

**HUBBARD SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

FINANCIAL SECTION	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets and Governmental Fund Balance Sheet	7
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance	8
Budgetary Comparison Statement, Budget and Actual, General Fund	9
Notes to Financial Statements	10
ADDITIONAL REPORTS	
Report on Legal Compliance	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Hubbard Soil and Water Conservation District
Park Rapids, Minnesota

We have audited the accompanying financial statements of the Governmental Activities and the General Fund of the Hubbard Soil and Water Conservation District, Park Rapids, Minnesota as of and for the year ended December 31, 2011 which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of District Management. Our responsibility is to express opinions on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 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 General Fund of the Hubbard Soil and Water Conservation District, Park Rapids, Minnesota as of December 31, 2011, and the results of operations and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2012 on our consideration of the 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 read in conjunction with this report in considering the results of our audit.

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

October 22, 2012

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The Hubbard County Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the "Notes to the Financial Statements" and the District's financial statements.

FINANCIAL HIGHLIGHTS

The Hubbard County SWCD continues to administer the Hubbard County Local Water Management Plan and the Wetland Conservation Act.

The District Manager administers the Local Water Plan and the Wetland Conservation Act.

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the 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. However, you will need to consider other non-financial factors, such as changes in the condition of equipment, 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, local water plan and Wetland Conservation Act administration, and the State finance most activities. Charges for services contribute about 20 percent of revenues.

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Reporting the District's General Fund

Fund Financial Statements

The fund financial statements provide detailed information about the general fund, not the District as a whole. The District presents only a general fund which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the 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 activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

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

Net Assets

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Current Assets	\$122,572	\$109,223
Capital Assets, net of depreciation	<u>0</u>	<u>1,184</u>
Total Assets	<u>\$122,572</u>	<u>\$110,407</u>
Liabilities, deferred revenue	\$ 63,358	\$ 52,930
Long term liabilities	<u>868</u>	<u>3,653</u>
Total Liabilities	<u>\$ 64,226</u>	<u>\$ 56,583</u>
Total Net Assets	<u>\$ 58,346</u>	<u>\$ 53,824</u>

Net assets of the district governmental activities increased by \$4,552. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, changed from \$53,824 at December 31, 2010 to \$58,346 at the end of this year.

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The District's Statement of Activities and Changes in Fund Balance

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Revenues		
Intergovernmental	\$115,571	\$116,415
Charges for services	30,351	27,733
Investment earnings	1,199	725
Miscellaneous	<u>3,241</u>	<u>1,972</u>
Total Revenues	<u>\$150,362</u>	<u>\$146,845</u>
Expenses		
Conservation	<u>\$145,840</u>	<u>\$137,516</u>
Increase (decrease) in net assets	<u>\$ 4,552</u>	<u>\$ 9,329</u>

The District's total revenues increased by \$3,517 and the total cost of programs and services increased by \$8,324.

Deferred revenue of \$53,502 was higher than the carryover from 2010 of \$46,495. This will help with expenses in 2011 and there was an increase in net assets for 2011. The District is finishing a BWSR Clean Water Challenge Grant in which there was \$3,855 of deferred revenue. The District had unencumbered state cost-share funds from FY 2011 of \$5,724 and FY 2012 of \$10,089.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District's capital assets were \$0. All assets have been fully depreciated.

Long-Term Liabilities

The only long-term liabilities the District has are accrued vacation pay and sick leave. More detailed information about the type of liability is presented in the Notes to the Financial Statements, page 16 in the Annual Report. At the beginning of 2011 the District's compensated absences payable were \$3,653, and at the end of the year that balance decreased to \$868. The balance reflects the payable severance for two employees, and the decrease was due to one employee finding other employment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected officials considered several factors when setting the 2012 budget. Revenue from Hubbard County should remain steady with the District Manager coordinating both the Wetland Conservation Act and the Local Water Plan. Also, the District has applied for a grant for a new project and is involved in two other grants for intensive watershed projects.

HUBBARD SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our landowners, taxpayers, governmental agencies and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hubbard County Soil and Water Conservation District at 212 ½ 2nd Street West, Park Rapids, MN 56470 or call 218-732-0121.

