

**WATONWAN SOIL AND WATER CONSERVATION DISTRICT
SAINT JAMES, MINNESOTA**

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Watonwan Soil and Water Conservation District’s discussion and analysis provides an overview of the District’s financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current years activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District’s finances. For governmental activities, financial statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District’s operations in more detail than the government-wide statements by providing information about the District’s most significant funds. Since Districts are single-purpose, special purpose government units, the District combines the government-wide and fund financial statements into single presentations.

The Statement of Net Assets and the Statement of Activities

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

These two statements report the District’s net assets and changes in them. You can think of the District’s net assets — the difference between assets and liabilities—as one way to measure the District’s financial health, or financial position. Over time, increases or decreases in the District’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental 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.

Reporting the District's General Fund

Fund Financial Statements

Our analysis of the District's general fund is part of this report. The fund financial statements provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between 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 DISTRICT AS A WHOLE

The District's combined net assets from the previous year were decreased. Our analysis focuses on the net assets and changes in net assets of the District's governmental activities.

Net Assets

	Governmental Activities	
	2007	2008
Current Assets	\$165,777	\$138,86
Capital Assets, net of depreciation	3,152	4,064
Liabilities, deferred revenue	102,683	110,218
Long term liabilities	9,443	8,901
Total Net Assets	56,803	23,807

Net assets of the District governmental activities decreased, by \$32,996. 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 \$53,651 at December 31, 2007 to \$19,743 at the end of this year.

The District's total revenues decreased by \$14,646 or 7.97%. The total cost of programs and services increased by \$20,040, or 9.84%.

THE DISTRICT'S FUNDS

As the District completed the year, its general fund reported a combined fund balance of \$28,644 which is below last year's total of \$62,855. Included in this year's total change in fund balance, is an decrease of \$34,449 in the District's General Fund.

General Fund Budgetary Highlights

The most significant variance in the budget occurred because the state grants were less than expected, county water plan funding was less than expected, technical assistance from USDA was less than budgeted, USDA no longer supported our computer system, and audit of prior cost share contracts required repayment of cost share funds. Cost share and grant programs income is recorded as income in the year the corresponding expenses incurred. Since these programs can take several years to complete the reporting, income varies from year to year. It is difficult to project or budget in what year the work or expense will be incurred and revenue recognized.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the District had \$4,064 invested in capital assets, including office and field equipment. This amount represents a net increase of \$912, over last year.

Long Term Liabilities

At the end of 2008, the District had \$8,901 in accrued compensated absences. This compares to \$9,443 in 2007.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers 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 financial information, contact the **Watowan Soil and Water Conservation District at 823 1st Avenue South, Suite 2, Saint James, Minnesota 56081.**

WATONWAN SOIL AND WATER CONSERVATION DISTRICT
ST. JAMES, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Adjustments See Notes	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$138,296		\$138,296
Accounts receivable	566		566
Due from other governments	0		0
Prepaid items	0		0
Capital Assets:			
Equipment (net of accumulated depreciation)		4,064	4,064
Total Assets	\$138,862	\$4,064	\$142,926
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$3,424		\$3,424
Salaries payable	1,221		1,221
Deferred revenue	105,573		105,573
Long-term liabilities:			
Due within one year		5,263	5,263
Due after one year		3,638	3,638
Total Liabilities	\$110,218	\$8,901	\$119,119
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Reserved for prepaid items	\$0	\$0	\$0
Unreserved			
Designated for future projects	0	0	0
Undesignated	28,644	(28,644)	0
Total Fund Balance	\$28,644	(\$28,644)	\$0
Net Assets			
Invested in capital assets		\$4,064	\$4,064
Unrestricted		19,743	19,743
Total Net Assets		\$23,807	\$23,807

Notes are an integral part of the basic financial statements.

GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$135,849	\$0	\$135,849
Charges for services	24,600	0	24,600
Investment earnings	3,346	0	3,346
Miscellaneous	5,291	0	5,291
Total Revenues	<u>\$169,086</u>	<u>\$0</u>	<u>\$169,086</u>
Expenditures/Expenses			
Conservation			
Current	\$200,094	\$1,988	\$202,082
Capital outlay	3,441	(3,441)	0
Total Expenditures/Expenses	<u>\$203,535</u>	<u>(\$1,453)</u>	<u>\$202,082</u>
Excess of Revenues Over (Under)			
Expenditures/Expenses	(\$34,449)	\$1,453	(\$32,996)
Fund Balance/Net Assets January 1	<u>63,093</u>	<u>(6,290)</u>	<u>56,803</u>
Fund Balance/Net Assets December 31	<u>\$28,644</u>	<u>(\$4,837)</u>	<u>\$23,807</u>

Notes are an integral part of the basic financial statements.

