

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

For the Year Ended December 31, 2007



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

**ORGANIZATION
2007**

<u>Office</u>	<u>Name</u>
Board Members	
Chair	David Trebelhorn
Treasurer	Tom Pfarr
Member	Gary Schafer
Secretary	Gerald Smith
Vice Chair	Glen Uecker
Staff	
District Manager	Loren Evenson
Water Planning and Watershed Coordinator	Ron Otto
District Technician	Kevin Pioske

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Sibley Soil and Water Conservation District

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Sibley Soil and Water Conservation District as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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. 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 Sibley Soil and Water Conservation District as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 3, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

The Sibley Soil and Water Conservation District's Management's Discussion and Analysis (MD&A) provides an overview of the District's financial activities for the fiscal year ended December 31, 2007. Since the information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements.

Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include summarized comparative financial information in the MD&A. Only one year of data is provided here because this is the first year the District has reported in accordance with GASB Statement 34. Subsequent years will provide comparative information.

KEY FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2007

- Net assets increased \$36,173 from fiscal year 2006.
- Revenue for fiscal year 2007 exceeded the final budgeted expectation by \$54,482.
- Fund balance increased by \$37,523 from fiscal year 2006.

USING THIS ANNUAL REPORT

This annual report consists of two parts: the MD&A and the basic financial statements. 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 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 single presentations. The Sibley Soil and Water Conservation 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 the accrual basis of accounting, which is similar to the accounting used by most of the 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, which are reported in the right-most column on Exhibits 1 and 2, report the District's net assets and changes in them. You can think of the District's net assets--the difference between assets and liabilities--as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in Sibley County's property tax base and changes in grant funding, to assess the overall health of the District.

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

Fund Financial Statements

The fund financial statements, which are presented in the left column of Exhibits 1 and 2, 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 the fund and the balances left at year-end that are available for spending. The General 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 governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

The District's total net assets were \$133,035 at December 31, 2007.

Summarized data from the Statement of Net Assets is as follows:

Statement of Net Assets

Current assets	\$	241,440
Long-term liabilities	\$	29,847
Other liabilities		78,558
Total Liabilities	\$	108,405
Unrestricted Net Assets	\$	133,035

Total assets of the Sibley Soil and Water Conservation District increased from \$188,573 to \$241,440 between December 31, 2006, and December 31, 2007. Unrestricted net assets increased by 37 percent (\$96,862--\$133,035). Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. These changes do not pose any significant changes to the operation of the District. Year-to-year variances in the sale of nursery stock and operating expenses account for these differences.

Summarized data from the Statement of Activities is as follows:

Statement of Activities

Revenues		
Intergovernmental	\$	169,576
Charges for services		17,616
Interest on investments		8,039
Miscellaneous		62,499
Total Revenues	\$	257,730
Expenditures		
Conservation of natural resources		221,557
Change in net assets	\$	36,173
Net Assets - Beginning of the Year		96,862
Net Assets - End of the Year	\$	133,035

The District's government-wide revenues increased by 3.8 percent (\$248,254--\$257,730). The cost of all programs and services saw moderate change (\$219,326--\$221,557). Changes in revenues result primarily from increases in pass-through funds, an increase in tree sales, and variable funding received from the County through a Clean Water Partnership Program. Changes in expenditures were due to increased salary and project expenses.

GENERAL FUND ACTIVITIES

The increase in District operations expenditures was minimal and reflects an adherence to budgets set forth for the year. The District operations expenditures (\$167,603) were 12 percent higher than the budget (\$149,436).

General Fund Budgetary Highlights

The initial 2007 budget adopted by the Supervisors of the Sibley Soil and Water Conservation District was not amended or adjusted over the course of the year, there being adequate resources provided for operations, and expenses were reduced where necessary.

Revenue Budget

Intergovernmental revenues include county allocations, watershed wages, and state grants. Intergovernmental revenues were less than budgeted by \$10,984. This budgeted difference was because the District overbudgeted the amount of state grants; however, the actual amount received is more in line with the 2006 budget.

Miscellaneous revenue is income from projects that are beyond the normal workload of the District. Miscellaneous revenue exceeded the budgeted amount by \$57,499. This revenue was in the form of pass-through revenue from the Minnesota Pollution Control Agency to fund activities of the Rush River Implementation Project and watershed projects.

Charges for services include deposits for tree orders, tree orders paid in full, and the sale of field marking flags. Budgeting for the projected income from the sale of trees is very challenging due to program availability, weather, and health of the agricultural economy. Income from the tree program was \$3,528 greater than budget for 2007.

