

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
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**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
ORGANIZATION**

**Steven Sunderland, Chairperson**

**Steve Nokleby, Vice Chairperson**

**Robert Dirksen, Secretary, resigned November 2011**

**Larry Kittelson, Treasurer**

**Dawn Schuler, Supervisor**

DANA F. COLE & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Chippewa Soil and Water Conservation District  
Montevideo, Minnesota

We have audited the accompanying financial statements of the governmental activities and major fund information of Chippewa Soil and Water Conservation District, 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 Chippewa Soil and Water Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

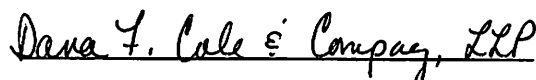
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 major fund of Chippewa Soil and Water Conservation District as of December 31, 2011, and the respective changes in financial position thereof and the 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 1.1 to the financial statements, in 2011, the Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of Chippewa 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 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.



Montevideo, Minnesota  
September 28, 2012

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Chippewa Soil and Water Conservation District's (SWCD) annual financial report presents our discussion and analysis of the SWCD'S financial performance during the year ended December 31, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2011 fiscal year include the following:

- The District's net assets on the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance decreased due to the expenditures exceeding the revenues. Expenditures exceeded revenues due to hiring of additional staff.
- The Statement of Net Assets and Governmental Fund Balance Sheet reflects a Committed Fund Balance for specific items deemed committed by the District.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of three parts—Independent Auditors' Report; required supplementary information, which includes the MD&A (this section); and the basic financial statements. The basic financial statements include the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

This MD&A is intended to serve as an introduction to the basic financial statements. Chippewa Soil and Water Conservation District's basic financial statements consist of two statements, which combine government-wide financial statements and fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data, which focus on how money flows in and out and the balances left at year-end that are available for spending. These columns are 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. This column provides a detailed short-term view of the 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 programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each of the first two statements presents the Statement of Net Assets and the Statement of Activities, which provide information about the activities as a whole and present a longer-term view of finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of including long-term activity. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF SWCD AS A WHOLE**

Net Assets

The net assets were \$518,784 on December 31, 2011.

	2011	2010
<b>Assets</b>		
Cash and investments	487,121	505,136
Accounts receivable	2,399	2,500
Due from other governments	9,438	11,367
Interest receivable	2,024	1,836
Capital assets	50,894	55,004
Total assets	551,876	575,843
<b>Liabilities</b>		
<b>Current liabilities</b>		
Deferred revenue	24,959	27,915
Current portion of long-term	1,788	1,488
<b>Long-term liabilities</b>		
Postemployment benefits	6,345	5,284
Total liabilities	33,092	34,687
<b>Net assets</b>		
Invested in capital assets	50,894	55,004
Unrestricted	467,890	486,152
Total net assets	518,784	541,156

Change in Net Assets

Governmental Activities for the Fiscal Year Ended December 31:

	2011	2010
<b>Revenues</b>		
Intergovernmental	136,104	129,841
Charges for services	65,778	43,791
Investment earnings	6,175	6,639
Total revenues	208,057	180,271
<b>Expenditures</b>		
Conservation	230,429	195,487
Deficiency of revenues under expenditures	(22,372)	(15,216)
Net assets - January 1	541,156	556,372
Net assets - December 31	518,784	541,156

Intergovernmental revenue increased due to using more grant money during 2011. Charges for services revenue also increased due to revenue earned from equipment rental. Expenses increased this year due to the hiring of another employee in 2011.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**THE SWCD'S FUNDS**

As SWCD completed the year, its general fund reported a combined fund balance of \$476,023. Included in this amount is this year's total decrease in fund balance of \$16,901.

General Fund Budgetary Highlights

Over the course of the year, the Board of Supervisors did not revise the SWCD's budget.

The actual charges to appropriations (expenditures) were \$4,842 below the final budget amounts.

Actual revenue were \$21,743 below the final budgeted amounts.

**CAPTIAL ASSETS**

As of December 31, 2011, SWCD had \$50,894 invested in capital assets (See Note 4). This amount represents a net decrease (including additions and deductions) of \$4,110 from last year.

