERM LIABILITIES**

**Capital Assets**

At the end of 2014, the District had \$0 invested in capital assets. Assets that exist are fully depreciated.

**Long-Term Liabilities**

At the end of 2014, the District had \$23,083 in accrued compensated absences. This compares to \$32,822 in 2013.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers 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 Root River Soil and Water Conservation District at 805 N Hwy 44/76, Suite 1, Caledonia, MN 55921. The phone number is 507-724-5261, extension #3.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, MINNESOTA  
 STATEMENT OF NET POSITION AND  
 GOVERNMENTAL FUND BALANCE SHEET  
 DECEMBER 31, 2014**

	General Fund	Adjustments	Statement of Net Position
<b><u>Assets</u></b>			
Cash and Investments	\$ 488,416	\$ -	\$ 488,416
Prepaid Items	4,493	-	4,493
Accounts Receivable	348	-	348
Due From Other Governments	181	-	181
Interest Receivable	58	-	58
Total Assets	\$ 493,496	\$ -	\$ 493,496
<b><u>Liabilities</u></b>			
Current Liabilities:			
Unearned Revenue	\$ 130,611	\$ -	\$ 130,611
Accounts Payable	2,583	-	2,583
Due to Other Governments	2,306	-	2,306
Accrued Wages	10,512	-	10,512
Deposit on Sales	3,453	-	3,453
Long-term Liabilities:			
Due after one year	-	23,083	23,083
Total Liabilities	\$ 149,465	\$ 23,083	\$ 172,548
<b><u>Fund Balance/Net Position</u></b>			
Fund Balance			
Nonspendable - Prepaids	\$ 4,493	\$ (4,493)	\$ -
Unassigned	339,538	(339,538)	-
Total Fund Balance	\$ 344,031	\$ (344,031)	\$ -
Net Position			
Unrestricted		\$ 320,948	\$ 320,948
Total Net Position		\$ 320,948	\$ 320,948

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, MINNESOTA  
 STATEMENT OF ACTIVITIES AND  
 GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 340,594	\$ -	\$ 340,594
Charges for Services	10,489	-	10,489
Investment Earnings	1,657	-	1,657
Miscellaneous	124,201	-	124,201
<b>Total Revenues</b>	<b>\$ 476,941</b>	<b>\$ -</b>	<b>\$ 476,941</b>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 482,323	\$ (9,739)	\$ 472,584
<b>Total Expenditures/Expenses</b>	<b>\$ 482,323</b>	<b>\$ (9,739)</b>	<b>\$ 472,584</b>
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (5,382)	\$ 9,739	\$ 4,357
Fund Balance/Net Position January 1	\$ 349,413	\$ (32,822)	\$ 316,591
Fund Balance/Net Position December 31	<b>\$ 344,031</b>	<b>\$ (23,083)</b>	<b>\$ 320,948</b>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
 CALEDONIA, MINNESOTA  
 BUDGETARY COMPARISON STATEMENT  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
County	\$ 182,000	\$ 186,123	\$ 4,123
State Grants	280,426	154,471	(125,955)
Total Intergovernmental	<u>\$ 462,426</u>	<u>\$ 340,594</u>	<u>\$ (121,832)</u>
Charges for Services	<u>\$ 9,021</u>	<u>\$ 10,489</u>	<u>\$ 1,468</u>
Miscellaneous			
Interest Earnings	\$ 700	\$ 1,657	\$ 957
Other	120,000	124,201	4,201
Total Miscellaneous	<u>\$ 120,700</u>	<u>\$ 125,858</u>	<u>\$ 5,158</u>
Total Revenues	<u>\$ 592,147</u>	<u>\$ 476,941</u>	<u>\$ (115,206)</u>
<b>Expenditures</b>			
District Operations			
Personnel Services	\$ 271,708	\$ 288,257	\$ (16,549)
Other Services and Charges	55,677	50,612	5,065
Supplies	2,450	1,936	514
Capital Outlay	10,000	-	10,000
Total District Operations	<u>\$ 339,835</u>	<u>\$ 340,805</u>	<u>\$ (970)</u>
Project Expenditures			
District	\$ 51,500	\$ 40,807	\$ 10,693
State	156,745	100,711	56,034
Total Project Expenditures	<u>\$ 208,245</u>	<u>\$ 141,518</u>	<u>\$ 66,727</u>
Total Expenditures	<u>\$ 548,080</u>	<u>\$ 482,323</u>	<u>\$ 65,757</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 44,067</u>	<u>\$ (5,382)</u>	<u>\$ (49,449)</u>
Fund Balance - January 1	<u>\$ 349,413</u>	<u>\$ 349,413</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 393,480</u></u>	<u><u>\$ 344,031</u></u>	<u><u>\$ (49,449)</u></u>

