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**Lincoln SWCD**

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**LINCOLN SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2009**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**FINANCIAL STATEMENTS**

**NOTES TO THE FINANCIAL STATEMENT**

# LINCOLN SOIL AND WATER CONSERVATION DISTRICT

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**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**

**SCHEDULE OF BOARD MEMBERS AND DISTRICT STAFF**

**DECEMBER 31, 2009**

**BOARD MEMBERS:**

|                     |                  | <u>Term Expires</u> |
|---------------------|------------------|---------------------|
| Daniel Christianson | Chairman         | 12-31-2010          |
| Glen Sorenson       | Vice Chairman    | 12-31-2010          |
| Joseph Weber        | Treasurer        | 12-31-2012          |
| Conrad Schardin     | Secretary        | 12-31-2010          |
| John Boulton        | Public Relations | 12-31-2012          |

**DISTRICT STAFF:**

|                     |                        |
|---------------------|------------------------|
| Pauline VanOverbeke | District Manager       |
| Terry Dybsetter     | Education Coordinator  |
| Ron Madsen          | Engineering Technician |
| Dale Sterzinger     | District Technician    |
| Randy Kraus         | Farm Bill Assistant    |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2009**

This section of the annual financial report of the Lincoln Soil and Water Conservation District presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2009. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- The District's revenues on the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance increased largely in part of the increase in Working Lands Initiative (pass-through) funds. The same is true for the expenditures.
- The Statement of Net Assets and Governmental Fund Balance Sheet reflect dollars under the Designated Fund Balance. These dollars are for specific designated items deemed by the District.

**USING THIS ANNUAL REPORT**

This annual report consists of four main topics: 1) Management's Discussion and Analysis (MDA); 2) Financial Statements; 3) Reconciliation Statements; 4) Notes to the Financial Statement; 5) Required Supplementary Information; and 6) Capital Asset Information. These topics are further explained as follows:

- Management's Discussion and Analysis (MDA-this section). This section relates mostly to the changes in the District's finances and explains the Governmental Wide-Financial Statements in detail. The MDA is on pages 4-8;
- Financial Statements – pages 9 and 10:
  - The Governmental Wide-Financial Statements include a series of financial statements that 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, these statements tell how these services were financed in the short term as well as what remains for future spending; and
  - The 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. Fund financial statements also report the District's operations.
- Reconciliation Statements – pages 9 and 10:
  - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets explains the differences in these two statements. The Statement of Net Assets under the "Adjustments" column shows the differences in the two statements.
  - Reconciliation of the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances explains the differences in the two statements. The Statement of Activities under the "Adjustments" column shows the differences in the two statements.
- The Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of significant accounting policies; 2) Stewardship, compliance and accountability; 3) Deposits and Investments; 4) Changes in General Fixed Assets; 5) Deferred Revenue; 6) Compensated Absences Payable; 7) Risk Management; 8) Pension Plan; and 9) Operating Leases. The Notes to the Financial Statement are on pages 11-16.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2009**

- Required Supplementary Information – 17-18:
  - Includes the following: Budgetary Comparison Statement; Notes to Required Supplementary Information; Breakdown of County Revenue and Deferred Revenue Breakdown.
- Capital Asset explained on page 7 of the MDA.

Since District's are single-purpose special purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentations. The District has elected to present in this format.

**Statement of Net Assets and Statement of Activities**

Our analysis of the Lincoln Soil and Water Conservation District begins with the Statement of Net Assets and the Statement of Activities of which can be found on pages 9 and 10 of this report. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, the District presents Governmental activities. All of the District's basic services are reported here. Appropriations from the county and state also finance activities.

**FUND FINANCIAL STATEMENTS**

The Lincoln Soil and Water Conservation District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund 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 Activities and the Statement of Net Assets) and governmental funds through the Reconciliation's of these statements, which are on pages 9 and 10 (after the Fund Financial Statements-respectively). The basic governmental financial reports can be found on pages 9 and 10 of this report.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2009**

**Statement of Net Assets**

The Lincoln Soil and Water Conservation District's net assets decreased from one year ago. Our analysis below focuses on the net assets (Table 1) of the District's governmental activities.

