

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA
FINANCIAL STATEMENTS
DECEMBER 31, 2006

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

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INTRODUCTORY SECTION

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

ORGANIZATION

Steve Sunderland, Chairperson

Steve Nokleby, Vice Chairperson

Robert Dirksen, Secretary

Larry Kittelson, Treasurer

Dawn Schuler, Supervisor

FINANCIAL SECTION

DANA F. COLE & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and general fund of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chippewa Soil and Water Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 general fund of Chippewa Soil and Water Conservation District as of December 31, 2006, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, on our consideration of Chippewa Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents, is not a required part of the basic financial statements but 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa Soil and Water Conservation District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Dana F. Cole & Company, LLP

DANA F. COLE & COMPANY, LLP
Montevideo, Minnesota

October 31, 2007

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chippewa Soil and Water Conservation District's (SWCD) discussion and analysis provides an overview of the SWCD'S financial activities for the year ended December 31, 2006. 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 Statements.

FINANCIAL HIGHLIGHTS

- The District's net assets on the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance increased due to the revenues exceeding the expenditures. The programs that increased were the following programs: state and federal grants and tree fabric.
- The District's net assets exceeded the liabilities on the Statement of Net Assets and Governmental Fund Balance Sheet partially due to the addition of the Investment in Capital Assets in the statement.
- The Statement of Net Assets and Governmental Fund Balance Sheet reflects Designated Fund Balances for specific designated items deemed by the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) government – wide financial statements, (2) budgetary comparison schedules, and (3) notes to the financial statements. The government - wide financial statements include the Statement of Net Assets and the Statement of Activities which provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose special purpose government they are generally able to combine the government-wide and fund financial statements into a single presentation. SWCD has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

Our analysis of the SWCD as a whole begins on page 7. One of the most important questions asked about the SWCD's finances is, "Is the SWCD as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the SWCD's General Fund

Fund Financial Statements

The SWCD presents only a general fund, which is a governmental fund. All of SWCD's basic services are reported in the general fund, which focuses on how money flows into and out of this fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statement provides a detailed short-term view of SWCD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance SWCD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE SWCD AS A WHOLE

The SWCD's combined net assets were changed, increasing \$46,051 during 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the SWCD's governmental activities.

**Table 1
Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Current and Other Assets	\$576,182	\$538,620
Capital Assets	<u>27,130</u>	<u>36,404</u>
Total Assets	<u>603,312</u>	<u>575,024</u>
Deferred Revenue	90,123	108,699
Long-term Liabilities	7,463	6,818
Other Liabilities	<u>2,090</u>	<u>1,923</u>
Total Liabilities	<u>99,676</u>	<u>117,440</u>
Net assets		
Invested in capital assets, net of debt	27,130	36,404
Unrestricted	<u>476,506</u>	<u>421,180</u>
Total Net Assets	<u>\$503,636</u>	<u>\$457,584</u>

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TABLE 2
Changes in Net Assets**

The main reason for the increase in net assets of \$46,051 results from an increase in interest income and grant funding. A summary of the revenues and expenses is presented below:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Revenues		
Program revenues:		
Charges for service	\$ 42,308	\$ 47,913
State grants	97,721	89,403
Federal Revenue	22,371	17,256
General revenues		
County Allocation	80,030	82,299
Interest	20,745	7,090
Other general revenues	<u>11,748</u>	<u>7,727</u>
Total revenues	<u>274,923</u>	<u>251,688</u>
Program expenses		
Personnel Services	155,164	146,190
Conservation Charges for Services	40,357	44,986
Project Expenditures	<u>33,351</u>	<u>40,296</u>
Total expenses	<u>228,872</u>	<u>231,472</u>
Increase net assets	<u>\$ 46,051</u>	<u>\$ 20,216</u>

THE SWCD's FUNDS

As SWCD completed the year, its general fund reported a combined fund balance of \$486,059. Included in this amount is this year's total change in fund balance of \$56,137.

General Fund Budgetary Highlights

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

The actual charges to appropriations (expenditures) were \$8,714 below the final budget amounts. The most significant positive variance \$12,649 occurred in the SWCD's Project Expenses, where the SWCD spent 27% less than expected on purchasing the trees and fabric for the 2006 tree program.