HUBBARD SOIL AND WATER CONSERVATION DISTRICT
 PARK RAPIDS, MINNESOTA

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

	General Fund	Adjustments	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$ 108,678	\$ -	\$ 108,678
Accounts Receivable	473	-	473
Prepaid Items	3,583	-	3,583
Inventory	9,838	-	9,838
Capital Assets:			
Equipment (net of accumulated depreciation)	-	-	-
Total Assets	<u>\$ 122,572</u>	<u>\$ -</u>	<u>\$ 122,572</u>
<u>Liabilities</u>			
Current liabilities:			
Deferred Revenue	\$ 53,502	\$ -	\$ 53,502
Accrued Wages	830	-	830
Due To Other Government	1,780	-	1,780
Sales Tax Payable	440	-	440
Accounts Payable	3,952	-	3,952
Deposit on Sales	2,854	-	2,854
Long-term liabilities:			
Due after one year	-	868	868
Total Liabilities	<u>\$ 63,358</u>	<u>\$ 868</u>	<u>\$ 64,226</u>
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Unreserved			
Designated, Compensated Absences	\$ 868	\$ (868)	\$ -
Unassigned	58,346	(58,346)	-
Total Fund Balance	<u>\$ 59,214</u>	<u>\$ (59,214)</u>	<u>\$ -</u>
Net Assets			
Invested in capital assets		\$ -	\$ -
Unrestricted		58,346	58,346
Total Net Assets		<u>\$ 58,346</u>	<u>\$ 58,346</u>

Notes are an integral part of the basic financial statements.

HUBBARD SOIL AND WATER CONSERVATION DISTRICT
 PARK RAPIDS, MINNESOTA

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

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 115,571	\$ -	\$ 115,571
Charges for services	30,351	-	30,351
Investment earnings	1,199	-	1,199
Miscellaneous	3,241	-	3,241
Total Revenues	<u>\$ 150,362</u>	<u>\$ -</u>	<u>\$ 150,362</u>
Expenditures/Expenses			
Conservation			
Current	\$ 147,441	\$ (1,601)	\$ 145,840
Total Expenditures/Expenses	<u>\$ 147,441</u>	<u>\$ (1,601)</u>	<u>\$ 145,840</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 2,921</u>	<u>\$ 1,601</u>	<u>\$ 4,522</u>
Fund Balance/Net Assets January 1	<u>\$ 56,293</u>	<u>\$ (2,469)</u>	<u>\$ 53,824</u>
Fund Balance/Net Assets December 31	<u>\$ 59,214</u>	<u>\$ (868)</u>	<u>\$ 58,346</u>

Notes are an integral part of the basic financial statements.

HUBBARD SOIL AND WATER CONSERVATION DISTRICT
PARK RAPIDS, MINNESOTA

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	\$ 68,658	\$ 68,658	\$ 61,831	\$ (6,827)
Local	22,000	22,000	23,922	1,922
State Grant	25,543	25,543	29,818	4,275
Total intergovernmental	<u>\$ 116,201</u>	<u>\$ 116,201</u>	<u>\$ 115,571</u>	<u>\$ (630)</u>
Charges for services	<u>\$ 26,450</u>	<u>\$ 26,450</u>	<u>\$ 30,351</u>	<u>\$ 3,901</u>
Miscellaneous				
Interest earnings	\$ 1,800	\$ 1,800	\$ 1,199	\$ (601)
Other	1,200	1,200	3,241	2,041
Total miscellaneous	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 4,440</u>	<u>\$ 1,440</u>
Total Revenues	<u>\$ 145,651</u>	<u>\$ 145,651</u>	<u>\$ 150,362</u>	<u>\$ 4,711</u>
Expenditures				
District operations				
Personnel services	\$ 75,475	\$ 75,475	\$ 65,953	\$ 9,522
Other services and charges	28,461	28,461	31,473	(3,012)
Supplies	1,200	1,200	1,632	(432)
Capital outlay	9,000	9,000	10,128	(1,128)
Total district operations	<u>\$ 114,136</u>	<u>\$ 114,136</u>	<u>\$ 109,186</u>	<u>\$ 4,950</u>
Project expenditures				
District	\$ 24,000	\$ 24,000	\$ 27,226	\$ (3,226)
State	7,515	7,515	11,029	(3,514)
Total project expenditures	<u>\$ 31,515</u>	<u>\$ 31,515</u>	<u>\$ 38,255</u>	<u>\$ (6,740)</u>
Total Expenditures	<u>\$ 145,651</u>	<u>\$ 145,651</u>	<u>\$ 147,441</u>	<u>\$ (1,790)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,921</u>	<u>\$ 2,921</u>
Fund Balance - January 1	<u>\$ 56,293</u>	<u>\$ 56,293</u>	<u>\$ 56,293</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 56,293</u></u>	<u><u>\$ 56,293</u></u>	<u><u>\$ 59,214</u></u>	<u><u>\$ 2,921</u></u>

Notes are an integral part of the basic financial statements.