**Capital Assets at Year-End**

	<u>2011</u>	<u>2010</u>
Buildings and improvements	18,210	18,210
Equipment	112,214	108,302
Less: accumulated depreciation	<u>(79,530)</u>	<u>(71,508)</u>
Net capital assets	<u>50,894</u>	<u>55,004</u>

Long-Term Liabilities

The only long-term liabilities SWCD has relate to vacation and sick leave. See further discussion in the accompanying notes.

**FACTORS BEARING ON THE FUTURE AND NEXT YEAR'S GRANT BUDGETS AND RATES**

The SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and fees that will be charged for the SWCD's activities. The SWCD does anticipate an increase in both their tree and fabric revenue due to an increase in rates in 2012. We anticipate our County's allocation to meet our initial budget request to them.

**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 SWCD's office at 629 N. 11<sup>th</sup> Street Montevideo, Minnesota, 320-269-2139.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2011**

	General Fund	Adjustments See Note 10	Statement of Net Assets
<b>ASSETS</b>			
Cash and investments	487,121		487,121
Accounts receivable	2,399		2,399
Due from other governments	9,438		9,438
Interest receivable	2,024		2,024
Capital assets			
Depreciable		130,424	130,424
Accumulated depreciation		(79,530)	(79,530)
<b>TOTAL ASSETS</b>	<b>500,982</b>	<b>50,894</b>	<b>551,876</b>
<b>LIABILITIES</b>			
Deferred revenue	24,959		24,959
Non-current liabilities			
Due within one year		1,788	1,788
Due after one year		6,345	6,345
<b>TOTAL LIABILITIES</b>	<b>24,959</b>	<b>8,133</b>	<b>33,092</b>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance/net assets			
Committed for future projects	135,000	(135,000)	
Unassigned	341,023	(341,023)	-
Total fund balance	<b>476,023</b>	<b>(476,023)</b>	<b>-</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>500,982</b>		
<b>NET ASSETS</b>			
Invested in capital assets		50,894	50,894
Unrestricted		467,890	467,890
<b>TOTAL NET ASSETS</b>		<b>518,784</b>	<b>518,784</b>

See accompanying notes to financial statements.



**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Adjustments See Note 10</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Intergovernmental	136,104		136,104
Charges for services	65,778		65,778
Investment earnings	6,175		6,175
<b>Total revenues</b>	<u>208,057</u>		<u>208,057</u>
<b>Expenditures/expenses</b>			
Conservation	<u>224,958</u>	5,471	<u>230,429</u>
<b>Total expenditures/expenses</b>	<u>224,958</u>	<u>5,471</u>	<u>230,429</u>
<b>Excess of revenues over (under) expenditures/expenses</b>	(16,901)	(5,471)	(22,372)
<b>Fund balance/net assets January 1</b>	<u>492,924</u>	<u>48,232</u>	<u>541,156</u>
<b>Fund balance/net assets December 31</b>	<u><u>476,023</u></u>	<u><u>42,761</u></u>	<u><u>518,784</u></u>

See accompanying notes to financial statements.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL GENERAL FUND  
YEAR ENDED DECEMBER 31, 2011**

	Original/Final Budget	Actual
<b>REVENUES</b>		
Intergovernmental		
County	72,000	78,660
State grant	71,000	57,444
Total intergovernmental	143,000	136,104
Charges for services	81,800	65,778
Interest earnings	5,000	6,175
Total revenues	229,800	208,057
<b>EXPENDITURES</b>		
District operations		
Personnel services	168,100	174,156
Other services and charges	34,200	22,023
Supplies	1,000	529
Capital outlay	1,500	3,912
Total district operations	204,800	200,620
Project expenditures		
District	15,000	15,765
State	10,000	8,573
Total project expenditures	25,000	24,338
Total expenditures	229,800	224,958
<b>REVENUES OVER (UNDER) EXPENDITURES</b>		(16,901)
<b>FUND BALANCES - January 1</b>	492,924	492,924
<b>FUND BALANCES - December 31</b>	492,924	476,023

See accompanying notes to financial statements.