On the other hand, resources available for appropriation were \$47,423 above the final budgeted amount. Tree sales and fabric installation and grants were more than expected.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the SWCD had \$98,447 invested in a broad range of capital assets, including a tree building, vehicles, 4-wheeler, and computers.

**Table 4
Capital Assets at Year-end**

	<u>Cost 2006</u>	<u>Accumulated Depreciation</u>	<u>Net Cost 2006</u>
Buildings and improvements	\$18,210	\$ 3,642	\$ 14,568
Equipment	<u>80,237</u>	<u>67,675</u>	<u>12,562</u>
Total	<u>\$98,447</u>	<u>\$ 71,317</u>	<u>\$ 27,130</u>

Long-Term Liabilities

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2007 budget and fees that will be charged for the for the SWCD's activities. The SWCD does anticipate a decrease in both their tree sales and fabric sales due to the end of the CREP program. However, the SWCD will continue to fund contracts with the State cost-share program funding. We anticipate our County's allocation to meet our initial budget request to them, and at this time our State allocation appears to be funded.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the SWCD's office at 629 N. 11th Street Montevideo, Minnesota, 320-269-2139.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
AS OF DECEMBER 31, 2006

	General Fund	Adjustments See Note 9	Statement of Net Assets
Assets			
Cash and Investments	\$ 568,071	\$ 0	\$ 568,071
Accounts Receivable	1,903	0	1,903
Due from Other Governments	4,960	0	4,960
Interest Receivable	1,248	0	1,248
Capital Assets:			
Buildings	0	18,210	18,210
Equipment	0	80,237	80,237
Accumulated Depreciation	0	(71,317)	(71,317)
Total Capital Assets, Net	<u>0</u>	<u>27,130</u>	<u>27,130</u>
Total Assets	<u>\$ 576,182</u>	<u>27,130</u>	<u>603,312</u>
Liabilities			
Current Liabilities:			
Deferred Revenue	\$ 90,123	0	90,123
Long-Term Liabilities:			
Due within one year	0	2,090	2,090
Due after one year	<u>0</u>	<u>7,463</u>	<u>7,463</u>
Total Liabilities	<u>90,123</u>	<u>9,553</u>	<u>99,676</u>
Fund Balance/Net Assets			
Fund Balance/Net Assets			
Unreserved			
Designated for Future Projects	135,000	(135,000)	0
Undesignated	<u>351,059</u>	<u>(351,059)</u>	<u>0</u>
Total Fund Balance	<u>486,059</u>	<u>(486,059)</u>	<u>0</u>
Total Liabilities & Fund Balance	<u>\$ 576,182</u>		
Net Assets			
Invested in Capital Assets		27,130	27,130
Unrestricted		<u>476,506</u>	<u>476,506</u>
Total Net Assets		<u>\$ 503,636</u>	<u>\$ 503,636</u>

The accompanying notes are an integral part of these financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments See Note 9	Statement of Activities
Revenues			
Intergovernmental	\$ 200,122	\$ 0	\$ 200,122
Charges for Services	42,308	0	42,308
Investment Earnings	20,745	0	20,745
Miscellaneous	11,748	0	11,748
Total Revenues	<u>274,923</u>	<u>0</u>	<u>274,923</u>
Expenditures/Expenses			
Conservation	218,786	10,086	228,872
Total Expenditures/Expenses	<u>218,786</u>	<u>10,086</u>	<u>228,872</u>
Excess of Revenues Over (Under)			
Expenditures/Expenses	56,137	(10,086)	46,051
Fund Balance/Net Assets January 1	<u>429,922</u>	<u>27,663</u>	<u>457,585</u>
Fund Balance/Net Assets December 31	<u>\$ 486,059</u>	<u>\$ 17,577</u>	<u>\$ 503,636</u>