**Table 1**

| Statement of Net Assets                   | Governmental Activities    |                            |
|-------------------------------------------|----------------------------|----------------------------|
|                                           | <u>Dec 31, 2009</u>        | <u>Dec. 31, 2008</u>       |
| Current Assets                            | \$620,252.34               | \$713,185.35               |
| Capital Assets Net of Depreciation        | <u>109,314.35</u>          | <u>90,849.52</u>           |
| <b>Total Assets</b>                       | <b><u>\$729,566.69</u></b> | <b><u>\$804,034.87</u></b> |
| Current and Other Liabilities             | \$ 80,356.45               | \$119,332.27               |
| Net Assets:                               |                            |                            |
| Invested in Capital Assets                | 109,314.35                 | 90,849.52                  |
| Unrestricted (minus Compensated Absences) | <u>539,895.89</u>          | <u>593,853.08</u>          |
| <b>Total Net Assets</b>                   | <b><u>\$649,210.24</u></b> | <b><u>684,702.60</u></b>   |
| <b>Total liabilities and Net Assets</b>   | <b><u>\$729,566.69</u></b> | <b><u>\$804,034.87</u></b> |

The total net assets of the District's governmental activities decreased by \$35,492.36 (5.5%) from one year ago (2008 to 2009). The current assets of the District's governmental activities decreased \$92,933.01 (15%) from one year ago, while the Capital Assets, Net of Depreciation, increased by \$18,464.83. Unrestricted Net Assets are 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. The Unrestricted Net Assets from 2008 of \$593,853.08 compared to \$539,895.89 decreased by \$53,957.19 (10%).

**GOVERNMENTAL ACTIVITIES**

**Statement of Activities and Governmental Fund Revenues, Expenditures and Fund Balance**

Table 2 reflects changes in Governmental activities of the District. It also reflects some of the actual District's Charges for Services - District program changes from 2008 to 2009.

**Table 2**

| Changes in Net Assets    | Governmental Activities    |                            |
|--------------------------|----------------------------|----------------------------|
|                          | <u>Dec 31, 2009</u>        | <u>Dec. 31, 2008</u>       |
| Revenues                 |                            |                            |
| County                   | \$127,471.96               | \$112,352.30               |
| State                    | 96,821.65                  | 86,275.93                  |
| Federal                  | 1,761.00                   | -0-                        |
| Interest Earnings        | 9,755.44                   | 16,927.98                  |
| Working Lands Initiative | \$528,069.14               | 317,974.30                 |
| Miscellaneous            | 18,745.96                  | 38,727.25                  |
| Charges for Services     | <u>136,142.64</u>          | <u>119,311.25</u>          |
| <b>Total Revenues</b>    | <b><u>\$918,767.79</u></b> | <b><u>\$691,569.01</u></b> |
| Expenses                 |                            |                            |
| Conservation-All Other   | \$417,079.65               | \$343,319.79               |
| Working Lands Initiative | 524,607.14                 | 318,194.30                 |
| Depreciation             | <u>12,573.36</u>           | <u>10,902.34</u>           |
| <b>Total Expenses</b>    | <b><u>\$954,260.15</u></b> | <b><u>\$672,416.43</u></b> |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009**

The county revenues include: county allocation, WCA and Water Management Plan. The state revenues include: General Services, RIM, State Cost-Share and Farm Bill Assistant Grant. Charges for Services increased by \$16,831.39 due to the seed sales in 2009. The Working Lands Initiative increased by \$210,094.84 of which are pass-through dollars. The Miscellaneous Funds decreased for 2009 from 2008, because we did not receive any Shaokatan Sportsmen's Club Cost-Share dollars in 2009, which are also pass-through dollars.

**THE DISTRICT'S FUNDS**

As the District completed the year, under the general fund column as presented in the Statement of Net Assets on page 9, reported a combined fund balance of \$553,165.28 (includes Designated and Undesignated Fund Balances). This amount plus the net of accumulated depreciation (\$109,314.35) and minus the Compensated Absences (\$13,269.39) gives a total of \$649,210.24 under the "Adjustments" column for the Statement of Net Assets. This amount was below last year's total of \$684,702.60.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised its budget in November, 2009. The budget changes reflected are on the Budgetary Comparison Schedule found on page 17. The changes made to the revised budget for the revenues reflect an overall decrease of the final budget, with actual dollars being more than the original and final budgeted. This is partially due to an increase in total intergovernmental revenues, mainly the Work Lands Initiative Fund. The actual expenditures reflect a increase, with the actual dollars spent being higher than the original and final budgets. This increase is mainly due to the Working Lands Initiative expenditures.