Expenditure Budget

Total District operations include personal services, other services and charges, supplies and capital outlay. Total operations expenditures were greater than budgeted by \$18,167. Personal services accounted for most of these expenditures. Office supplies were under budget (\$2,422), as office needs were fairly adequate for the year. Rising fuel costs and lease rates for office space will continue to be a concern for the unforeseeable future. There were no capital outlay expenses in 2007, and none were budgeted for.

District project expenditures are for plant materials, wages and withholding taxes for seasonal labor, expenditures for the development and distribution of District-sponsored newsletters; sales tax payable, and other expenditures. Total District project expenditures were greater than budgeted by \$13,960. Again, this increase is a reflection of pass-through funds for watershed implementation programs and is reimbursed by the County. The sale of plant materials requires keeping a tight inventory. The District has developed and utilizes a spreadsheet to keep a close

count of all materials ordered. Supplying nurseries have been flexible, allowing the District to increase its inventories as needed to fulfill customer demand, pending availability of individual varieties. Costs for newsletter development have risen due to watershed implementation project promotion. Quarterly newsletters will be distributed for the next several years and the budget may need to be adjusted to account for this change in normal District outreach.

State project expenditures include pass-through grants for cost-sharing conservation practices. State project expenditures were more than the amount budgeted by \$15,556. The \$15,556 paid was for state cost-share projects, associated slippage, and unspent funds. A backlog of projects still remains due to the availability of contractors who have been backlogged themselves. The State project budget for 2008 will require further adjustments to compensate for these delayed projects. There remain several state cost-share projects that have not been implemented. Project expenditures and technical and administrative funds will not appear as expenditures until these projects have been completed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had \$28,144 invested in capital assets, including vehicles, tree planting equipment, and office equipment. In 2007, \$2,200 of fully depreciated equipment was disposed of. There are no immediate plans to purchase or upgrade equipment. All of these assets are fully depreciated.

The District does not own any real property.

Long-Term Liabilities

Long-term obligations include accrued annual leave and sick leave. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements. A breakdown of these liabilities is as follows:

	Annual Leave	Sick Leave	Hourly Wage	Totals
District Manager	240.0 hours	600.0 hours	\$ 18.75	\$ 15,750
District Technician	240.0 hours	600.0 hours	15.37	12,911
Water Manager	28.5 hours	72.0 hours	11.80	<u>1,186</u>
Total				<u>\$ 29,847</u>

The change in long-term liabilities was an increase of \$1,438 for 2007 (\$28,409--\$29,847).

FUTURE OPERATIONS

The Sibley Soil and Water Conservation District relies on county and state appropriations to carry forward its operations. Unanticipated funding cuts due to a wavering economic climate, program changes, unallotments, and/or natural catastrophes are always a possibility. The District is aware of these possibilities and has long been conservative with its spending to offset these circumstances.

The county appropriations have been consistent for the past several years. The County Board of Commissioners realizes the importance of the District and encourages cooperation with County departments. The District has excellent working relations with the Sibley County Public Works, Environmental Services, Planning and Zoning, Ag and Ditch, and Auditor Departments. Local projects and concerns are addressed more efficiently when local government entities work together.

State appropriations have been variable over the last several years, with unallotments to Water Management and Wetland Conservation Act funding. State cost-share and general services grants have remained unchanged in recent years. Consolidation and restructuring of staff duties have become necessary to offset these funding changes. The District is fortunate in that it has undertaken watershed studies and implementation projects. Clean Water Partnership grants have allowed the District to keep a full-time employee who performs both the Water Management and Watershed Coordinator functions of the District. Without the watershed projects, the District would find it difficult to hire part-time staff to maintain the Water Management functions.

Federal appropriations have been nonexistent for many years. With the advent of the Environmental Quality Incentives Program (EQIP), an opportunity exists for the District to enter into a Technical Service Provider (TSP) agreement with the U. S. Department of Agriculture. TSPs may be requested by the producer to assist them in designing terraces, waterways, animal waste management systems, fertilizer and nutrient planning, etc. The District has entered into such an agreement to design terraces and water and sediment control basins and to work on conservation planning for Conservation Reserve Program contracts. Although this funding is awarded by individual jobs performed, it does offer the District additional revenues.

Since 1972, the District has continued to offer plant materials for the establishment of shelterbelts and wildlife plantings, which has remained an important function of most Soil and Water Conservation Districts in Minnesota. Revenues from this program have remained consistent for the last several years and help to promote other conservation programs.

Operations expenditures are expected to remain consistent in 2008. Variations that present themselves are usually due to the number of state cost-share projects that are completed in any given year. It will be noticed in the statement of 2007 "Deferred Revenue Breakdown" that the District has a large number of pending projects which have been encumbered. It is anticipated that many of these projects will reach completion in 2008.

