

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA**

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December 31, 2007

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**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA**

ORGANIZATION
2007

SUPERVISORS

| | | |
|------------------|------------------|-------------------|
| Timothy Gossman | Chairperson | December 31, 2008 |
| Richard O'Connor | Vice Chairperson | December 31, 2010 |
| Margaret Ness | Secretary | December 31, 2008 |
| Pamela Mensink | Treasurer | December 31, 2010 |
| Brian Hazel | | December 31, 2008 |

EMPLOYEES

| | |
|-------------------|---|
| Jeremy Maul | District Administrator – 1 st Half of Year |
| Kevin Kuehner | District Technician – 2 nd Half of Year |
| Rick Grooters | District Technician |
| Doug Keene | District Technician |
| Donna Rasmussen | Water Plan Coordinator |
| Anne Koliha | Engineering Technician |
| Dawn Bernau | Nutrient Management Specialist |
| Jeff Duchene | Grazing Management Specialist |
| Adam King | Farm Bill Technician |
| Jeanette Serfling | Administrative Assistant |

Pamela Ristau, CPA

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Preston, MN 55965
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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Fillmore Soil & Water Conservation District
Preston, MN 55965

I have audited the accompanying basic financial statements of the government-wide governmental activities and its major fund, the general fund of Fillmore Soil & Water Conservation District, Preston, Minnesota, as of and for the year ended December 31, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the management of Fillmore Soil & Water Conservation District, Preston, Minnesota. My responsibility is to express opinions on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the government-wide governmental activities and its major fund, the general fund of Fillmore Soil & Water Conservation District, Preston, Minnesota as of December 31, 2007, and the results of its operations and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 28, 2008 on my consideration of Fillmore Soil & Water Conservation District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Pamela Ristau, CPA
October 28, 2008

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**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA**

REQUIRED SUPPLEMENTARY INFORMATION

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2007**

The Fillmore Soil & Water Conservation District's discussion and analysis provides an overview of the Fillmore SWCD's financial activities for the fiscal year ended 2007. 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 Fillmore SWCD's financial statements (beginning on page 10) and the notes to the financial statements (beginning on page 17).

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 (on pages 10 and 11) provide information about the activities of the Fillmore SWCD as a whole and present a longer-term view of the Fillmore SWCD's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Fillmore SWCD's operations in more detail than the government-wide statements by providing information about the Fillmore SWCD's most significant funds. Since Fillmore SWCD's is a single-purpose special purpose government, they are generally able to combine the government-wide and fund financial statements into single presentations. Fillmore Soil & 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 Fillmore SWCD's finances is, "Is the Fillmore SWCD as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Fillmore SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by 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 Fillmore SWCD's net assets and changes in them. You can think of the Fillmore SWCD's net assets---the difference between assets and liabilities---as one way to measure the Fillmore SWCD's financial health, or financial position. Over time, increases or decreases in the Fillmore SWCD's net assets are one indicator of whether its financial health is improving or deteriorating.

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

Reporting the Fillmore SWCD's General Fund

The Fillmore SWCD presents a general fund, which is a governmental fund. All of the Fillmore SWCD's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balance 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 Fillmore SWCD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Fillmore SWCD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) the governmental funds in a reconciliation included with the financial statements.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2007**

The Fillmore SWCD as a whole

The Fillmore SWCD's combined net assets totaled \$1,423,755. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Fillmore SWCD's governmental activities.

Table 1

Net Assets

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | 2007 | 2006 |
| Current and Other Assets | \$ 1,291,736 | \$ 620,186 |
| Capital Assets | 132,019 | 137,092 |
| Total Assets | <u>1,423,755</u> | <u>757,278</u> |
| Current Liabilities | 845,760 | 325,789 |
| Long Term Liabilities Outstanding | 47,860 | 35,355 |
| Total Liabilities | <u>893,620</u> | <u>361,144</u> |
| Net Assets Invested in capital assets, net of debt | 132,019 | 137,092 |
| Net Assets – Restricted | 227,834 | 288,209 |
| Net Assets – Unrestricted | <u>170,282</u> | <u>(29,167)</u> |
| Total Net Assets | <u>530,135</u> | <u>396,134</u> |
| Total Liabilities & Net Assets | <u>\$ 1,423,755</u> | <u>\$ 757,278</u> |

Net assets of the Fillmore SWCD government activities increased by 25.3 percent (\$530,135 compared to \$396,134). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from a deficient at December 31, 2006 to a \$170,282 surplus at the end of this year.