With these adjustments, the actual changes to appropriations (expenditures) were \$52,359.10 above the final budget amount. The most significant positive variance occurred in the Working Lands Initiative in which these are pass-through dollars.

On the other hand, resources available for appropriation (revenues) were \$108,104.79 above the final budget amount. The most significant positive variance occurred in the Working Lands Initiative in which are pass-through dollars.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Schedules of General Capital Assets and the Summary of Changes in General Capital Assets consists of capital assets over the District threshold of \$1,000.00. At the end of 2009, the District had \$212,748.42 invested in a broad range of capital assets, including Land/Land Improvement, Buildings, Vehicles, Equipment and Machinery (see Table 3 on the next page). This amount represents a net increase of total capital assets (including additions and deductions) of \$31,038.19 more than last year.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009**

**Table 3**

Capital Assets at Year-end

(Net of Depreciation)

| <u>Capital Assets</u>                 | Governmental Activities |                      |
|---------------------------------------|-------------------------|----------------------|
|                                       | <u>Dec 31, 2009</u>     | <u>Dec. 31, 2008</u> |
| Land/Land Improvements/Infrastructure | \$ 16,141.94            | \$ 16,141.94         |
| Buildings/Construction                | 67,052.92               | 67,052.92            |
| Vehicles                              | 67,052.92               | 43,843.37            |
| Equipment/Machinery                   | <u>56,783.26</u>        | <u>54,672.00</u>     |
| Total Capital Assets                  | <u>\$212,748.42</u>     | <u>\$181,710.23</u>  |
| (Net of Depreciation)                 | <u>\$109,314.35</u>     | <u>\$ 90,849.52</u>  |

This year's changes consist of the following purchases: 2010 Ford F150 Pickup for \$28,926.93; 1998 Dura Tech 107 Drill (used) for \$1,000.00; and HP LaserJet P3015dn Printer for \$1,111.26.

**Long-Term Liabilities**

Long-term liability obligations include accrued vacation pay for which employees are paid upon termination from the District by retirement, illness or death. Detailed information about the District's long-term liabilities is presented in the Notes to the Financial Statement under Section I. Summary of Significant Accounting Policies- H(2)(b). Vacation and Sick Leave on page 14; and under II(C) Compensated Absences Payable on page 15.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's elected officials considered many factors when setting the fiscal-year 2010 budget. Some of the economic factors taken into account for the budget include: charges for services, State funding, Working Lands Initiative funding, and the County allocation. Expense factors will include the possible purchase of a copier, charges for services, and the Working Lands Initiative.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lincoln Soil and Water Conservation District, P.O. Box 32, Ivanhoe, MN 56142 or call 507-694-1630, Ext. 3.



**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGED IN FUND BALANCE  
DECEMBER 31, 2009**

|                                            | General<br>Fund    | Adjustments<br>See Reconciliation | Statement of<br>Activities |
|--------------------------------------------|--------------------|-----------------------------------|----------------------------|
| <b>Revenues</b>                            |                    |                                   |                            |
| Intergovernmental                          |                    |                                   |                            |
| County                                     | 127,471.96         |                                   | 127,471.96                 |
| State                                      | 96,821.65          |                                   | 96,821.65                  |
| Working Lands Initiative-DNR               | 528,069.14         |                                   | 528,069.14                 |
| Federal                                    | 1,761.00           |                                   | 1,761.00                   |
| Total Intergovernmental Revenues           | 754,123.75         |                                   | 754,123.75                 |
| Charges for services                       | 136,142.64         |                                   | 136,142.64                 |
| Miscellaneous Revenue                      |                    |                                   |                            |
| Interest Earnings                          | 9,755.44           |                                   | 9,755.44                   |
| Other                                      | 18,745.96          |                                   | 18,745.96                  |
| Total Miscellaneous Revenues               | 28,501.40          |                                   | 28,501.40                  |
| <b>Total Revenues</b>                      | <b>918,767.79</b>  | <b>0.00</b>                       | <b>918,767.79</b>          |
| Expenditures/Expenses                      |                    |                                   |                            |
| Conservation                               |                    |                                   |                            |
| Current                                    | 940,808.91         | 877.88                            | 941,686.79                 |
| Depreciation                               |                    | 12,573.36                         | 12,573.36                  |
| Capital outlay                             | 31,038.19          | (31,038.19)                       | 0.00                       |
| Total Expenditures/Expenses                | 971,847.10         | (17,586.95)                       | 954,260.15                 |
| <b>Excess of Revenues Over (Under)</b>     | <b>(53,079.31)</b> | <b>17,586.95</b>                  | <b>(35,492.36)</b>         |
| <b>Expenditures</b>                        |                    |                                   |                            |
| <b>Fund Balance/Net Assets January 1</b>   | <b>606,244.59</b>  | 78,458.01                         | 684,702.60                 |
| <b>Fund Balance/Net Assets December 31</b> | <b>553,165.28</b>  | <b>96,044.96</b>                  | <b>649,210.24</b>          |

