

**CLEARWATER SOIL & WATER CONSERVATION  
DISTRICT  
ANNUAL FINANCIAL REPORT**



**FOR THE YEAR ENDED DECEMBER 31, 2009**

# CLEARWATER SOIL & WATER CONSERVATION DISTRICT

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2009

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# **CLEARWATER SOIL AND WATER CONSERVATION DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2009**

The Clearwater SWCD's 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.

## **USING THIS ANNUAL REPORT**

This annual report consists of the following topics: Management's Discussion and Analysis (this section), the financial statements, Notes to the Financial Statements and supplementary information. These topics may be found by locating the report and page number on the table of contents. The Statement of Net Assets and the Statement of Activities (pg 7-9) provide information about the activities of the District as a whole and present a longer-term view of finances.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the entity's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. earned but unused vacation leave).

## **Government – Wide Financial Analysis**

At the close of 2009, the District's net assets exceeded liabilities by \$ 88, 968. The District's net assets on the Statement of Activities and Governmental Revenues Expenditures and Changes in Fund Balance increased due to project revenues coming in over budget by \$ 74,587, even though actual expenditures exceeded project revenues by \$75,565. In 2009 the District received a grant from Clean Water Legacy/Ag. Watershed Restoration Grant for \$80,425. State Grant revenues budgeted in 2009 was \$30,151; the actual received from State Grants was \$107,079.

The substantial increase in revenue can be attributed mainly to: receipt of the Clean Water Legacy/Ag. Watershed Restoration grant funds; several regular Cost-Share projects, and which account for the increase in State revenue, Area VIII Tour funds, and

receipt of Forest Stewardship Grant funds. Actual expenditures (as shown on the Budgetary Comparison Schedule) increased by \$75,565 over budgeted expenditures.

The increase in expense can be associated with several factors such as: work on the Clean Water Legacy/Ag. Watershed Restoration grant work, changes in staff, Clean Water Legacy expenses, Streambank and Erosion Control Cost Share Projects; increases in telephone & postage, parts/servicing for District vehicles and equipment. The year ended with a decrease to the fund balance/net assets of \$4,784 due to an increase in depreciation expense and compensated absence liability.

The Statement of Net Assets and Governmental Fund Balance Sheet reflects the District's total net assets which are equal to \$94,182, of which \$9,242 is invested in capital assets and \$84,940 is unrestricted. The amount invested in capital assets is not available for future spending. The unrestricted amount of \$84,940 may be used to meet district obligations and finance day to day operations.

### **General Fund Budgetary Highlights**

There were no adjustments to the adopted 2009 budget despite substantial year end difference in projected revenues and expenditures. Several factors contributed to total revenue exceeding projected revenue. Increased receipts of Clean Water Legacy/Ag. Watershed Restoration grant funds; several regular Cost-Share projects; receipt of Red Lake Watershed District Funds; Forest Stewardship funds; Area VIII Tour funds; increases in Plantskydd sales and Plat Book sales; and other small increases in miscellaneous income all contributed to the excess revenues.

Actual expenditures exceeded budgeted expenditures for 2009 by \$75,565. Work on the Clean Water Legacy/Ag. Watershed Restoration Grant; Streambank and Erosion Control Cost-Share Projects; Clean Water Legacy Grant expenses; staffing changes; increases in telephone charges, postage, and rent all contributed to the increase over budgeted expenditures. The extra expenses for State Grants, Cost-Share, and Clean Water Legacy/Ag. Watershed Restoration Grant expenditures were not accounted for in the 2009 budget. There were staff changes in 2009 where the District was operating with 2 employees for one month's while a new employee was being sought. In 2010 the District will operate with three full-time employees.

### **Capital Asset and Debit Administration**

At the end of 2009, the SWCD had \$9242.20 invested in a broad range of capital assets which includes a building; vehicles; machinery; and office equipment. (See Capital Asset Year-end Table below) These services are used to provide services to citizens in Clearwater County. This amount represents a decrease in the net fixed asset book value.