Table 2

Changes in Net Assets

| | Governmental Activities | |
|-----------------------------------|-------------------------|--------------------|
| | 2007 | 2006 |
| Revenues | | |
| Program Revenues | | |
| Charges for services | \$ 46,132 | \$ 48,578 |
| State grants and entitlements | 225,164 | 407,071 |
| Federal grants | - | 17,434 |
| Total Program Revenues | <u>271,296</u> | <u>473,083</u> |
| General Revenues | | |
| County Allocation | 483,304 | 237,816 |
| Investment Earnings | 29,428 | 20,971 |
| Other General Revenues | <u>9,673</u> | <u>13,163</u> |
| Total General | <u>522,405</u> | <u>271,950</u> |
| Total Revenues | <u>793,701</u> | <u>745,033</u> |
| Program Expenses | | |
| Conservation Current | <u>659,701</u> | <u>776,872</u> |
| Total Program Expense | <u>659,701</u> | <u>776,872</u> |
| Increase (decrease) in Net Assets | <u>\$ 134,000</u> | <u>\$ (31,839)</u> |

The Fillmore SWCD's total revenues (excluding special items) increased by 6.1 percent (\$48,668). The total cost of all programs and services was decreased by \$117,171, or more that 15.1 percent. This increase results from adding three new programs. This included hiring two new positions funded through the Clean Water Legacy Program and hiring a Farm Bill Assistance technician. In 2007, we removed the CREP technician since that program expired in late 2007.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

Revenues for the Fillmore SWCD governmental activities increased by 6.1 percent (\$48,668), while total expenses decreased by 15.1 percent (\$117,171). The net assets for governmental activities were increased to \$154,165 in 2007. This compares to a \$10,515 decrease in net assets in 2006.

The cost of all governmental activities this year was \$639,536 compared to \$755,548 last year. Overall, the Fillmore SWCD's governmental program revenues, including intergovernmental aid and fees for services, increased in 2007 from \$710,899 to \$754,600. The Fillmore SWCD paid for the remaining "public benefit" portion of governmental activities with \$0 in taxes and with other revenues, such as interest and general entitlements.

The Fillmore SWCD's Funds

As the Fillmore SWCD completed the year, its general fund (as presented in the balance sheet on page 12) reported a combined balance of \$1,291,735, which is above last year's total of \$620,186. Included in this year's total change in total assets, however, is an increase of \$154,165 in the Fillmore SWCD's General Fund.

General fund Budgetary Highlights

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

Without any adjustments, the actual changes to appropriation (expenditures) were \$225,883 below the final budget amounts. This increase resulted from funds derived from the Clean Water Legacy program to fund the nutrient management and grazing planning specialists. Only half the amount was budgeted in 2007; however, the District received the full amount instead.

Resources available for appropriation were \$71,718 below the final budgeted amount. This was due to reductions in local intergovernmental revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the Fillmore SWCD had \$132,019 invested in a broad range of capital assets, including the Conservation Building, three vehicles, computers, and miscellaneous field equipment. (See Table 4 below)

**Table 4
Capital Assets at Year-end (Net of Depreciation)**

| | Governmental Activities | |
|-----------------------|----------------------------|------------|
| | 2007 | 2006 |
| Conservation Building | \$ 78,148 | \$ 81,274 |
| Equipment | 53,871 | 55,818 |
| Total | \$ 132,019 | \$ 137,092 |

This year's major additions included a 2005 Chevrolet Colorado and a 1995 Ford F150 Pickup.