**RECONCILIATION OF THE STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND  
FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

|                                                                                                                                                                                                                                                                                          |                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <b>Net Change in Fund Balance – Total Governmental Funds</b>                                                                                                                                                                                                                             | <b>(\$53,079.31)</b> |
| Governmental funds report capital outlay as expenditures. However, in the government wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. | \$31,038.19          |
| Depreciation expense on capital assets is reported in the government-wide statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.                          | (\$12,573.36)        |
| Compensated Absences are also reflected in the government-wide statement of activities. In 2009, the compensated absences increased by \$877.88 from 2008.                                                                                                                               | (\$ 877.88)          |
| <b>Changes in Fund Balance of Governmental Activities</b>                                                                                                                                                                                                                                | <b>(\$35,492.36)</b> |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

The District is organized under 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 Lincoln Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's 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 Lincoln County, because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

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

**B. Basis of Presentation – Fund Accounting**

The accounts of the Lincoln Soil and Water Conservation District are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that its assets, liabilities, fund balance, revenues and expenditures.

**1. Governmental Funds: General Fund**

The General Fund is used to account for all revenues and expenditures incurred in operating the District.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

2. General Long-Term Debt Account Group

This account group records earned but unpaid vacation and sick leave that has vested or is expected to vest.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the non-fiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

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

The District's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

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

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

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

In accordance with Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions, revenues for non-exchange transactions are recognized as revenue when the exchange occurs.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

D. Budget Information

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

E. Assets, Liabilities, and Equity Accounts

1. Assets

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

Beginning with this statement year 2004, fixed assets (capital assets) are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General fixed assets are still valued at historical or estimated historical cost.

2. Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the General Long-Term Debt Account Group.

Current liabilities include Accounts Payable, Accrued Salaries Payroll and Related Taxes, Sales Tax Payable, Deposits on Sale, and Deferred Revenue.

3. Equity

Investment in general fixed represents the District's equity in general fixed assets.

Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriable 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.

F. Explanation of Adjustments Column in Statements

1. Capital Assets: In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made if the district has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount report in Note IV.
2. Long-Term liabilities: In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the district has as of the report date. See Note 1-G below.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

3. Depreciation and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditure and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and in Note I-G below.

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 200 hours and unlimited sick leave. Upon termination from the District, employees are paid accrued vacation leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

During 2009, actual expenditures, \$971,847.10, exceeded budgeted expenditures, \$919,488.00, by \$52,359.10.

B. Uncollateralized Deposits

During 2009, the District's deposits with financial institutions did not exceed insurance, surety bond or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. At December 31, 2009, District's deposits totaled \$599,093.13 of which \$577,645.22 was cash deposits and \$21,447.91 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2009, all the District's deposits were covered by insurance or collateralized with securities held by the District or its agent in the District's name.

IV. CHANGES IN CAPITAL ASSETS

|                                  | Balance<br>1/1/2009 | Additions      | Deletions | Balance<br>12/31/2009 |
|----------------------------------|---------------------|----------------|-----------|-----------------------|
| Land                             | \$ 16,141.94        |                |           | \$ 16,141.94          |
| Buildings                        | \$ 67,052.92        |                |           | \$ 67,052.92          |
| Vehicles                         | \$ 43,843.37        | \$ 28,926.93   |           | \$ 72,770.30          |
| Machinery & Equipment            | \$ 54,672.00        | \$ 2,111.26    |           | \$ 56,783.26          |
| Total                            | \$ 181,710.23       | \$ 31,038.19   | \$ -      | \$ 212,748.42         |
| Accumulated Depreciation         | \$ (90,860.71)      | \$ (12,573.36) |           | \$ (103,434.07)       |
| Governmental Capital Assets, Net | \$ 90,849.52        | \$ 18,464.83   | \$ -      | \$ 109,314.35         |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$103,434.07 as of December 31, 2009.

