

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 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 2011 YEAR-END FINANCIAL STATEMENTS.

FINANCIAL HIGHLIGHTS

- The District's net assets on the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance decreased due to the expenditures exceeding the revenues.
- The District's Assets exceeded the Liabilities on the Statement of Net Assets and Governmental Fund Balance Sheet.
- The Statement of Net Assets and Governmental Fund Balance Sheet reflect Designated Fund Balances for specific designated items deemed by the District.

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 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 governments they are generally able to combine the government-wide and fund financial statements into single presentations. 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 1. 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.

Reporting the SWCD's General Fund

Fund Financial Statements

The SWCD presents only a general fund, which is a governmental fund. All of the SWCD'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 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 the 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 slightly, decreasing from \$520,839 in 2010 to \$500,770 in 2011. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the SWCD's governmental.

Table 1
Net Assets

	Governmental Activities 2011
Current and other assets	\$500,770
Capital assets	50,894
Total Assets	\$551,664
Long-term debt outstanding	\$ 8,133
Other liabilities	24,959
Deferred Revenue	
Total liabilities	\$ 33,092
Net assets	
Invested in capital assets, net of debt	50,894
Unrestricted	\$ 467,678
Total Net Assets	\$ 518,572

Net assets of the SWCD governmental activities **decreased in 2011 to \$518,572 compared to \$575,843** in 2010. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a surplus of \$486,153 at the end of 2010 to a surplus of \$467, 678 at the end of 2011.

TABLE 2
Changes in Net Assets

	Governmental Activities 2011
Revenues	
Program revenues:	
Charges for service	\$ 56,399
County Allocation	78,660
State grants	57,443
General revenues	
Interest	5,963
Other General Revenue	9,379
Total Revenues	\$ 207,844
Program expenses	
Personal Services	\$ 174,156
Conservation Charges for Services	22,552
Capital Outlay	3,912
Total expenses	\$ 200,620
Excess (deficiency) before special items and transfers	
Special items	
Transfers	
Decreased net assets	\$ (17,114)

The SWCD's total revenues **increased** from \$180,271 in 2010 to \$207,844 in 2011. The total cost of all programs and services and personnel expenses **increased** from \$188,492 to \$224,958. Our analysis below separately considers the operations of governmental activities.

Governmental Activities

In 2011, Revenues for the SWCD governmental activities **increased** from \$180,271 (2010) to \$207,844. And, the total expenses increased from \$188,492 in 2010 to \$224,958 in 2011. There was a slight decrease in net assets for governmental activities from \$492,925 to \$475,811. The SWCD looked at this as a balance of their commitment to hire additional staff for outreach and marketing. So, while our personnel expenses increased, the SWCD participated in a few additional activities that were allowed with the additional staff.

The cost of all governmental activities **increased from** \$188,492 in 2010 to \$224,958 in 2011. However, the amount funded for these activities through SWCD funding was only \$216,385 because of the costs received by those who directly benefited from the programs (\$8,573), ie State Cost-share contracts.

Overall, in 2011 the SWCD's governmental program revenues **increased from \$180,271 in 2010 to \$207,844 in 2011.**

THE SWCD's FUNDS

As the SWCD completed the year, it reported a combined fund balance of \$475,811 which is slightly below the 2010's combined fund balance of \$492,925. Also included in this year's total change in fund balance, is \$(17,114) in the SWCD's General Fund. In 2011, the reduction of the State's WCA funding had a negative impact on reimbursable funding from Chippewa County. The lack of funding resulted in nearly a \$12,000 loss to the SWCD.

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) exceeded the final budget amounts by \$4,842. The most significant negative variance \$(4,177) occurred in the SWCD's **other services and charges**, due to more expenses directed to outreach than anticipated.

The resources available for appropriations (revenues) fell short of the expected revenues by (\$21,956) due to a reduction in the State's WCA allocation to the County.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the SWCD had initially invested \$130,424 in a broad range of capital assets, including a tree building, vehicles, tractor, tiller, mower, 4-whlr, copier and computers.

Table 3
Capital Assets at Year-end

	<u>Cost</u> <u>2011</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Cost</u> <u>2011</u>
Buildings and improvements	\$ 18,210	6,070	11,533
Equipment	112,214	65,438	39,361

The SWCD's fiscal-year 2012 capital budget calls for it to spend another \$1,500 for capital outlay.

Long-Term Liabilities

As noted earlier, the SWCD did not previously purchase commercial insurance for property and casualty claims and has no claims and judgments at year-end or in 2011. Other obligations include accrued vacation pay and sick leave. More detailed information about the SWCD's long-term liabilities is presented in Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected officials considered many factors when setting the fiscal-year **20121** budget and fees that will be charged for the SWCD's business-type activities. The SWCD doesn't anticipate any sizable increase/decrease in either their tree sales or fabric sales. The SWCD will continue to fund contracts with the State cost-share program funding. We do anticipate our County's allocation to meet our initial budget request. However, at this time our State allocation appears may be funded perhaps at a slight reduction due to the State's own budget shortfall. And, in late December of 2010, the SWCD hired an additional SWCD technician. Those personnel expenses will continue to be reflected in their 2012 budget.

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.