The accompanying notes are an integral part of these financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	<u>Original/Final Budget</u>	<u>Actual</u>
Revenues		
Intergovernmental		
County	\$ 74,000	\$ 80,030
State Grant	86,000	97,721
Federal	4,000	22,371
Total Intergovernmental	<u>164,000</u>	<u>200,122</u>
Charges for Services	<u>33,000</u>	<u>42,308</u>
Miscellaneous		
Interest Earnings	5,000	20,745
Other	25,500	11,748
Total Miscellaneous	<u>30,500</u>	<u>32,493</u>
Total Revenues	<u>227,500</u>	<u>274,923</u>
Expenditures		
District Operations		
Personnel Services	154,650	154,352
Other Services and Charges	21,850	30,123
Supplies	2,000	110
Capital Outlay	3,000	850
Total District Operations	<u>181,500</u>	<u>185,435</u>
Project Expenditures		
District	30,000	24,179
State	16,000	9,172
Total Project Expenditures	<u>46,000</u>	<u>33,351</u>
Total Expenditures	<u>227,500</u>	<u>218,786</u>
Excess of Revenues Over Expenditures	0	56,137
Fund Balance - January 1	<u>429,922</u>	<u>429,922</u>
Fund Balance - December 31	<u>\$ 429,922</u>	<u>\$ 486,059</u>

The accompanying notes are an integral part of these financial statements.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

**B. Government –Wide and Fund Financial Statements
Combining Government-Wide and Fund Financial Statements**

GASB 34 allows a special purpose government, which performs a single governmental program to combine the fund and government-wide statements. Using this approach, governments present financial statements that begin with the governmental fund financial statements. The next column is an adjustment column that reconciles the amounts reported in the governmental column, to the last column, which is the government-wide financial statements, presented in the accrual basis of accounting. Single-Program governments must provide descriptions of each of the reconciling items either at the bottom of the statements, in a separate statement, or in the notes to the financial statements. Chippewa Soil and Water Conservation District is considered a special purpose government as it only has a General Fund and its activities are all in the conservation function.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement and Basis of Accounting

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

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

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

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

Fund Financial Statements

Revenues

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

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement and Basis of Accounting (Continued)

Nonexchange Transactions

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

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

Exchange Transactions

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

Expenditures

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

D. Use of Estimates

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

E. Cash and Investments

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

Under this statement, governmental entities other than external investment pools may report money market investments and participating interest earning investment contracts at amortized cost. All other investments must be reported at their fair market value. During 2006, the District's investments were comprised of Certificates of Deposit whose cost approximates market.

F. Accounts Receivable

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

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

H. Compensated Absences

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 12 hours per month. The limit on the accumulation of vacation leave is 192 hours. Upon termination/retirement from the District, employees in good standing are paid accrued vacation leave. The portion of accumulated vacation pay that will be paid from available spendable resources (within 60 days) is recorded as a current liability in the governmental fund types. The remaining unpaid vacation pay is recorded as long-term debt.

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

I. Equity Classifications

Government-Wide Financial Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including infrastructure, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Equity Classifications (Continued)

- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance amounts are not available for appropriation or are legally restricted by outside parties for a specific purpose. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated.” The balance of unreserved fund balance is labeled “undesignated,” which indicates it is available for appropriation.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Reported budget amounts represent the originally adopted budget as revised. Revisions to the originally adopted budget require approval of the Board of Supervisors. The 2006 budget was not revised during the year.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u>	<u>Balance</u> <u>12/31/06</u>
Capital Assets Being Depreciated:			
Buildings	\$ 18,210	\$ 0	\$ 18,210
Equipment	<u>78,847</u>	<u>1,390</u>	<u>80,237</u>
Total Capital Assets Being Depreciated	<u>97,057</u>	<u>1,390</u>	<u>98,447</u>
Less: Accumulated Depreciation for:			
Buildings	-3,035	-607	-3,642
Equipment	<u>-57,618</u>	<u>-10,057</u>	<u>-67,675</u>
Total Accumulated Depreciation	<u>-60,653</u>	<u>-10,664</u>	<u>-71,317</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 36,404</u>	<u>\$ -9,274</u>	<u>\$ 27,130</u>

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Chippewa County for various programs. Revenues will be recognized when the related program expenditures are recorded. As of December 31, 2006, deferred revenue was \$90,123.