CONTACTING THE DISTRICT'S FINANCAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District at 111 - 6th Street, P. O. Box 161, Gaylord, Minnesota 55334. The telephone number is 507-237-5435.

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BASIC FINANCIAL STATEMENTS

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES
STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and investments	\$ 240,772	\$ -	\$ 240,772
Accounts receivable	668	-	668
Total Assets	\$ 241,440	\$ -	\$ 241,440
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 60	\$ -	\$ 60
Salaries payable	1,733	-	1,733
Due to other governments	4,223	-	4,223
Deferred revenue - unavailable	535	(535)	-
Deferred revenue - unearned	66,480	-	66,480
Performance bond payable	6,062	-	6,062
Noncurrent liabilities			
Due after one year	-	29,847	29,847
Total Liabilities	\$ 79,093	\$ 29,312	\$ 108,405
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	162,347	\$ (162,347)	
Total Liabilities and Fund Balance	\$ 241,440		
Net Assets			
Unrestricted		\$ 133,035	\$ 133,035
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 162,347
Compensated absences are reported in the Statement of Net Assets but not in the Fund Balance Sheet.			(29,847)
Deferred revenue - unavailable becomes revenue under full accrual.			535
Net Assets - Governmental Activities			\$ 133,035

The notes to the financial statements are an integral part of this statement.

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES
STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 169,576	\$ -	\$ 169,576
Charges for services	17,528	88	17,616
Interest on investments	8,039	-	8,039
Miscellaneous	62,499	-	62,499
Total Revenues	\$ 257,642	\$ 88	\$ 257,730
Expenditures/Expenses			
Conservation of natural resources			
District operations			
Personal services	\$ 153,770	\$ 1,438	\$ 155,208
Other services and charges	12,755	-	12,755
Supplies	1,078	-	1,078
Total district operations	\$ 167,603	\$ 1,438	\$ 169,041
Project expenditures			
State	\$ 15,556	\$ -	\$ 15,556
District	36,960	-	36,960
Total project expenditures	\$ 52,516	\$ -	\$ 52,516
Total Expenditures/Expenses	\$ 220,119	\$ 1,438	\$ 221,557
Net Change in Fund Balance/Net Assets	\$ 37,523	\$ (1,350)	\$ 36,173
Fund Balance/Net Assets - January 1	124,824	(27,962)	96,862
Fund Balance/Net Assets - December 31	\$ 162,347	\$ (29,312)	\$ 133,035
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ 37,523
Deferred revenue - unavailable becomes revenue under full accrual.			88
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			(1,438)
Change in Net Assets of Governmental Activities			\$ 36,173

The notes to the financial statements are an integral part of this statement.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State grants	\$ 82,298	\$ 82,298	\$ 40,364	\$ (41,934)
County	98,262	98,262	129,212	30,950
Total intergovernmental	\$ 180,560	\$ 180,560	\$ 169,576	\$ (10,984)
Charges for services	14,000	14,000	17,528	3,528
Interest on investments	3,600	3,600	8,039	4,439
Miscellaneous	5,000	5,000	62,499	57,499
Total Revenues	\$ 203,160	\$ 203,160	\$ 257,642	\$ 54,482
Expenditures				
Conservation of natural resources				
District operations				
Personal services	\$ 133,828	\$ 133,828	\$ 153,770	\$ (19,942)
Other services and charges	12,108	12,108	12,755	(647)
Supplies	3,500	3,500	1,078	2,422
Total district operations	\$ 149,436	\$ 149,436	\$ 167,603	\$ (18,167)
Project expenditures				
State	\$ -	\$ -	\$ 15,556	\$ (15,556)
District	23,000	23,000	36,960	(13,960)
Total project expenditures	\$ 23,000	\$ 23,000	\$ 52,516	\$ (29,516)
Total Expenditures	\$ 172,436	\$ 172,436	\$ 220,119	\$ (47,683)
Net Change in Fund Balance	\$ 30,724	\$ 30,724	\$ 37,523	\$ 6,799
Fund Balance - January 1	124,824	124,824	124,824	-
Fund Balance - December 31	\$ 155,548	\$ 155,548	\$ 162,347	\$ 6,799

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Summary of Significant Accounting Policies

The financial reporting policies of the Sibley Soil and Water Conservation District (the District) conform to accounting principles generally accepted in the United States of America.

