

**MURRAY SOIL AND WATER  
CONSERVATION DISTRICT**

**AUDITED FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2012**

# MURRAY SOIL AND WATER CONSERVATION DISTRICT

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# MURRAY SOIL AND WATER CONSERVATION DISTRICT

## SCHEDULE OF BOARD MEMBERS AND OFFICIALS

DECEMBER 31, 2012

		<u>Term Expires</u>
Arlan Moger	Chairman	12-31-16
Shannon Cohrs	Vice Chairman	12-31-16
Roger Steinman	Secretary	12-31-16
Paul Posthuma	Treasurer	12-31-14
Gary Brinks	Public Relations	12-31-14
Howard Konkol	District Manager	Indefinite
Shelly Lewis	District Secretary	Indefinite
Craig Christensen	District Technician	Indefinite
Brian Christiansen	District Conservationist	Indefinite

# **RICHARD W. HOLMBERG, LTD**

**Certified Public Accountant**

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## INDEPENDENT AUDITOR'S REPORT

Murray Soil & Water Conservation District  
2740 22<sup>nd</sup> Street Suite 3  
Slayton, MN 56172

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Murray Soil and Water Conservation District, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Minnesota Legal Compliance Audit Guide for Local Governments, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute 6.65. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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 major fund, the general fund, of the Murray Soil and Water Conservation District, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 thru 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2013, on our consideration of the Murray Soil and Water Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Richard W. Holmberg, Ltd.  
Certified Public Accountant

June 13, 2013

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

The financial reporting policies of the District conform to generally accepted accounting principles.

**A. Financial Reporting Entity**

In conformance with standards established by the Governmental Accounting Standards Board, the District includes all funds that are controlled by or dependent on the District Board. 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.

The District is not considered a part of Murray 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.

**B. Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all governmental activities, which normally are supported by taxes and intergovernmental revenues.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements included reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the district.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Fund Financial Statements**

The fund financial statements of the District include only one fund, the General Fund. The General Fund is accounted for by a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**C. Use of Estimates**

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

**D. Budget**

The District adopts an estimated revenue and expense budget for the General Fund. Comparisons of estimated revenues and budgeted expenses to actual are presented in the financial statements in accordance with generally accepted accounting principles.

**E. Cash Equivalents**

Murray Soil and Water Conservation District recognizes as cash currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposit, which do not have penalties or terms with them that effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Murray Soil and Water Conservation District recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

F. 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.

Due from Other Governments includes amounts for shared projects and grants.

Capital assets are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. Capital assets are still valued at historical or estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	5 – 10 years
Furniture and Fixtures	7 – 10 years
Buildings and Improvements	15 – 30 years
Vehicles	5 years

The Murray Soil and Water Conservation District has set the capitalization threshold at \$1,000.

2. Liabilities

Current liabilities include Accounts Payable, Accrued Payroll and Related Taxes, Sales Tax Payable, Deposits on Sale, Compensated Absences, and Deferred Revenue.

3. Equity

Government-wide Statements

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

- a. Invested in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position – Consists of net assets with constraints placed on the use either by (1) external groups such as grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net assets that do not meet the definition of “restricted” or “invested in capital assets.”



Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified in accordance with GASB 54. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The classifications are defined by GASB as the following:

- a. Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes but not limited to: prepaid expenses, accrued interest receivable, taxes receivable, inventory, fixed assets.
- b. Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- c. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes internally imposed by formal action of the Board of Directors. It requires formal action by the Board of Directors to remove or change the constraints placed on these resources. Including but not limited to: unemployment compensation and sinking fund.
- d. Assigned – Amounts in the assigned fund balance classification are intended to be used by the Board of Directors for specific purposes but do not meet the criteria to be classified as restricted or committed.
- e. Unassigned – Unassigned fund balance is the residual classification of the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

G. Revenues and Expenses

1. Revenues

a. Intergovernmental

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenue is recognized when the corresponding expenses are incurred. The District also receives an annual appropriation from the county, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period. Nonexchange transactions, in which the District receives value without directly giving value in return, includes grants and donations. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

b. Other Revenue

Investment income (reported as Miscellaneous Revenue) and revenue from the sale of trees (reported as Charges for Services) are recognized when earned, since they are measurable and available. Other revenues generally are recognized when they are received in cash because they usually are not measurable until then.

2. Expenses

a. Project Expenses

Project expenses represent costs that are funded from Federal, State, or district revenues. State project expenses consist of grants to participants for the Cost-Share Program other state-authorized projects. District project expenses are costs of materials and supplies in the sale of trees, tree planting, and other District projects.

b. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 384 hours and the limit on sick leave is 960 hours. Upon termination from the District by retirement, illness or death, employees are paid 100% of accrued vacation leave and 60% of accrued sick leave.