## **CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Chippewa Soil and Water Conservation District have been prepared in conformity with generally accepted accounting principles (GAAP) as applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below:

#### **A. REPORTING ENTITY**

The district is organized under the provisions of Minnesota Statutes Chapter 103C and is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The Chippewa Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service, and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

Each fiscal year the District develops a work plan that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Chippewa County because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

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

#### **B. BASIC FINANCIAL STATEMENTS**

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the financial activities of Chippewa Soil and Water Conservation District overall. The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Chippewa Soil and Water Conservation District's assets are reported in two parts: invested in capital assets and unrestricted net assets.

Chippewa Soil and Water Conservation District reports one governmental fund. The General Fund is Chippewa Soil and Water Conservation District's primary operating fund. It accounts for all financial resources of Chippewa Soil and Water Conservation District.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Fund Financial Statements

Revenues

Governmental fund revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance the expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The District considers these revenues as available if they are collected within sixty days after year end.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

**Nonexchange Transactions**

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and may also establish time requirements. Federal and state grants mandating the District perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when the eligibility and time requirements are met, usually when the corresponding expenditure is incurred, using the guidelines of the legal and contractual requirements of the individual programs.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations and donations. The provider may establish purpose restrictions and eligibility requirements. Revenues are recognized in the year to which they apply according to statute or contract. Gifts and contributions from individuals and miscellaneous revenues are also considered voluntary nonexchange transactions, and are generally recognized when received in cash because they are not measurable until received.

**Exchange Transactions**

Exchange transactions include revenues such as interest earned, fees, sales and services. Sales and services, and interest earned are reported as revenue when they become both measurable and available to finance expenditures of the fiscal period. The District considers these revenues as available if they are collected within sixty days after year end.

**Expenditures**

Expenditures are recorded under the modified accrual method when the fund liability is incurred, except for certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**D. USE OF ESTIMATES**

The preparation of financial statements in accordance 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**E. CASH AND INVESTMENTS**

Cash and investments consist of amounts deposited in a checking, savings accounts, and Certificates of Deposit.

Chippewa Soil and Water Conservation District follows Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement establishes accounting and financial reporting standards for investments in: interest earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. CASH AND INVESTMENTS (Continued)**

Under this statement, governmental entities other than external investment pools may report money market investments and participating interest earning investment contracts at amortized cost. All other investments must be reported at their fair market value. During 2011, the District's investments were comprised of Certificates of Deposit whose cost approximates market.

**F. ACCOUNTS RECEIVABLE**

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at year end.

**G. CAPITAL ASSETS**

Government-Wide Financial Statements

Capital assets are defined by the District as assets with an initial cost of more than \$1,000 for general capital assets, and an estimated useful life in excess of at least one year. Donated capital assets are recorded at estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The cost of property replaced, retired or otherwise disposed of, along with its accumulated depreciation, is deducted from the asset accounts. Depreciation is recorded as an expense in the statements of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives with the straight line method of depreciation. The range of estimated useful lives and method of depreciation by type of asset is as follows:

<u>Asset</u>	<u>Method</u>	<u>Years</u>
Buildings	Straight-line	30
Equipment	Straight-line	4-15

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**H. COMPENSATED ABSENCES**

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 12 hours per month. The limit on the accumulation of vacation leave is 192 hours. Upon termination/retirement from the District, employees in good standing are paid accrued vacation leave. The portion of accumulated vacation pay that will be paid from available spendable resources (within 60 days) is recorded as a current liability in the governmental fund types. The remaining unpaid vacation pay is recorded as long-term debt.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. COMPENSATED ABSENCES (Continued)**

Sick leave accrual is 12 days per year and the limit on sick leave accrual is 400 hours. Sick leave costs are recognized as expenditures when leave time is used. Upon retirement at age sixty-two or over, employees are paid up to 240 hours of accrued sick leave. On termination of employment by illness or death, employees are paid up to 400 hours of accrued sick leave.

**I. FUND EQUITY**

Beginning with 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

Committed fund balance – amounts constrained by the District itself, using its highest level of decision-making authority (i.e., Board of Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.