A. Financial Reporting Entity

The District was 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 Sibley County 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 District, in cooperation with the U.S. Department of Agriculture's Natural 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 Sibley 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 control over the operations of the District.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Accounting principles generally accepted in the United States of America 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. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on the District as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statement columns 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 as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues as available if collected within 60 days of the end of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) interest and principal on long-term debt are reported when paid; and (2) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources.

Revenue resources susceptible to accrual include intergovernmental revenues, charges, and interest.

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

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

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.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

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.

The District reports the following governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Assets

Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Capital assets, which include vehicles, furniture, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Useful lives for vehicles, furniture, and equipment are estimated at five years.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Liabilities

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 19 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 240 hours, and there is no limit on the accumulation of sick leave. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 600 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 600 hours of accrued sick leave.

3. Fund Equity

Unreserved, undesignated fund balance indicates the portion of fund equity available for budgeting and spending in future periods.

4. Net Assets

In the government-wide financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets;
- restricted net assets - consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments; and
- unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budgetary 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 accounting principles generally accepted in the United States of America. Amendments to the original budget require Board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting. During 2007, actual expenditures of \$220,119 exceeded budgeted expenditures of \$172,436 by \$47,683. These expenditures in excess of budget were funded by an excess of revenues over budget and available fund balance.

3. Detailed Notes

A. Deposits and Investments

Custodial risk for deposits and investments is the risk that, in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minn. Stat. § 118A.02, and as authorized by the Board of Supervisors, the District maintains deposits at those depository banks which are members of the Federal Reserve System. The District has not adopted a policy on custodial credit risk for deposits.

Minnesota statutes require that all District deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District or in a financial institution other than that furnishing the collateral.

At year-end, the District's carrying amount of deposits was \$240,772, and the bank balance was \$240,847. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$140,847 was not collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

3. Detailed Notes (Continued)

B. Capital Assets

Capital asset activity for the District for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities				
Capital assets, depreciated				
Machinery, vehicles, and equipment	\$ 30,344	\$ -	\$ 2,200	\$ 28,144
Less: accumulated depreciation for				
Machinery, vehicles, and equipment	30,344	-	2,200	28,144
Governmental Activities				
Capital Assets, Net	\$ -	\$ -	\$ -	\$ -

There was no depreciation expense in 2007.

C. Deferred Revenue

The unearned deferred revenue represents advances from the Minnesota Board of Water and Soil Resources and Sibley County for various programs. Revenues will be recognized when the related program expenditures are recognized. Deferred revenue as of December 31, 2007, consists of:

	Unearned
Regular cost-share grants	\$ 48,009
Service grants	4,259
County water plan funds	14,212
Total	\$ 66,480

The unavailable deferred revenue of \$535 represents receivables that were not received within 60 days of year-end.

D. Operating Leases

The District leases office space on a year-to-year basis. Total lease payments during 2007 amounted to \$5,772.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

3. Detailed Notes (Continued)

E. Long-Term Liabilities - Compensated Absences

Changes in long-term debt for the year ended December 31, 2007, are:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental activities Compensated absences payable	\$ 28,409	\$ 1,438	\$ -	\$ 29,847	\$ -

4. Risk Management

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

MCIT 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.

5. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund 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.

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

5. Pension Plans

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 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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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 yet receiving them are bound by the provisions in effect at the time they last terminated public service.

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

**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

5. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent.

The District is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50

The District's contributions for the year ending December 31, 2007, for the Public Employees Retirement Fund were \$11,181.

This contribution amount is equal to the contractually required contributions for the year as set by state statute.

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**SIBLEY SOIL AND WATER CONSERVATION DISTRICT
GAYLORD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER, 31, 2007**

I. INTERNAL CONTROL

07-1 Segregation of Duties

Due to the limited personnel employed at the Sibley Soil and Water Conservation District (the District), segregation of the accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the District; however, the District's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that the District's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

07-2 Reconciliation of Bank Statement

The District does not reconcile its bank accounts with its general ledger. This is a basic accounting procedure that should be done monthly to ensure that the cash and investments are being accounted for properly. While preparing the District's financial statements for the year ending December 31, 2007, the auditors had to make an adjustment to cash and investments because the bank statement did not reconcile to the general ledger. Upon further investigation, the auditors found that cash and investments did not reconcile at the end of 2006.

We recommend that the bank statement be reconciled monthly to the District's general ledger.

07-3 Audit Adjustments

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 misstatement of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During the audit, we adjusted expenditures by \$5,058 because the monthly disbursements were not transferred correctly to the yearly accumulation of disbursements.

We recommend that the monthly transactions be reconciled to the yearly accumulation of transactions so that the yearly report will reflect the totality of the District's financial activity.