The District uses a threshold of \$1,000.00 for capitalizing assets purchased. Those physical assets under \$1,000 are expenses directly and not capitalized.

The range of estimated useful lives by type of asset is as follows:

- Machinery/Equipment 5–10 years
- Buildings/Improvements 15-30 years
- Furniture/Fixtures 7–10 years
- Vehicles 5 years

V. DEFERRED REVENUE

Deferred revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Lincoln County for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on “Deferred Revenue Breakdown” is \$49,625.57.

VI. A. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2009, are:

|                                    |                            |
|------------------------------------|----------------------------|
| Balance - January 1, 2009          | \$ 12,391.51               |
| Net change in compensated absences | <u>877.88</u>              |
| Balance - December 31, 2009        | <u><u>\$ 13,269.39</u></u> |

VI. B. ADJUSTMENTS TO THE FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

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

The Minnesota Counties Insurance 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.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009**

**VIII. RISK MANAGEMENT**

**A. Plan Description**

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

**B. Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Coordinated Plan members were required to contribute 6.0% of their annual covered salary in 2009. The District is required to contribute the following percentages of annual covered payroll: 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7.00% effective January 1, 2010. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007, were \$11,979.41, \$10,979.81, and \$10,253.71 respectively equal to the contractually required contributions for each year as set by Minnesota Statute.

Defined Contribution Plan: All of the District Supervisors are covered by the Public Employees Defined Contribution Plan, (DCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association (PERA). The DCP is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary, which is matched by the District.

Total contributions made by the SWCD during fiscal year 2009 were:

| Amount           |                 | Percentage of Covered Payroll |                 | Required     |
|------------------|-----------------|-------------------------------|-----------------|--------------|
| <u>Employees</u> | <u>Employer</u> | <u>Employees</u>              | <u>Employer</u> | <u>Rates</u> |
| \$151.75         | \$151.75        | 5.00%                         | 5.00%           | 5.00%        |

**IX. OPERATING LEASE**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2009 were \$9,400.26.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
DECEMBER 31, 2009**

**BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL GENERAL FUND**

|                                                         | Original<br>Budget | Final<br>Budget       | Actual               | Variance with<br>Final Budget<br>Positive (Neg) |
|---------------------------------------------------------|--------------------|-----------------------|----------------------|-------------------------------------------------|
| <b>Revenues</b>                                         |                    |                       |                      |                                                 |
| County                                                  | 127,650.00         | 127,650.00            | 127,471.96           | (178.04)                                        |
| State                                                   | 100,312.00         | 68,383.00             | 96,821.65            | 28,438.65                                       |
| Federal                                                 | 0.00               | 1,750.00              | 1,761.00             | 11.00                                           |
| Working Lands Initiative-DNR                            | 477,700.00         | 459,300.00            | 528,069.14           | 68,769.14                                       |
| <b>Total intergovernmental</b>                          | <b>705,662.00</b>  | <b>657,083.00</b>     | <b>754,123.75</b>    | <b>97,040.75</b>                                |
| <b>Charges for services</b>                             | <b>114,055.00</b>  | <b>136,430.00</b>     | <b>136,142.64</b>    | <b>(287.36)</b>                                 |
| <b>Miscellaneous</b>                                    |                    |                       |                      |                                                 |
| Interest earnings                                       | 15,100.00          | 10,300.00             | 9,755.44             | (544.56)                                        |
| Other                                                   | 33,900.00          | 6,850.00              | 18,745.96            | 11,895.96                                       |
| <b>Total miscellaneous</b>                              | <b>49,000.00</b>   | <b>17,150.00</b>      | <b>28,501.40</b>     | <b>11,351.40</b>                                |
| <b>Total Revenues</b>                                   | <b>868,717.00</b>  | <b>810,663.00</b>     | <b>918,767.79</b>    | <b>108,104.79</b>                               |
| <b>Expenditures</b>                                     |                    |                       |                      |                                                 |
| <b>District operations</b>                              |                    |                       |                      |                                                 |
| Personal services                                       | 241,250.00         | 241,250.00            | 236,080.54           | 5,169.46                                        |
| Other services/supplies                                 | 55,935.00          | 48,860.00             | 46,197.96            | 2,662.04                                        |
| Other expenditures                                      | 33,700.00          | 33,700.00             | 15,873.53            | 16,826.47                                       |
| Capital outlay/Improvements                             | 19,000.00          | 31,125.00             | 31,038.19            | 86.81                                           |
| <b>Total district operations</b>                        | <b>349,885.00</b>  | <b>354,935.00</b>     | <b>330,190.22</b>    | <b>24,744.78</b>                                |
| <b>Project expenditures</b>                             |                    |                       |                      |                                                 |
| District                                                | 66,995.00          | 94,870.00             | 97,644.74            | (2,774.74)                                      |
| Working Lands Initiative-DNR                            | 477,700.00         | 454,800.00            | 524,607.14           | (69,807.14)                                     |
| State                                                   | 28,062.00          | 14,883.00             | 19,405.00            | (4,522.00)                                      |
| <b>Total project expenditures</b>                       | <b>572,757.00</b>  | <b>564,533.00</b>     | <b>641,656.88</b>    | <b>(77,103.88)</b>                              |
| <b>Total Expenditures</b>                               | <b>922,642.00</b>  | <b>919,488.00</b>     | <b>971,847.10</b>    | <b>(52,359.10)</b>                              |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>(53,925.00)</b> | <b>(\$108,825.00)</b> | <b>(\$53,079.31)</b> | <b>55,745.69</b>                                |
| <b>Fund Balance - January 1</b>                         | <b>606,244.59</b>  | <b>606,244.59</b>     | <b>606,244.59</b>    | <b>0.00</b>                                     |
| <b>Fund Balance - December 31</b>                       | <b>552,319.59</b>  | <b>497,419.59</b>     | <b>553,165.28</b>    | <b>55,745.69</b>                                |