**II. DETAILED NOTES ON ALL FUNDS**

A. Capital Assets

Changes in Capital Assets:

	Buildings	Machinery & Equipment	Vehicles	Totals
Primary Government				
Balance, December 31, 2011	\$ 49,960	\$ 200,542	\$ -	\$ 250,502
Increases	9,253	3,676	-	12,929
Decreases	-	-	-	-
Balance, December 31, 2012	<u>59,213</u>	<u>204,218</u>	<u>-</u>	<u>263,431</u>
Accumulated Depreciation				
Balance, December 31, 2011	2,498	136,282	-	138,780
Increases	2,498	25,684	-	28,182
Decreases	-	-	-	-
Balance, December 31, 2012	<u>4,996</u>	<u>161,966</u>	<u>-</u>	<u>166,962</u>
Capital Assets, Net	<u>\$ 54,217</u>	<u>\$ 42,252</u>	<u>\$ -</u>	<u>\$ 96,469</u>

B. Deferred Revenue

Deferred revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Murray County for various programs. Revenues will be recognized when the related program expenses are recorded. Deferred revenue for the year ended December 31, 2012, consists of the following:

Regular/Special State Cost-Share	\$ 39,993		
Cost Share Flood Relief	20,625		
Total	<u>\$ 60,618</u>		

C. Compensated Absences

Changes in long-term debt for the period ended December 31, 2012, are:

Balance – January 1, 2012	\$35,124
Net change in compensated absences	<u>5,158</u>
Balance – December 31, 2012	<u>\$40,282</u>

There were no compensated absences payable to terminated employees as of December 31, 2012. Therefore, the balance at the end of the year is considered to be long-term in nature and no disclosure for a current portion is required.

C. Cash and Investments

Cash balances of District funds are invested to the extent available in various investments authorized by state statutes. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below:

Deposits

Minnesota Stat. 118A.02 and 118A.04 authorizes the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.02 requires that all District deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institutions banking day, not covered by insurance or bonds. All deposits are in category 1, low risk type investments.

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

As of December 31, 2012, the carrying amount of the District's deposits with financial institutions was \$247,229, and the bank balance was \$254,657. The bank balance is categorized as follows:

Insured by FDIC Insurance	\$ 254,657
Covered by Collateral	0
Uninsured/Uncollateralized	<u>0</u>
Total	<u>\$ 254,657</u>

Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follow: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Agency rated "A" or better; bankers' acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District does not have any investments policies that would further limit investment choices.

The District does not carry any investments on its financial statements as of December 31, 2012.

### **III. PENSION PLANS**

#### Plan Description

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

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

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 PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate 2.7 percent of average salary for Basis Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 514 St. Peter Street #200, St. Paul, Minnesota 55102 or by calling (651) 296-7460 or 1-800-652-9026.

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 plan equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary. The Murray Soil and Water Conservation District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members 7.25% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$8,949, \$8,785, and \$8,029, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

#### **IV. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, employee health, and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities, errors and omissions and workers' compensation are insured through Minnesota Counties Insurance Trust. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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 increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

#### **V. OPERATING LEASE**

The District leases office space for \$12,750, storage for \$1,500, and pays costs for office on a monthly basis. Southwest Prairie Joint Powers Organization subleases from the District for \$4,625.00. Under this agreement, the net costs for 2012 were \$9,625. The terms of the lease state that either party can terminate the agreement with written notice. The lease payment would be pro-rated based on the number of days the space was used. Therefore, no minimum lease requirement can be determined.

Basis of Presentation

The budgetary comparison schedule has been prepared on the modified accrual basis of accounting.

Budgetary Legal Requirements

Budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is used during the fiscal year as a tool to monitor actual revenues and expenditures.

The budget is adopted through the passage of a resolution by the board of trustees. Any revision that alters the total expenditures of any fund must be approved by the board of trustees. Appropriations lapse at the end of each year.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Murray Soil & Water Conservation District  
2740 22<sup>nd</sup> Street Suite 3  
Slayton, MN 56172

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the major fund, the general fund, of Murray Soil and Water Conservation District as of and for the year ended December 31, 2012, which collectively comprise the Murray Soil and Water Conservation District's basic financial statements and have issued our report thereon dated June 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, described in the accompanying schedule of findings and questioned costs, we identified certain deficiency in internal control over financial reporting, that we consider to be a significant deficiency in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This item is 2012-2.

*A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. This item is 2012-1.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richard W. Holmberg, Ltd.  
Certified Public Accountant

June 13, 2013



## **Prior Audit:**

The last year the entity was audited was 2010. The only finding was lack of segregation of duties. This finding is repeated as item 2012-1.

## **Current Audit:**

### **Internal Controls:**

#### **Significant Deficiency – Not a Material Weakness**

##### **2012-1. FINDING – Segregation of Duties**

Condition – Although we recognize that the District is not large enough to permit adequate segregation of duties in all respects, it is important that you are aware of this significant deficiency. This comment should not reflect negatively on the staff and is based solely on staff size.