WATONWAN SOIL AND WATER CONSERVATION DISTRICT
ST. JAMES, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	\$81,575	\$81,575	\$75,824	(\$5,751)
Local	2,651	2,651	1,262	(1,389)
Federal	1,520	1,520	0	(1,520)
State grant	106,552	106,552	58,763	(47,789)
Total intergovernmental	<u>\$192,298</u>	<u>\$192,298</u>	<u>\$135,849</u>	<u>(\$56,449)</u>
Charges for services	<u>\$33,620</u>	33,620	<u>\$24,600</u>	<u>(\$9,020)</u>
Miscellaneous				
Interest earnings	\$3,842	3,842	\$3,345	(\$497)
Other	2,000	2,000	5,291	3,291
Total miscellaneous	<u>\$5,842</u>	<u>\$5,842</u>	<u>\$8,636</u>	<u>\$2,794</u>
Total Revenues	<u>\$231,760</u>	<u>\$231,760</u>	<u>\$169,085</u>	<u>(\$62,675)</u>
Expenditures				
District operations				
Personnel services	\$123,291	123,291	\$125,602	(\$2,311)
Other services and charges	25,194	25,194	26,357	(1,163)
Supplies	1,500	1,500	1,528	(28)
Capital outlay	0	0	3,441	(3,441)
Total district operations	<u>\$149,985</u>	<u>\$149,985</u>	<u>\$156,928</u>	<u>(\$6,943)</u>
Project expenditures				
District	\$23,775	23,775	\$21,347	\$2,428
State	58,000	58,000	25,260	32,740
Total project expenditures	<u>\$81,775</u>	<u>\$81,775</u>	<u>\$46,606</u>	<u>\$35,169</u>
Total Expenditures	<u>\$231,760</u>	<u>\$231,760</u>	<u>\$203,534</u>	<u>\$28,226</u>
Excess of Revenues Over (Under)				
Expenditures	\$0	\$0	(\$34,449)	(\$34,449)
Fund Balance - January 1	<u>\$63,093</u>	<u>\$63,093</u>	<u>\$63,093</u>	<u>\$0</u>
Fund Balance - December 31	<u>\$63,093</u>	<u>\$63,093</u>	<u>\$28,644</u>	<u>(\$34,449)</u>

Notes are an integral part of the basic financial statements.

**BREAKDOWN OF COUNTY REVENUE
2008**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$ <u>53,500.00</u>
WATER PLAN MONEY	\$ <u>5,984</u>
WETLAND MONEY	\$ <u>12,840</u>
FEEDLOT MONEY	\$ _____
ABANDONED WELL	\$ _____
DNR SHORELAND	\$ _____
OTHER (specify) CWP	\$ <u>3,500</u>
TOTAL	\$ <u><u>75,824</u></u>

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

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

Pickup

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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

B. Basis of Presentation - Fund Accounting

The accounts of the Watonwan Soil and Water Conservation District are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

B. Basis of Presentation - Fund Accounting (Continued)

1. Governmental Funds: General Fund

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

2. General Fixed Assets Account Group

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

3. General Long-Term Debt Account Group

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

C. Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

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

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

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

D. Budget Information

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

E. Assets, Liabilities, and Equity Accounts

1. Assets

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

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

2. Liabilities

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

3. Equity

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

Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriable for spending.

Unreserved, designated account indicates the portion of fund equity that the District has set aside for planned future expenditures.

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

F. Explanation of Adjustments Column in Statements

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

2. Long-Term liabilities: In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the district has as of the report date. See Note 1-G below.

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

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 8 hours per month. Sick leave accrual is 13 days per year. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is unlimited hours. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 200 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 200 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At December 31, 2008, the District's General Fund had a deficit fund balance of \$N/A. The deficit is expected to be eliminated by future revenue sources.

B. Excess of Expenditures Over Budget

During 2008, actual expenditures, \$ N/A , exceeded budgeted expenditures, \$ _____, by \$ _____.

C. Uncollateralized deposits

During 2008, the District's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2008, the District's deposits totaled \$ 100,108.32, of which \$ 0 were cash deposits and \$ 100,108.32 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2008, all the District's deposits were covered by insurance or collateralized with securities held by the District or its agent in the District's name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

Balance January 1, 2008	\$ <u>3,152.30</u>
Additions	\$ <u>3,441.15</u>
Deletions	\$ <u>0</u>
2008 depreciation	\$ <u>2,529.77</u>
Balance December 31, 2008	\$ <u>4,063.68</u>

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$ 48,323.61 as of December 31, 2008.

The District uses a threshold of \$ 500.00 for capitalizing assets purchased. Those physical assets under \$500.00 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Watonwan County for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$ 105,573.05

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2008 are:

Balance January 1, 2008	\$ <u>9,442</u>
Net Changes in Compensated Absences	\$ <u>(542)</u>
Balance December 31, 2008	\$ <u>8,900</u>

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

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

The District is covered for errors and omissions through Minnesota Counties Insurance Trust.

The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

VIII. PENSION PLAN

A. Plan Description

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2008. The District was required to contribute the following

percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.75% effective January 1, 2009. The District's employer share of contributions to PERA for the years ending December 31, 2008, 2007, and 2006 were \$ 6,177.56 , \$ 5,149.25 , and \$ 5,079.41 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2008 were \$ 6,629.65.