The Fillmore SWCD's fiscal year 2008 capital budget calls for it to spend another \$ 8,000 for capital projects, principally for the purchase of computer hardware and software, and augmentation of the vehicle replacement fund.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2007**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-term Liabilities

The Fillmore SWCD purchases commercial insurance for property and casual claims and has claims and judgments of zero dollars outstanding at year-end. Other obligations include accrued vacation pay and sick leave.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Fillmore SWCD elected officials considered many factors when setting the fiscal year 2008 budget and fees that will be charged for the business-type activities. Conservation needs and priorities, state and county allotments and district employee productivity and safety were considered. In addition, possible grant funds were reviewed to increase the revenue for the district. Those include the Toot River Turbidity TMDL study and grazing studies. Unexpected loss of computer services and technical support resulting from NRCS budget cuts will play a major roll in the 2008 budget expenditures.

CONTACTING THE FILLMORE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Fillmore SWCD's finances and to show the Fillmore SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrator, at Fillmore SWCD, 900 Washington Street NW, Box A, Preston, Minnesota, 55965, phone (507) 765-3978, extension 3, fax (507) 765-4415.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA**

BASIC FINANCIAL STATEMENTS

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2007

| | Governmental Activities |
|---|----------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 1,276,963.41 |
| Accounts Receivable | 5,788.52 |
| Interest Receivable | 8,983.39 |
| Capital Assets: | |
| Building, Net of Accumulated Depreciation | 78,147.87 |
| Equipment, Net of Accumulated Depreciation | 53,871.36 |
| TOTAL ASSETS | 1,423,754.55 |
| <u>LIABILITIES</u> | |
| Current Liabilities | |
| Accrued Salaries Payable | 16,285.54 |
| Payroll Taxes Payable | 41.44 |
| Sales Tax Payable | 145.00 |
| Deferred Revenue | 823,970.65 |
| Total Current Liabilities | 840,442.63 |
| Long Term Liabilities: | |
| Due within One Year | 5,317.75 |
| Due in More Than One Year | 47,859.70 |
| TOTAL LIABILITIES | 893,620.08 |
| <u>NET ASSETS</u> | |
| Invested in Capital Assets, Net of Related Debt | 132,019.46 |
| Unrestricted | 398,115.01 |
| TOTAL NET ASSETS | 530,134.47 |
| TOTAL LIABILITIES & NET ASSETS | \$ 1,423,754.55 |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2007

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants & Contributions | Governmental Activities |
| <u>FUNCTIONS/PROGRAMS</u> | | | | |
| Conservation Expenses | \$ 659,701.10 | \$ 46,132.30 | \$ 225,164.07 | \$ (388,404.73) |
| | | | | |
| <u>TOTAL GOVERNMENTAL ACTIVITIES</u> | <u>\$ 659,701.10</u> | <u>\$ 46,132.30</u> | <u>\$ 225,164.07</u> | <u>\$ (388,404.73)</u> |
| | | | | |
| General Revenues: | | | | |
| County Allocation | | | | 483,304.05 |
| Other General Revenues | | | | 9,672.72 |
| Investment Earnings | | | | <u>29,428.18</u> |
| | | | | |
| TOTAL GENERAL REVENUES | | | | <u>522,404.95</u> |
| | | | | |
| CHANGE IN NET ASSETS | | | | 134,000.22 |
| | | | | |
| NET ASSETS - BEGINNING OF YEAR | | | | 396,134.25 |
| | | | | |
| NET ASSETS - END OF YEAR | | | | <u>\$ 530,134.47</u> |

See accompanying Notes to Basic Financial Statements.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2007**

| | <u>General Fund</u> |
|---|-------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 1,276,963.41 |
| Accounts Receivable | 5,788.52 |
| Interest Receivable | 8,983.39 |
| TOTAL ASSETS | <u>1,291,735.32</u> |
| <u>LIABILITIES & FUND BALANCES</u> | |
| <u>Liabilities</u> | |
| Accrued Salaries Payable | 16,285.54 |
| Payroll Taxes Payable | 41.44 |
| Sales Tax Payable | 145.00 |
| Deferred Revenue | 823,970.65 |
| TOTAL LIABILITIES | <u>840,442.63</u> |
| <u>Fund Balances</u> | |
| Unreserved: | |
| Designated (Note VI) | 227,834.01 |
| Undesignated | 223,458.68 |
| TOTAL FUND BALANCE | <u>451,292.69</u> |
| TOTAL LIABILITIES & FUND BALANCE | <u>\$ 1,291,735.32</u> |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
CONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUND
December 31, 2007