NOTE 5 – LONG TERM DEBT

The District's only long-term debt is compensated absences. Changes in long-term debt for the period ended December 31, 2006 is as follows:

Balance - January 1, 2006	\$ 8,741
Net Changes in Compensated Absences	<u>812</u>
Balance - December 31, 2006	<u>\$ 9,553</u>

NOTE 6 - RISK MANAGEMENT

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

The Minnesota Counties 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.

NOTE 7 - CONTINGENT LIABILITIES

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

NOTE 8 - PENSION PLANS

A. Plan Description

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

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

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS (Continued)

A. Plan Description (Continued)

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

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

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. Chippewa Soil and Water Conservation District is required to contribute the following percentages of annual covered payroll; 11.78% for Basic Plan PERF members, and 6.0% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005 and 2004 were \$7,001, \$6,249 and \$6,321, respectively. The District's contributions were equal to the contractually required contributions for each year as set by the State Statute.

**CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT
MONTEVIDEO, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - ADJUSTMENTS TO FINANCIAL STATEMENTS

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

Total Fund Balance – Total Governmental Funds	\$ 486,059
Amounts reported for governmental activities in the Statement of Net Assets are different, as shown under the “Adjustments” column because:	
Capital assets of \$98,447 net of accumulated depreciation of \$71,317 are not financial resources and, therefore, are not reported in the governmental fund	27,130
Compensated absences are not due and payable in the current period and are not reported in the general funds.	<u>(9,553)</u>
Net Assets of Governmental Funds	<u>\$ 503,636</u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statement of Activities**

Net Change in Fund Balance – Total Governmental Funds	\$56,137
Amounts reported for governmental activities in the Statement of Activities are different under the “Adjustments” column because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses.	
Capital Outlay	1,390
Depreciation Expense	(10,664)
Compensated Absences are also reflected in Statement of Activities, however they do not require the use of current financial resources and therefore are not reported in the governmental funds until actually due.	<u>(812)</u>
Changes in Net Assets of Governmental Activities	<u>\$ 46,051</u>

NOTE 10 - JOINTLY GOVERNED ORGANIZATION

The District, along with seven other Conservation Districts in the area, created Minnesota River Source Joint Powers Board. The Joint Powers Board’s purpose is to develop and implement plans with regards to technical assistance and implementation of the State Revolving Fund. The Joint Powers’ Board of Directors is comprised of one member from each participating Conservation District. These Conservation Districts do not have any obligation, entitlement or residual interest in the JPB.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to year end, the Conservation District purchased a tractor and a pickup truck.

OTHER REQUIRED REPORTS

DANA F. COLE & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities and general fund of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2006, which collectively comprise Chippewa Soil and Water Conservation District's basic financial statements and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Chippewa Soil and Water Conservation District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Chippewa Soil and Water Conservation District's financial statements that is more than inconsequential will not be prevented or detected by Chippewa Soil and Water Conservation District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Segregation of Duties

There is a lack of segregation of duties within the cash receipts and cash disbursements functions. One person is responsible for cash receipts, preparing checks, recording the transactions and making deposits. It should be noted that there are certain weaknesses in any internal control structure when there is a limited number of personnel. Internal controls relating to cash receipts and disbursements should be periodically reviewed by the organization.

Lack of Control Over the Financial Reporting Process

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the company's internal control.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs to be incurred and related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Chippewa Soil and Water Conservation District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chippewa 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*.

We noted certain matters that we reported to management of Chippewa Soil and Water Conservation District in a separate letter dated October 31, 2007.

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

Dana F. Cole & Company, LLP

DANA F. COLE & COMPANY, LLP
Montevideo, Minnesota

October 31, 2007

AUDITORS' REPORT ON LEGAL COMPLIANCE

To the Board of Supervisors
Chippewa Soil and Water Conservation District

We have audited the financial statements of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2006, and have issued our report thereon dated October 31, 2007.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains four categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, and claims and disbursements. Our study included all of the listed categories.

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

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

Dana F. Cole & Company, LLP

DANA F. COLE & COMPANY, LLP
Montevideo, Minnesota

October 31, 2007