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Basis of Presentation

The budgetary comparison schedule has been prepared on the accrual basis of accounting.

Budgetary Legal Requirements

Budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is used during the fiscal year as a tool to monitor actual income and expenditures.

The budget is adopted through the passage of a resolution by the board of supervisors. Any revision that alters the total expenditures of any fund must be approved by the board of supervisors. Appropriations lapse at the end of each year.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
DECEMBER 31, 2009**

COUNTY REVENUES (breakdown):

|                   |                             |
|-------------------|-----------------------------|
| ANNUAL ALLOCATION | <u>\$ 107,150.00</u>        |
| WATER PLAN MONEY  | <u>\$ 9,428.78</u>          |
| WCA-FY07 \$'s     | <u>\$ 10,893.18</u>         |
| FEEDLOT MONEY     | <u>\$ -</u>                 |
| ABANDONED WELL    | <u>\$ -</u>                 |
| DNR SHORELAND     | <u>\$ -</u>                 |
| TOTAL             | <u><u>\$ 127,471.96</u></u> |

**NOTE:** The total should agree with amount reported as County Revenue on "Statement of Revenues, Expenditures, and Changes in Fund Balance."

List other "non'cash" county support (I.e. rent, health insurance, etc.) that does not show up anywhere on your annual report.

N/A

**BREAKDOWN OF COUNTY REVENUE**

**DEFERRED REVENUE**

| Balance of BWSR Services Grants:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <u>\$ -</u>         |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------|---------------|----------------|--------------------|---------------|---------------------|--------------------|---------------|----------------|--------------------|--|
| Balance of <b><u>unencumbered</u></b> BWSR Cost-Share Grants:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <u>\$ 14,883.00</u> |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Current year-FY2010<br>-Includes T&A Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                     |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| FY09-Cost-Share -Includes T&A Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>\$ 9,432.00</u>  |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| FY08 Native Buffer -Includes T&A Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>\$ 6,165.00</u>  |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Balance of <b><u>encumbered</u></b> BWSR Cost-Share Grant (list each contract separately):                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                     |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: center;"><u>FY</u></th> <th style="text-align: center;"><u>Contract No.</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><u>FY2008</u></td> <td style="text-align: center;"><u>FY08-06</u></td> <td style="text-align: right;"><u>\$ 9,298.00</u></td> </tr> <tr> <td style="text-align: center;"><u>FY2008</u></td> <td style="text-align: center;"><u>District C-S</u></td> <td style="text-align: right;"><u>\$ (573.00)</u></td> </tr> <tr> <td style="text-align: center;"><u>FY2009</u></td> <td style="text-align: center;"><u>FY09-01</u></td> <td style="text-align: right;"><u>\$ 8,125.00</u></td> </tr> </tbody> </table> | <u>FY</u>           | <u>Contract No.</u> | <u>Amount</u> | <u>FY2008</u> | <u>FY08-06</u> | <u>\$ 9,298.00</u> | <u>FY2008</u> | <u>District C-S</u> | <u>\$ (573.00)</u> | <u>FY2009</u> | <u>FY09-01</u> | <u>\$ 8,125.00</u> |  |
| <u>FY</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <u>Contract No.</u> | <u>Amount</u>       |               |               |                |                    |               |                     |                    |               |                |                    |  |
| <u>FY2008</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <u>FY08-06</u>      | <u>\$ 9,298.00</u>  |               |               |                |                    |               |                     |                    |               |                |                    |  |
| <u>FY2008</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <u>District C-S</u> | <u>\$ (573.00)</u>  |               |               |                |                    |               |                     |                    |               |                |                    |  |
| <u>FY2009</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <u>FY09-01</u>      | <u>\$ 8,125.00</u>  |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Total of all Cost-Share Contracts (encumbered)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <u>\$ 16,850.00</u> |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Balance of Count WCA Funds:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <u>\$ 2,295.57</u>  |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Balance of County Water Plan Funds:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <u>\$ -</u>         |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |
| Balance of other funds being deferred (list)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <u>\$ -</u>         |                     |               |               |                |                    |               |                     |                    |               |                |                    |  |