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 451,292.69

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

| | |
|--------------------------------|--------------|
| Cost of Capital Assets | 276,492.70 |
| Less: Accumulated Depreciation | (144,473.47) |

Long Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long Term liabilities at year-end consist of:

| | |
|------------------------------|-------------|
| Compensated Absences Payable | (53,177.45) |
|------------------------------|-------------|

| | |
|--|----------------------|
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES | <u>\$ 530,134.47</u> |
|--|----------------------|

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended December 31, 2007

| | <u>General Fund</u> |
|---|---------------------------------|
| REVENUES | |
| Intergovernmental | |
| County | \$ 483,304.05 |
| State | 225,164.07 |
| Federal | - |
| Total Intergovernmental | <u>708,468.12</u> |
| Charges for Services | 46,132.30 |
| Miscellaneous Revenue | |
| Interest Income | 29,428.18 |
| Miscellaneous Other Revenue | <u>9,672.72</u> |
| Total Miscellaneous Revenue | <u>39,100.90</u> |
| TOTAL REVENUES | <u>793,701.32</u> |
| EXPENDITURES | |
| District Operations | |
| Personal services | 407,881.17 |
| Other services & charges | 68,762.29 |
| Capital Outlay | <u>17,289.63</u> |
| Total District Operations | 493,933.09 |
| Project expenditures | |
| District | 26,890.33 |
| State | <u>118,712.85</u> |
| Total Project expenditures | <u>145,603.18</u> |
| TOTAL EXPENDITURES | <u>639,536.27</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 154,165.05 |
| FUND BALANCE - January 1 | 297,127.64 |
| FUND BALANCE - December 31 | \$ <u><u>451,292.69</u></u> |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
December 31,2007

| | |
|--|---------------|
| TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND | \$ 154,165.05 |
|--|---------------|

Amounts reported for the governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

| | |
|----------------------|-------------|
| Capital Outlays | 17,289.77 |
| Depreciation Expense | (22,362.54) |

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.

| | |
|--|-------------|
| Change in Compensated Absences Payable | (15,092.06) |
|--|-------------|

| | |
|--|-----------------------------|
| CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES | \$ <u><u>134,000.22</u></u> |
|--|-----------------------------|

See accompanying Notes to Basic Financial Statements.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND**

For the Fiscal Year Ended December 31, 2007

| | Budgeted Amounts | | 2007 Actual | Variances with Final Budget Positive (Neg) |
|---|------------------|------------|----------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | | | | |
| County | \$ 280,544 | \$ 280,544 | \$ 483,304 | \$ 202,760 |
| State | 508,553 | 508,553 | 225,164 | (283,389) |
| Federal | 1,000 | 1,000 | - | (1,000) |
| Total Intergovernmental | 790,097 | 790,097 | 708,468 | (81,629) |
| Charges for Services | 56,672 | 56,672 | 46,132 | (10,540) |
| Miscellaneous Revenue | | | | |
| Interest Income | 11,000 | 11,000 | 29,428 | 18,428 |
| Miscellaneous Revenue Other | 7,650 | 7,650 | 9,673 | 2,023 |
| Total Miscellaneous Revenue | 18,650 | 18,650 | 39,101 | 20,451 |
| TOTAL REVENUES | 865,419 | 865,419 | 793,701 | (71,718) |
| EXPENDITURES | | | | |
| District Operations | | | | |
| Personal services | 419,771 | 419,771 | 407,881 | 11,890 |
| Other services & charges | 71,259 | 71,259 | 68,762 | 2,497 |
| Capital Outlay | 14,000 | 14,000 | 17,290 | (3,290) |
| Total District Operations | 505,030 | 505,030 | 493,933 | 11,097 |
| Project Expenditures | | | | |
| District | 39,200 | 39,200 | 26,890 | 12,310 |
| State | 321,189 | 321,189 | 118,713 | 202,476 |
| Total Project Expenditures | 360,389 | 360,389 | 145,603 | 214,786 |
| TOTAL EXPENDITURES | 865,419 | 865,419 | 639,536 | 225,883 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 0 | 0 | 154,165 | 154,165 |
| FUND BALANCE - January 1 | 297,128 | 297,128 | 297,128 | 0 |
| FUND BALANCE - December 31 | \$ 297,128 | \$ 297,128 | \$ 451,293 | \$ 154,165 |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Fillmore Soil & 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 Fillmore Soil and Water Conservation District (District) is organized under the provisions of MN Stat. Ch. 1 03c. The District is governed by the 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 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 land 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 Fillmore 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. Basic Financial Statement Presentation