Unassigned fund balance – amounts that are available for any purpose.

Beginning fund balances for the District have been restated to reflect the above reclassifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

**J. NET ASSETS**

The invested in capital assets represents the accumulated value of the capital assets of the District, net of related debt. The unrestricted net assets represents the accumulated earnings of the District.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Reported budget amounts represent the originally adopted budget as revised. Revisions to the originally adopted budget require approval of the Board of Supervisors. The 2011 budget was not revised during the year.

**NOTE 3. CASH AND INVESTMENTS**

The District follows the provisions of GASB Statement 40, *Deposit and Investment Risk Disclosures*. This standard revised the requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In accordance with Minnesota Statutes, the District maintains deposits at financial institutions authorized by the Board of Supervisors. This statute further requires that all the District's deposits be protected by insurance, surety bond, collateral or an irrevocable letter of credit issued by Federal Home Loan Banks. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. If irrevocable letter of credits are used, they must equal the amount of any excess deposits plus interest at the close of the banking day.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral. As of December 31, 2011, the District's bank balance was adequately collateralized.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	18,210			18,210
Equipment	108,302	3,912		112,214
Less: accumulated depreciation for				
Buildings	6,070	607		6,677
Equipment	<u>65,438</u>	<u>7,415</u>		<u>72,853</u>
 Total capital assets - net	 <u>55,004</u>	 <u>(4,110)</u>		 <u>50,894</u>

**NOTE 5. DEFERRED REVENUE**

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Chippewa County for various programs. Revenues will be recognized when the related program expenditures are recorded. As of December 31, 2011, deferred revenue was \$24,959.



**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. LONG TERM DEBT**

The District's only long-term debt is compensated absences. Changes in long-term debt for the period ended December 31, 2011 is as follows:

Balance - December 31, 2010	6,772
Net changes in compensated absences	<u>1,361</u>
Balance - December 31, 2011	<u>8,133</u>

**NOTE 7. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through MCIT. The District is covered for errors and omissions through MCIT.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**NOTE 8. CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Minnesota. Any disallowed claims, including amounts already collected may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**NOTE 9. PENSION PLANS**

**A. Plan Description**

All full-time and certain part-time employees of the Chippewa Soil and Water Conservation District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

## CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (Continued)

#### A. Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

#### B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, Chippewa Soil and Water Conservation District was required to contribute the following percentages of annual covered payroll; 11.78% for Basic Plan members, and 7.25% for Coordinated Plan members. The District's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$8,215, \$5,987 and \$5,224, respectively. The District's contributions were equal to the contractually required contributions for each year as set by the State Statute.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. ADJUSTMENTS TO FINANCIAL STATEMENTS**

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets**

<b>Total Fund Balance - Total Governmental Funds</b>	<b>476,023</b>
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Amounts reported for governmental activities in the Statement of Net Assets are different, as shown under the "Adjustments" column because:

Capital assets of \$130,424 net of accumulated depreciation of \$79,530 are not financial resources and, therefore, are not reported in the governmental fund	50,894
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Compensated absences are not due and payable in the current period and are not reported in the general fund	<u>(8,133)</u>
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<b>Net Assets of Governmental Funds</b>	<b><u><u>518,784</u></u></b>
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**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities**

<b>Net Change in Fund Balance - Total Governmental Funds</b>	<b>(16,901)</b>
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Amounts reported for governmental activities in the Statement of Activities are different under the "Adjustments" column because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,912
Depreciation expense	<u>(8,022)</u>

Compensated absences are also reflected in the Statement of Activities, however they do not require the use of current financial resources and therefore are not reported in the governmental funds until actually due.	<u>(1,361)</u>
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<b>Changes in Net Assets of Governmental Activities</b>	<b><u><u>(22,372)</u></u></b>
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**NOTE 11. SUBSEQUENT EVENTS**

In preparing these financial statements the District has evaluated events and transactions for potential recognition or disclosure through September 28, 2012, the date the financial statements were available to be issued.