07-4 Preparation of Financial Statements

The Sibley Soil and Water Conservation District is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements is the responsibility of the District's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements.

The District's external auditors are not a part of the District's internal control. However, as is the case with many small and medium-sized entities, the District had to rely on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. The District's financial report, prior to receiving assistance from the external auditors, had many inconsistencies and was not prepared in accordance with GAAP.

We recommend that the District determine a means of preparing a financial report in accordance with GAAP.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

07-5 Improper Expenditures

Several employees and Board members attended a convention in February 2007 as representatives of the District. While at the convention, personal items were purchased by the individuals and reimbursed by the District. In another instance, a purchase of liquor was reimbursed by the District.

Minnesota statutes provide no authority for the purchase of personal items or liquor with District funds.

We recommend the District refrain from reimbursing employees and Board members for the purchase of personal items or liquor.

07-6

Collateral Pledged to Secure Deposits

Federal deposit insurance coverage (FDIC) and collateral pledged at December 31, 2007, were insufficient for the amount the District had on deposit. The District had made no arrangements for pledged collateral as of December 31, 2007.

Minn. Stat. § 118A.03, subd. 3 (2007), provided that, to the extent funds deposited are in excess of available federal deposit insurance, “The total amount of the collateral computed at its market value 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.” Beginning August 1, 2008, accrued interest is no longer used in calculating the amount of collateral required by law. *See* 2008 Minn. Laws, ch. 154, art. 10, § 1.

As of October 2008, FDIC deposit insurance increased to \$250,000, so the District currently appears to be in compliance with Minnesota statutes. The value of the District’s deposits is, however, close to the \$250,000 insurance amount.

We recommend that the District monitor the deposits in designated depositories to ensure that the District’s funds are fully protected as required by Minn. Stat. § 118A.03 at all times.

07-7

Board Meetings

After scheduled Board meetings during 2007, members of the Board regularly met at a local restaurant. The bill at the restaurant was paid from District funds.

Two problems arise associated with the Board meeting at a restaurant after scheduled Board meetings and paying the bill with District funds. First, there appears to be no authority for using District funds to pay the personal meal expenses of Board members. Second, meeting at the restaurant may be a violation of the Open Meeting Law, as described in Minn. Stat. ch. 13D, if District business is discussed.

We recommend that the District not pay the personal meal expenses of its Board members. We also recommend that the Board consult with its attorney to determine what the Open Meeting Law allows and does not allow.

B. MANAGEMENT PRACTICES

07-8 Meal Reimbursements

At various times, the District reimburses its employees for meals. The cost of the meal is reimbursed by adding the total cost of the meal to the employee's net payroll check.

According to Internal Revenue Service regulations, reimbursement for meals not involving overnight travel is taxable income. Therefore, when the employee is reimbursed for meals not involving overnight travel, federal, state, FICA, and Medicare taxes should be withheld from the employee's pay.

We recommend that the District withhold taxes from the reimbursement for meals that do not involve overnight travel.

07-9 Expenditures for Religious Activity

At the March 13, 2007, Board meeting, the Board approved the purchase of bulletin inserts with litanies for "Soil Stewardship Sunday." The intent was to distribute the litanies to various churches in Sibley County.

The litanies were purchased from the National Association of Conservation Districts. According to the Minnesota Association of Soil and Water Conservation Districts, other soil and water conservation districts have also been purchasing these litanies.

As a result of provisions in our state and federal Constitutions, government entities should not expend funds for religious or spiritual activities. We recommend that the District obtain written legal advice prior to any future expenditure of public funds for religious or spiritual purposes.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Supervisors
Sibley Soil and Water Conservation District

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of Sibley Soil and Water Conservation District as of and for the year ended December 31, 2007, 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 opinions 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.

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 and other deficiencies that we consider to be material weaknesses.

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 the Sibley 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 the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies listed in the Schedule of Findings and Recommendations as items 07-1 through 07-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or 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 the Sibley Soil and Water Conservation District's internal control over financial reporting. We believe that the deficiencies identified as items 07-2, 07-3, and 07-4 in the Schedule of Findings and Recommendations constitute material weaknesses.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of Sibley Soil and Water Conservation District as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements. 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding, because the Sibley Soil and Water Conservation District did not have any contracts, and public indebtedness, because the District did not have any debt.

The results of our tests indicate that, for the items tested, Sibley Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 07-5 through 07-7.

Also included in the Schedule of Findings and Recommendations are management practices comments. We believe these recommendations to be of benefit to Sibley Soil and Water Conservation District and they are reported for that purpose.

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the Sibley Soil and Water Conservation District and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 3, 2009