TOTAL OF ALL DEFERRED REVENUE:

\$ 49,625.57

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
GUIDE TO CAPITAL ASSETS  
DECEMBER 31, 2009**

**Threshold Levels for Recording Capital Assets**

The Lincoln SWCD has set the capitalization threshold at \$1,000.00.

Tracking and Inventory thresholds are listed below in the Capitalization Thresholds Table.

**Depreciation Method:**

The Lincoln Soil and Water Conservation District will use the straight-line method to calculate the depreciation of the cost of a capital asset over its estimated useful life.

**Estimated Useful Life:**

The SWCD's capital assets will be depreciated over their estimated useful lives: See table below.

The District does not necessarily own all of the listed capital assets as listed below, but is the threshold the District will use if/when the items are purchased – See attached Fixed Assets List!

| <b>CAPITALIZATION THRESHOLDS</b>   |                                                                             |                                                  |                                                          |
|------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------------|
| <b>Capital Asset Types</b>         | <b>Examples</b>                                                             | <b>Tracking and Inventory MCIT Ins. Purposes</b> | <b>Capitalize and Depreciate for Financial Reporting</b> |
| Buildings/Construction-In-Progress | Buildings: Tree Storage, Storage                                            | \$1.00                                           | 30                                                       |
| Building Improvements              | Tree Storage, Storage                                                       | \$1.00                                           | 20                                                       |
| Camera                             | All Camera's                                                                | \$100.00                                         | 7                                                        |
| Computer Hardware                  | Monitors, CPU, Printers, Laptops, Projectors                                | \$100.00                                         | 5                                                        |
| Field Equipment                    | Tree Planter, Tree Mat/Weed Barrier, Drill, Level, Tripod, Enclosed Trailer | \$100.00                                         | 7                                                        |
| Furniture, office                  | Professional Made Office Equipment                                          |                                                  | 10                                                       |
|                                    | All other-Desks, Tables, Chairs, File Cabinets                              | \$100.00                                         | 7                                                        |
| Cooling Systems                    | Compressor & Humidifier Coil, etc.                                          | \$100.00                                         | 7                                                        |
| Land                               |                                                                             | \$1.00                                           | Not depreciable                                          |
| Land Improvement/Infrastructure    | Betterment of land, other than building                                     | \$1.00                                           | 15                                                       |
| Motor Vehicles                     | Van, Car, Truck, etc.                                                       | \$100.00                                         | 5                                                        |
| Office Machines                    | Copier                                                                      |                                                  | 7                                                        |
|                                    | Fax Machine, Calculators, Typewriters, Laminator, etc.                      | \$100.00                                         | 5                                                        |
| Telephone Equipment                |                                                                             | \$100.00                                         | 10                                                       |
| Television/VCR                     |                                                                             | \$100.00                                         | 7                                                        |
| Educational Displays               | Education Trunks, Enviroscope, Envir. Display                               | \$100.00                                         | 7                                                        |
| Threshold                          |                                                                             | \$1,000.00                                       |                                                          |