**OTHER REQUIRED REPORTS**

DANA F. COLE & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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  
Chippewa Soil and Water Conservation District  
Montevideo, Minnesota

We have audited the financial statements of the governmental activities and the major fund of Chippewa Soil and Water Conservation District, Montevideo, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise Chippewa Soil and Water Conservation District, Montevideo, Minnesota's basic financial statements and have issued our report thereon dated September 28, 2012. 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

Management of Chippewa Soil and Water Conservation District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Chippewa Soil and Water Conservation District, Montevideo, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chippewa Soil and Water Conservation District, Montevideo, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chippewa Soil and Water Conservation District, Montevideo, Minnesota's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses as items 2011-2 and 2011-3.

A significant deficiency is a deficiency, or 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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency as item 2011-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chippewa Soil and Water Conservation District, Montevideo, Minnesota'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.

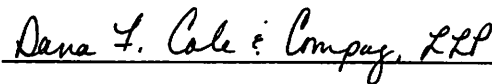
We noted certain matters that we reported to management of Chippewa Soil and Water Conservation District, Montevideo, Minnesota in a separate letter dated September 28, 2012.

Chippewa Soil and Water Conservation District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Chippewa Soil and Water Conservation District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Supervisors, management, and the Office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Montevideo, Minnesota

September 28, 2012



CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2011

**2011-1: Significant Deficiency in the Accounting Policies and Procedures Manual**

*Condition and Criteria:* The District should have a formal accounting policies and procedures manual, including antifraud programs and controls manual, which has been approved by the Board of Supervisors.

*Cause:* The District does not have a formal accounting policies and procedures manual, including antifraud programs and controls manual, which is necessary to ensure adequate internal accounting control.

*Effect:* The design of the internal controls over financial reporting could affect the ability of the District to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, the lack of a formal accounting policies and procedures manual may result in the District's inability to prevent/detect misappropriation of District assets.

*Recommendation:* We recommend District work towards developing and approving a formal accounting policies and procedures manual, including antifraud programs and controls manual, which will improve the District's internal controls.

*Response:* The District has begun working on adopting a formal accounting policies and procedures manual, including antifraud programs and controls manual.

**2011-2: Material Weakness in Segregation of Duties**

*Condition and Criteria:* District should have appropriate segregation of duties within the accounting functions to ensure that their assets are safeguarded against loss.

*Cause:* Due to the size of the Organization there is little segregation of duties over bookkeeping, billing and accounting functions.

*Effect:* The design of the internal controls over financial reporting could affect the ability of the District to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the District's inability to prevent/detect misappropriation of District assets.

*Recommendation:* We recommend District management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend District management implement oversight procedures to ensure existing internal control policies and procedures are being implemented by the District.

*Response:* The District will work towards implementing procedures to improve segregation of duties within the bookkeeping, billing and accounting functions, within the constraints of existing time and cost considerations and will continue to review the situation and make improvements.

**2011-3: Material Weakness in Financial Reporting Process**

*Condition and Criteria:* District management should possess the ability to prepare financial statements prepared in accordance with generally accepted accounting principles. This would include the ability to properly record and classify transaction in a general ledger, measure and record accrual basis adjustments to the accounts, and prepare the financial statements and related disclosures without the assistance from the auditors.

*Cause:* As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements, and we were required to propose material journal entries.

*Effect:* The design of the controls over financial reporting process would affect the ability of the District to report their financial data consistently with the assertions of management in the financial statements.

*Recommendation:* We recommend that District management be aware of the responsibilities regarding financial reporting. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

*Response:* The District will work towards implementing procedures to improve financial reporting.

DANA F. COLE & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

AUDITORS' REPORT ON LEGAL COMPLIANCE

Board of Supervisors  
Chippewa Soil and Water Conservation District

We have audited the financial statements of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 28, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories, except that we did not test for compliance in public indebtedness because Chippewa Soil and Water Conservation District has no public debt.

The results of our tests indicate that for the items tested, Chippewa Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Supervisors and management and the State of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Dana F. Cole & Company, LLP

Montevideo, Minnesota

September 28, 2012