Criteria – A good internal control contemplates adequate segregation of duties so that no one individual handles transactions from inception to completion. Internal controls should be in place to ensure that all financial transactions are reviewed and approved.

Effect – Without the proper segregation of duties, errors, fraud, or even theft in amounts material to the financial statements could occur and not be detected within a timely period.

Response/Corrective Plan of Action – Every effort will be made to ensure that all transactions are reviewed by other staff members or a member of the board. Training will be made available when deemed necessary.

#### **A Material Weakness**

##### **2012-2. FINDING – Financial Statement Disclosures**

Condition – Certain required financial statement accounts and related notes to the financial statements were not correctly reported in the annual report.

Criteria – Proper financial statement reporting requires that the responsible party has the proper training and knowledge to prepare the financial statements and related note disclosures in accordance with generally accepted accounting principles (GAAP) and government auditing standards board (GASB) requirements. Internal controls should be in place to ensure that those preparing financial statements and related note disclosures are properly trained.

Effect – Without proper training and knowledge, the financial statements and related note disclosures will not be in accordance with GAAP and GASB requirements.

Recommendation – A responsible person should be assigned to receive annual training on changes in disclosure requirements or an outside party with such knowledge should be contracted to review all financial statements and reports before their release.

Response/Corrective Plan of Action – The board realizes that it is not cost effective to staff a person with the required knowledge but will consider using an outside party to review statements and disclosures before release.

**Compliance:**

There were no findings regarding compliance.

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## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Murray Soil and Water Conservation District  
2740 22<sup>nd</sup> Street Suite 3  
Slayton, MN 56172

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Murray Soil and Water Conservation District, as of and for the year ended December 31, 2012 and have issued our report thereon dated June 13, 2013.

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 Minnesota Statutes §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* covers 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 public indebtedness which does not apply to the District.

The results of our tests indicate that for the items tested, the Murray Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the Murray Soil and Water Conservation District had not complied with such legal provisions.

This report is intended for the information of the District and management, and is not intended to be, and should not be, used by anyone other than the specified parties.

Richard W. Holmberg, Ltd.  
Certified Public Accountant

June 13, 2013

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**MURRAY SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

This section of the annual financial report of the Murray Soil and Water Conservation District presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the

District's financial activities for the fiscal year ended December, 31, 2012. 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 District's basic financial statements following this section.

## **FINANCIAL HIGHLIGHTS**

- The District's net position on the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance increased due to the revenues exceeding the expenditures
- The District's net position exceeded the liabilities on the Statement of Net Position and Governmental Fund Balance Sheet partially due to the addition of the Investment in Capital Assets in the statement.
- The Statement of Net Position and Governmental Fund Balance Sheet reflect classifications of Fund Balances for specific purposes deemed by the District.

## **USING THIS ANNUAL REPORT**

This annual report consists of four main topics: 1) Management's Discussion and Analysis (MD&A); 2) Financial Statements; 3) Reconciliation Statements; and 4) Notes to the Financial Statement. Since SWCDs are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Murray SWCD has elected to present in this format. These topics are further explained as follows:

- Management's Discussion and Analysis (MD&A-this section). This section relates mostly to the changes in the District's finances and explains the Governmental Wide-Financial Statements in detail. The MD&A is on pages 4-8;
- Financial Statements – pages 9 and 11:
  - The Governmental Wide-Financial Statement includes a series of financial statements that 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, these statements tell how these services were financed in the short term as well as what remains for future spending; and
  - The 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. Fund financial statements also report the District's operations.
- Reconciliation Statements – pages 10 and 12:
  - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position explains the differences in these two statements. The Statement of Net Position under the "Adjustments" column shows the differences in the two statements.
  - Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities explains the differences in the two statements. The Statement of Activities under the "Adjustments" column shows the differences in the two statements.
- Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, which can be found on pages 13-20.
- Required Supplementary Information, found on pages 21 and 22, includes the Budgetary Comparison Schedule and Notes to the Required Supplementary Information.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**Statement of Net Position and Statement of Activities**

Our analysis of the Murray Soil and Water Conservation District begins with the Statement of Net Position and the Statement of Activities of which can be found on pages 9 and 11 of this report. 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 Position 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 position and changes in them. You can think of the District's net position - the difference between assets and deferred outflows from future resources and liabilities and deferred inflows from future resources - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors to assess the overall health of the District.

In the Statement of Net Position 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 also finance activities.

**FUND FINANCIAL STATEMENTS**

The Murray Soil and Water Conservation 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 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 Activities and the Statement of Net Position) and governmental funds through the Reconciliation's of these statements, which are on pages 10 and 12 (after the Fund Financial Statements). The basic governmental financial reports can be found on pages 9 and 11 of this report.