Notes are an integral part of the basic financial statements.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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

The financial reporting policies of the Root River Soil and Water Conservation District conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

**Financial Reporting Entity**

The Root River 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 Root River 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 Houston County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the District.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

**Government-Wide Financial Statements**

The government-wide financial statements (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.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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 tree sales 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 revenues and expenditures 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 which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Equity Accounts

The District follows Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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, is accounted for as an adjustment to net position.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment 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 follows Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*.

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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 12 days per year. The limit on the accumulation of annual leave is 192 hours and the limit on sick leave is 800 hours. Upon termination of employment from the District, employees are paid accumulated annual vacation leave and 50% of accrued sick leave not to exceed 360 hours.

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 deductible amounts 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.

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Equipment	\$63,277	\$0	\$0	\$63,277
Less: Accumulated Depreciation	<u>63,277</u>	0	0	<u>63,277</u>
Net Capital Assets	<u>\$ 0</u>			<u>\$ 0</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. For the purpose of computing depreciation, the useful lives of Machinery and Equipment is 5 to 10 years.

The District uses the threshold of \$5,000 for capitalizing assets purchased.

Unearned Revenue

Unearned 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. Unearned revenue for the year ended December 31, 2014, consists of the following: BWSR Cost Share Programs, \$47,803; BWSR Service Grants, \$2,854; Hayable Buffer, \$72,000; AIS, \$7,954; Total, \$130,611.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2014 are:

Balance January 1, 2014	\$ 32,822
Net Change in Compensated Absences	(9,739)
Balance December 31, 2014	<u>\$ 23,083</u>

Deposits

All District funds are on deposit with Houston County.

Employee Benefits

The District contracts with Houston County for all District staff requirements, including PERA and compensated absences.

**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 are required to contribute 6.25% of their annual covered salary. The District is required to contribute 7.25% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$14,390, \$12,242, and \$14,403 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota Statutes.

**Note 4 - Operating Leases**

The District leases office space on a yearly basis. Under the current agreement total costs for 2014 were \$10,305.

**ROOT RIVER SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**Note 5 - Reconciliation of Fund Balance to Net Position**

Governmental Fund Balance, January 1	\$349,413
Less: Excess of Revenues Over Expenditures	<u>(5,382)</u>
Governmental Fund Balance, December 31	<u>\$344,031</u>
Adjustments from Fund Balance to Net Position:	
Less: Long-Term Liabilities	<u>(23,083)</u>
Net Position	<u>\$320,948</u>

**Note 6 - Reconciliation of Change in Fund Balance to Change in Net Position**

Change in fund balance	\$ (5,382)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>9,739</u>
Net change in net position	<u>\$ 4,357</u>

**MINNESOTA LEGAL COMPLIANCE REPORT**

Board of Supervisors  
Root River Soil and Water Conservation District  
Caledonia, 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 Root River Soil and Water Conservation District of Caledonia, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2015.

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 Root River 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 Root River 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*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

October 16, 2015

**INDEPENDENT AUDITOR'S 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  
Root River Soil and Water Conservation District  
Caledonia, Minnesota

We have audited, in accordance with the 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 the governmental activities of Root River Soil and Water Conservation District, Caledonia, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Root River Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated October 16, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Root River Soil and Water Conservation District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Root River Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Root River Soil and Water Conservation District's internal control.

*A deficiency in internal control* over financial reporting 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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Root River Soil and Water Conservation District's financial statements are free from 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 an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

October 16, 2015