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Note 1 – Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

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

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

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

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

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

Government-Wide Financial Statements

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

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

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

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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

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

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

Budget Information

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

Use of Estimates

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

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Assets, Liabilities and Equity Accounts

Assets

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

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

Liabilities

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

Classification of Net Assets

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

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

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

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

Classification of Fund Balances

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

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

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

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

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

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

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

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

Explanation of Adjustments Column in Statements

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

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

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

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 80 to 160 hours per year. Sick leave accrual is 8 hours per month. The limit on the accumulation of annual leave is 160 hours and the limit on sick leave is 680 hours. Upon termination of employment from the District, employees are paid accumulated annual leave and up to one half of accrued sick leave up to 200 hours.

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Risk Management

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

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

Note 2 - Detailed Notes

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$28,498	\$0	\$0	\$28,498
Less: Accumulated Depreciation	<u>27,315</u>	1,183	0	<u>28,498</u>
Net Capital Assets	<u>\$ 1,184</u>			<u>\$ 0</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and Equipment 5 to 10 years. Current year depreciation is \$1,184.

The District uses the threshold of \$500 for capitalizing assets purchased.

Deferred Revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2011, consists of the following: BWSR Cost Share Programs, \$15,813; County WCA Funds, \$15,216; County Water Plan Funds, \$18,618; BWSR Water Plan Challenge Grant, \$3,855; Total, \$53,502.

Long-Term Liabilities - Compensated Absences Payable

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

Balance January 1, 2011	\$3,653
Net Change in Compensated Absences	<u>(2,785)</u>
Balance December 31, 2011	<u>\$ 868</u>

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Deposits

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

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

Custodial Credit Risk Deposits

At December 31, 2011, the District's deposits totaled \$108,678, of which \$41,824 were cash deposits and \$66,854 was invested in bank certificates of deposit. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District's deposits were not exposed to custodial credit risk.

Note 3 – Defined Benefit Pension Plans – Statewide

Plan Description - Public Employees Retirement Association

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan Members were required to contribute 6.25% of their annual covered salary. The District is required to contribute 7.25% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$3,332, \$3,647, and \$4,397 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**HUBBARD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Note 4 – Due To Other Governments

Represents reimbursement due to other governments for grant funds to be expended and services to be provided.

Note 5 – Operating Leases

The District leases office space on a yearly basis. Under the current agreement, total costs for 2011 were \$6,380.

Note 6 – Stewardship, Compliance and Accountability

Excess of expenditures over budget – The general fund had expenditures in excess of budget for the year ended December 31, 2011 as follows: Expenditures \$147,441; Budget \$145,651; Excess \$1,790.

Note 7 – Reconciliation of Fund Balance to Net Assets

Governmental Fund Balance, January 1	\$56,293
Plus: Excess of Revenue Over Expenditures	<u>2,921</u>
Governmental Fund Balance, December 31	<u>\$59,214</u>
Adjustments from Fund Balance to Net Assets:	
Plus: Capital Assets	\$0
Less: Long-Term Liabilities	<u>(868)</u>
Net Assets	<u>\$58,346</u>

Note 8 – Reconciliation of Change in Fund Balance to Change in Net Assets

Change in fund balance	\$2,921
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(1,184)
In the statement of activities certain operating expenses, including compensated absences, are measured by the amounts earned.	<u>2,785</u>
Net change in net assets	<u>\$4,522</u>

REPORT ON LEGAL COMPLIANCE

Board of Supervisors
Hubbard Soil and Water Conservation District
Park Rapids, Minnesota

We have audited the accompanying financial statements of the Governmental Activities and the General Fund of the Hubbard Soil and Water Conservation District, Park Rapids, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2012.

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

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

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

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

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

October 22, 2012

**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
Hubbard Soil and Water Conservation District
Park Rapids, Minnesota

We have audited the financial statements of the Governmental Activities and the General Fund of the Hubbard Soil and Water Conservation District as of and for the year ended December 31, 2011, and have issued our report thereon dated October 22, 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

In planning and performing our audit of the financial statements of the Governmental Activities and the General Fund of the Hubbard Soil and Water Conservation District, Park Rapids, Minnesota as of and for the year ended December 31, 2011; in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

October 22, 2012