**Notes to the Financial Statement**

The Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of significant accounting policies; 2) Stewardship, compliance and accountability; 3) Deposits and Investments; 4) Changes in General Fixed Assets; 5) Deferred Revenue; 6) Compensated Absences Payable; 7) Risk Management; 8) Pension Plan; and 9) Operating Leases. The Notes to the Financial Statement are on pages 13-20.

**Statement of Net Assets**

The Murray Soil and Water Conservation District's net position increased from one year ago. Our analysis below focuses on the net position (Table 1) of the District's governmental activities.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

Table 1	Statement of Net Position	Governmental Activities	
		December 31, 2012	December 31, 2011
	Current Assets	\$ 252,135	\$ 208,453
	Capital Assets Net of Depreciation	96,469	111,721
	Total Assets	<u>\$ 348,604</u>	<u>\$ 320,174</u>
	 Current and Other Liabilities	 100,900	 89,253
	Net Position:		
	Invested in Capital Assets	96,469	111,722
	Unrestricted	151,235	119,199
	Total Net Assets	<u>247,704</u>	<u>230,921</u>
	 Total Liabilities and Net Position	 <u>\$ 348,604</u>	 <u>\$ 320,174</u>

The District had more revenue than expenses in 2012. Unrestricted net position are the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – which was \$119,199 in 2011 and \$151,235 in 2012, an increase of \$32,036.

**STATEMENT OF ACTIVITIES**

Table 2 reflects changes in Governmental activities of the District. It also reflects some of the actual District's Charges for Services - District program changes from 2011 to 2012. Table 2 is on the next page.

Table 2	Changes in Net Position	Governmental Activities	
		<u>December 31, 2012</u>	<u>December 31, 2011</u>
	Revenues		
	County	\$ 161,716	\$ 155,959
	State	53,187	51,923
	Federal	14,040	-
	WCA State Grant	8,778	8,630
	Charges for Services	59,627	43,523
	Interest Earnings	441	701
	Other	4,430	3,427
	Total Revenues	<u>302,219</u>	<u>264,163</u>
	 Expenses		
	Conservation-All Other	231,872	197,148
	Depreciation	28,182	26,879
	Other Services & chgs	21,344	39,540
	Projects - State	4,037	7,871
	Total Expenses	<u>\$ 285,435</u>	<u>\$ 271,438</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

The State funds reflect funds received for General Services, RIM, and State Cost-Share program. The District’s revenues for Charges for Services increased from \$43,523, in 2011 to \$59,627 in 2012. This increase is related to the District selling more mats, trees, and renting equipment.

**THE DISTRICT’S FUNDS**

As the District completed the year, under the general fund column as presented in the Statement of Net Position on page 9, reported a combined fund balance of \$191,517. This amount plus the capital assets net of accumulated depreciation (\$96,469) and minus the Compensated Absences \$40,282, gives a total of \$247,704 under the “Adjustments” column for the Statement of Net Position. This amount was above last year’s total of \$230,921.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the District did not adjust the budget.

**CAPITAL ASSETS**

The District uses a threshold of \$1,000 for its asset capitalization policy. At the end of 2012, the District had \$263,431 invested in a broad range of capital assets, including Vehicles, Buildings, Equipment and Machinery (see Table 3). This amount represents a net increase of total capital assets (including additions and deductions) of \$12,929.

Table 3 Capital Assets at Year-end  
(Net of Depreciation)

Assets	Governmental Activities	
	December 31, 2012	December 31, 2011
Equipment/Machinery	\$ 204,218	\$ 200,542
Buildings	59,213	49,960
Total Assets	<u>263,431</u>	<u>250,502</u>
Net of Depreciation	<u>\$ 96,469</u>	<u>\$ 111,722</u>

This year’s major additions included: Purchases-2012 Topcon Laser, Tripod and Rod and a concrete floor for the storage building.

The District’s fiscal-year 2012 capital budget has designated funds of \$5,000 for capital projects.

**LONG-TERM LIABILITIES**

Long-term liability obligations include accrued vacation pay for which employees are paid upon termination from the District by retirement, illness or death. Detailed information about the District’s long-term liabilities is presented in the Notes to the Financial Statement under Section I. Summary of Significant Accounting Policies- G. Vacation and Sick Leave on page 17; and under II.C. Compensated Absences Payable on page 17.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's elected officials considered many factors when setting the fiscal-year 2012 budget. Some of the economic factors taken into account for the 2012 budget include: sales of trees and tree matting, State funding and the County allocation. Expense factors include building expenses and employee salary increases.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report 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 financial information, contact the Murray Soil and Water Conservation District, 2740 22<sup>nd</sup> St., Slayton, MN 56172 or call 507-836-6990, Ext. 3.