Capital Assets at Year-end  
(Net of Depreciation)

	Governmental Activities	
	<u>2008</u>	<u>2009</u>
Building	36.74	36.73
Equipment	<u>13,752.30</u>	<u>9,387.47</u>
Net Fixed asset "book" value	\$13,789.04	\$9,242.20

There had been no additions to the capital assets list since early 2007 when the District purchased a new vehicle. As of January 1, 2005 the Clearwater SWCD Board of Supervisors set the threshold at \$5,000 for capital outlay purchases. More detailed information regarding the capital assets is presented in the Notes to the Financial Statements section.

**Notes to the Financial Statements**

The Notes to the Financial Statements 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; 9) Opening Leases.

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

The District's elected officials and District Manager considered many factors when setting the FY 2010 budget. District staff and supervisors have made a commitment to work hard at maintaining a good working relationship with the Clearwater County Commissioners and Staff. The District receives a substantial appropriation and contract to administer the County Water Management program for the County. New Funding Sources are continually sought out and applied for; pending staff requirements can be met.

Some economic factors taken into account for the 2010 budget include: reduced requests for tree planting contracts, lack of funding for federal and state conservation programs, and economic hardship for landowners. Expense factors considered include employee salary increases, supervisor and employee benefits, increased sales of Plantskydd, initial estimates from NRCS and IT service contract charges, increases to insurance and operation costs for the District. The Clearwater SWCD Budget Committee will meet shortly to review the 2010 budget to make any changes.

## **CONTACTING THE DISTRICTS FINANCIAL MANAGEMENT**

This financial report was 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 information, contact the Clearwater Soil and Water Conservation District, 312 Main Ave. N., Suite 3, Bagley, MN 56621 or call 218-694-6845.

**BREAKDOWN OF COUNTY REVENUE  
2009**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$ <u>68,000</u>
WATER PLAN MONEY	\$ <u>40,600</u>
WETLAND MONEY	\$ <u>5,000</u>
FEEDLOT MONEY	\$ _____
ABANDONED WELL	\$ _____
DNR SHORELAND	\$ _____
OTHER (specify)	\$ _____
 TOTAL	 \$ <u><u>113,600</u></u>

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

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

N/A  
\_\_\_\_\_  
\_\_\_\_\_



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

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

The Clearwater 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 Clearwater 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 Clearwater 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 comprise its assets, liabilities, fund balance, revenues, and expenditures.

B. Basis of Presentation - Fund Accounting (Continued)

1. Governmental Funds: General Fund

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

2. General Fixed Assets Account Group

This account group is used to record the District's general fixed assets, which include furniture and equipment.

3. General Long-Term Debt Account Group

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

C. Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

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

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

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

D. Budget Information

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

E. Assets, Liabilities, and Equity Accounts

1. Assets

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

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

2. Liabilities

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

3. Equity

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

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 Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the district has as of the report date. See Note 1-G below.

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

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 20 hours per month. Sick leave accrual is 13 days per year. There is no limit on the accumulation of annual sick leave, however; an employee may not carry over 160 hrs of annual leave from year to year. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 0 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 0 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At December 31, 2009, the District's General Fund had a deficit fund balance of \$978. The deficit is expected to be eliminated by future revenue sources.

B. Excess of Expenditures Over Budget

During 2009, actual expenditures, \$249,938, exceeded budgeted expenditures, \$175,351, by \$74,587.

C. Uncollateralized deposits

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

### III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2009, the District's deposits totaled \$ 132,366, of which \$ 116,186 were cash deposits and \$ 16,180 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

#### Equipment

Balance January 1, 2009	\$ <u>13,789.04</u>
Additions	\$ _____
Deletions	\$ _____
2009 depreciation	\$ <u>4,546.83</u>
Balance December 31, 2009	\$ <u>9,242.20</u>

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$ 32,678.13 as of December 31, 2009.

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

### V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Clearwater 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 \$ 33,855.

VI. COMPENSATED ABSENCES PAYABLE

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

Balance January 1, 2009	\$ 4,769
Net Changes in Compensated Absences	\$ (740)
Balance December 31, 2009	\$ 4,028

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

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

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.

VIII. PENSION PLAN

A. Plan Description

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 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 employer share of contributions to PERA for the years ending December 31, 2009, 2008, and 2007 were \$ 6,247, \$ 6,519, and \$ 5,616 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

#### IX. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2009 were \$ 6,473.