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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 that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which, is recognized when due, and revenue under the following principles:

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

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

Project expenditures represent costs, which, are funded from federal, state, or district revenues. State project expenditures consist of grants to participate in the cost-share program and other state programs. District project expenditures are costs of materials and supplies in District projects.

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 yearend. The District does not use encumbrance accounting.

E. 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.

F. Assets, Liabilities, and Fund Equity Accounts

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 this statement year, capital assets are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General capital assets are initially valued at historical or estimated historical cost and are depreciated over their appropriate asset life.

Liabilities

Long-term liabilities include compensated absences for vacation and sick pay accumulated by the employees.

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007**

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

F. Assets, Liabilities, and Fund Equity Accounts continued

Fund Equity is Divided into Sections

Fund Balance is subdivided as follows:

- Reserved account indicates the portion of fund equity, which has been legally segregated for specific purposes or is not appropriable for spending.
- Unreserved, undesignated account indicates the portion of fund balance, which is available for budgeting and spending in future periods.

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted paid time off (PTO) leave in varying amounts based on their length of service. PTO leave accrual varies from 3.69 to 10.17 hours per pay period. Upon termination from the District by retirement, employees are paid accrued PTO leave up to 50% of accrued sick leave, up to maximum of 800 hours of combined leave. On termination of employment by illness or death, employees are paid accrued PTO and up to 50% of accrued sick leave, up to a maximum of 800 hours of combined leave.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures over Budget

During 2007, the District's actual expenditures did not exceed the budgeted expenditures.

NOTE III. DEPOSITS AND INVESTMENTS

Minnesota Statute 1 18.A02 and 1 18A.04 authorizes 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, 2007, District deposits totaled \$1,276,963.41, (all) of which \$211,579.23 was cash deposits, \$228,294.42 was invested in money market savings and \$837,089.76, as invested in certificate of deposit accounts. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2007, the District's deposits were covered by insurance or collateralized with securities held by the Federal Reserve or other entity in the District's name.

| <u>Bank Balances</u> | <u>Carrying Amount</u> |
|----------------------|------------------------|
| \$1,295,163.11 | \$1,276,963.11 |

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Minnesota Statutes limit investing activity to be done only where deposits are covered by insurance, surety bonds, or collateral. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer.

Foreign Currency Risk – The District has no policy in regard to investments in foreign currency.

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007**

NOTE IV. DEFERRED REVENUE

Deferred revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Fillmore County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2007 consists of the following:

| | |
|------------------------------|----------------------|
| BWSR Flood Relief Cost Share | \$ 169,293.29 |
| BWSR Feedlot Cost-Share | 496,410.58 |
| BWSR Regular Cost-Share | 51,732.96 |
| BWSR Service Grant | 25,624.00 |
| Challenge Grant | 4,795.00 |
| BWSR CREP | 1,114.80 |
| LWP Challenge Grant | 75,000.00 |
| TOTAL | \$ 823,970.63 |

NOTE V. CAPITAL ASSETS

Capital assets are recorded at historical cost. Donated capital assets are recorded as capital assets at their estimated fair market value at the date of donation. The District threshold amount for determining which assets to include in the capital assets is over \$ 500.

Capital assets are recorded in the District-wide financial statement. Capital assets are depreciated using the straight-line method over the estimated useful lives. Useful lives vary from 20 to 35 years for buildings and 5 to 15 years for equipment.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots.

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

| | Building | Equipment | Total |
|--------------------------------|----------------------|----------------------|----------------------|
| Capital Assets 12-31-06 | \$ 109,407.00 | \$ 152,847.70 | \$ 262,254.70 |
| Additions | - | 17,290.00 | 17,290.00 |
| Deletions | - | (3,052.00) | (\$3,052.00) |
| Capital assets 12-31-07 | \$ 109,407.00 | \$ 167,085.70 | \$ 276,492.70 |

Accumulated depreciation activity for the year ended December 31, 2007 is as follows:

| | Building | Equipment | Total |
|------------------------------|---------------------|----------------------|----------------------|
| Accum. Depr. 12-31-06 | \$ 28,133.22 | \$ 97,029.48 | \$ 125,162.70 |
| Additions | 3,125.91 | 19,236.86 | 22,362.77 |
| Deletions | 0 | (3,052.00) | (3,052.00) |
| Accum. Depr. 12-31-07 | \$ 31,259.13 | \$ 113,214.34 | \$ 144,473.47 |

Depreciation expense for 2007 was \$ 21,404.81.

| | |
|--------------------------|----------------------|
| Capital Assets | \$ 276,492.70 |
| Accumulated Depreciation | (144,473.47) |
| Net Fixed Assets | \$ 132,019.23 |

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007**

NOTE VI. UNRESERVED DESIGNATED FUND BALANCE

| | |
|-----------------------------------|----------------------|
| 6 Month Operating | \$ 154,655.00 |
| Conservation Building Maintenance | 6,728.07 |
| Equipment Replacement | 2,000.00 |
| Pond Clean up | 3,148.12 |
| Special Projects | 36,000.00 |
| Aerial Seeding | 3,012.20 |
| Push up Ponds | 8,020.00 |
| Vehicle Replacement | 10,270.62 |
| Renewable Energy | 4,000.00 |
| Total | <u>\$ 227,834.01</u> |

Designated for Cash/Flow Operating Expenses (6 Month Operating)

An account used to segregate a portion of Fund Balance to allow for sufficient amount of cash to be available to meet operating expenses during the fiscal period without having to resort to temporarily borrowing between receipt of major revenue items and/or in absences of planned allocations and/or grants.

Designated for Equipment/Vehicle Replacement

An account used to segregate a portion of Fund Balance for expenditures on capital outlay based on an approved "Long Range Plan-Equipment Investment Schedule".

NOTE VII. COMPENSATED ABSENCES PAYABLE

Changes in long-term liabilities for the period ended December 31, 2007 are:

| | |
|-----------------------------|---------------------|
| Balance January 1, 2007 | \$ 38,085.93 |
| 2007 Fiscal year net change | <u>15,091.52</u> |
| Balance December 31, 2007 | <u>\$ 53,177.45</u> |

| | |
|---------------------------------------|---------------------|
| Current Portion Long Term Liabilities | \$ 5,317.75 |
| Long Term Portion | 47,859.70 |
| Total Long Term Liabilities | <u>\$ 53,177.45</u> |

NOTE VIII. 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. The District pays an annual premium based on its annual payroll. There were no significant increases or reduction in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007**

NOTE IX. PENSION PLANS

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. This plan and its benefits are established and administered in accordance with *Minnesota Statutes*, 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 PERA, 514 St. Peter Street, Suite 200, St. Paul, Minnesota, 55102-0190.

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. Plan members are required to contribute 5.10% of their covered salary and the District is required to contribute 5.53% of covered salaries. The District's contributions for the years ending December 31, 2007, 2006, and 2005 were \$18,831.91, \$14,899.50, and \$10,535.32 respectively.

NOTE X. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2007 were \$16,847.16.

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
ADDITIONAL REPORTS**

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

Board of Supervisors
Fillmore Soil and Water Conservation District
Preston, MN 55965

I have audited the financial statements of the governmental activities and its major fund, the general fund of Fillmore Soil and Water Conservation District as of and for the year ended December 31, 2007, and have issued my report thereon dated October 28, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

Compliance

As part of obtaining reasonable assurance about whether Fillmore SWCD, Preston, Minnesota's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contract and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance; they are required to be reported under *Government Auditing Standards*.

The Minnesota Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements. My study included all the listed categories. The results of my tests indicated that for the items tested the District complied with the material terms and conditions of applicable legal provisions.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My 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, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

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 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.

I consider the deficiency described below and the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

Limited Segregation of Duties

An entity of this size has an inherent limitation in its ability to effectively segregate its accounting duties. A limited number of people have the primary responsibility for most of the accounting and financial duties. This prevents proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in a district of your size, but the Board of Supervisors should constantly be aware of this condition and realize that the concentration of duties in a limited number of individuals is not desirable from a control point of view.

Deposits Under Collateralized on Certain Financial Institutions

The District has funds held in various financial institutions. Receipts come in large amounts at certain times of the year. The funds are allocated between various banks to ensure the amounts are either covered by FDIC insurance coverage, bonds, or extra collateral assigned by the bank to protect the deposit.

The District held funds in two different banks, which did not have bonds or collateral assigned to protect the amount of the deposit held at that bank.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Supervisors, management and others within the District, and County, State and Federal awarding agencies and pass-through entities, is not intended to be, and should not be used by anyone other than these specified parties.

Pamela Ristau, CPA
October 28, 2008

FILLMORE SOIL & WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2007

FINDINGS: Limited Segregation of Duties

1. Condition
One individual has the primary responsibility for most of the accounting and financial duties relating to the revenue and receipts cycle, the purchase and disbursement cycle.
2. Criteria
One important element of internal accounting controls is an adequate segregation of duties that minimizes the opportunities for any one individual to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business.
3. Context
This finding impacts the internal control for all significant accounting functions.
4. Effect
Because of the limited size of the District's administrative staff, several areas exist where the segregation of duties allows for misappropriations of assets.
5. Cause
There are a limited number of office employees.
6. Recommendation
I recommend that the District continue to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

RESPONSE:

1. Corrective Action Plan (CAP)
Our District employs one individual to provide the bookkeeping and accounting services for the District and to serve as payroll clerk for District employees. All cash received is receipted and turned over to the bookkeeper's accounts under the supervision and direction of the District Administrator prior to processing. The District will continue to segregate duties as best it can within the limits of what the District considers to be cost beneficial.
2. Explanation of Disagreement with Audit Findings
There is no disagreement with the audit finding.
3. Official Responsible for Ensuring CAP
The District Administrator is the official responsible for ensuring correction action of the deficiency.
4. Planned Completion Date for CAP
Current practice shall continue immediately.
5. Plan to Monitor Completion of CAP
The Board of Supervisors of Fillmore Soil & Water Conservation District will monitor the process.

These responses are not audited and accordingly no opinion is being expressed on these responses.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2007

FINDINGS: Deposits Under Collateralized on Certain Financial Institutions

1. Condition
Certain financial institutions did not have enough collateral assigned to protect the District's funds at various times.
2. Criteria
Each bank the District deposits to is a member of the FDIC, therefore the deposit is insured up to \$100,000. If the deposit in over \$100,000 a bond or extra collateral should be assigned to the District's accounts.
3. Context
This finding impacts the safeguarding of the assets of the District.
4. Effect
Possible loss of funds.
5. Cause
Banks do not want to assign collateral for funds held within their institution for short periods of time.
6. Recommendation
I recommend that the District continue to allocate the funds to various banks to ensure they are properly protected. Make sure the bank assigns additional collateral when needed.

RESPONSE:

1. Corrective Action Plan (CAP)
Disburse funds to various financial institutions to keeps the amount under the FDIC insurance limit. Continue to work with the banks on additional collateral assigned if needed.
2. Explanation of Disagreement with Audit Findings
There is no disagreement with the audit finding.
3. Official Responsible for Ensuring CAP
The District Administrator is the official responsible for ensuring correction action of the deficiency.
4. Planned Completion Date for CAP
Current practice shall continue immediately.
5. Plan to Monitor Completion of CAP
The Board of Supervisors of Fillmore Soil & Water Conservation District will monitor the process.

These responses are not audited and accordingly no opinion is being express on these responses.