

**FILLMORE SOIL & WATER
CONSERVATION DISTRICT**

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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

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

ORGANIZATION
2010

SUPERVISORS

| | | |
|----------------------|------------------|-------------------|
| Timothy Gossman | Chairperson | December 31, 2010 |
| Travis Willford | Vice Chairperson | December 31, 2012 |
| Pamela Mensink | Secretary | December 31, 2012 |
| Leonard Leutink, Jr. | Treasurer | December 31, 2012 |
| Brian Hazel | | December 31, 2010 |

EMPLOYEES

| | |
|---------------------|----------------------------------|
| Donna Rasmussen | District Administrator |
| Rick Grooters | Resource Conservation Technician |
| Doug Keene | Resource Conservation Technician |
| Joe Magee | TMDL/Water Plan Coordinator |
| Anne Koliha | Engineering Technician |
| Dawn Bernau | Nutrient Management Specialist |
| Dean Thomas | Grazing Management Specialist |
| Jennifer Ronnenberg | Conservation Technician |
| Jason Carlson | Farm Bill Technician |
| Jeanette Serfling | Administrative Assistant |

Pamela Ristau, CPA

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Member of Minnesota Association of Public Accountants
Member of Minnesota Society of Certified Public Accountants

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, 2010, 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, 2010, 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 August 9, 2011 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 9 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 inquiries 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
August 9, 2011

**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, 2010**

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 2010. 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 11) and the notes to the financial statements (beginning on page 18).

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 11 and 12) 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 13. 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. You will need to consider other non-financial factors, however, such as changes in the SWCD's property tax base to assess the overall health of the SWCD.

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 only 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, 2010**

THE FILLMORE SWCD AS A WHOLE

The Fillmore SWCD's combined net assets were decreased slightly in 2010 from \$397,975 to \$340,464. In contrast, last year net assets decreased by \$7,784. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Fillmore SWCD's governmental and business-type activities.

| Table 1 | Governmental Activities | |
|---|-------------------------|------------------|
| Net Assets | 2010 | 2009 |
| Current and Other Assets | \$874,013 | \$1,218,141 |
| Capital Assets | 107,569 | 129,896 |
| Total Assets | <u>981,582</u> | <u>1,348,037</u> |
| Long Term Liabilities Outstanding | 62,087 | 58,208 |
| Other Liabilities | 579,031 | 891,854 |
| Total Liabilities | <u>641,118</u> | <u>950,062</u> |
| Net Assets | | |
| Invested in capital assets, net of debt | 107,569 | 129,896 |
| Restricted | 194,867 | 198,460 |
| Unrestricted | 38,028 | 69,619 |
| Total Net Assets | <u>\$340,464</u> | <u>\$397,975</u> |

Net assets of the Fillmore SWCD government activities decreased by 14 percent (\$340,464 compared to \$397,975). 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 \$69,619 at December 31, 2009 to a \$ 38,028 at the end of this year.

This surplus in unrestricted governmental net assets arose primarily because of the following factors. Although total assets decreased by about \$366,455 in 2010, total liabilities were decreased. Liabilities decreased, in large part, because of a reduction of \$320,376 in deferred revenues, which are now affected by BWSR's new policy of withholding 10 percent of grant funds until all grant requirements are met. These decreases in assets and liabilities were a result of more projects being completed, which also provided more technical assistance and administrative funds to the SWCD. The SWCD Board approved a personnel policy change in 2009 to gradually reduce the cap on accumulated Paid Time Off hours in order to reduce the balance in compensated absences. That policy will reduce the cap from 800 hours in 2008 to 400 hours by 2012. Even with that change, compensated absences increased by \$3,879 from 2009 to 2010 due to the number of long term employees who accrue Paid Time Off at a higher rate.

| Table 2 | Governmental Activities | |
|--|-------------------------|-------------------|
| Changes in Net Assets | 2010 | 2009 |
| Revenues | | |
| Program Revenues | | |
| Charges for services | \$ 52,927 | \$ 49,906 |
| Local grants | 10,000 | 30,000 |
| State grants and entitlements | 717,422 | 482,069 |
| County grants | 262,716 | 274,316 |
| Miscellaneous Revenues | | |
| Investment Earnings | 24,446 | 35,879 |
| Other Misc. Revenues | 5,214 | 5,641 |
| Total Revenues | <u>1,072,725</u> | <u>877,811</u> |
| Program Expenses | | |
| Conservation Current | <u>1,130,236</u> | <u>885,595</u> |
| Total Program Expense | 1,130,236 | 885,595 |
| Increase (decrease) in Net Assets | \$(57,511) | \$ (7,784) |

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2010**

THE FILLMORE SWCD AS A WHOLE (continued)

The Fillmore SWCD's total revenues (excluding special items) increased significantly by 22 percent (\$194,914). This increase was largely due to the number of projects funded by state grants that were completed, including three large feedlot projects. The increase in revenues was partially offset by a decrease in some revenues, such as interest earnings which were down \$11,433 from 2009 to 2010 and a one-time grant for nutrient management for \$30,000 received in 2009 but not in 2010. The total cost of all programs and services also, increased significantly by \$244,641 in 2010 compared to 2009 to pay for the state projects that were completed.

Governmental Activities

Revenues for the Fillmore SWCD governmental activities increased by 22 percent (\$194,914), while total expenses increased by 28 percent (\$244,641). The net assets for governmental activities decreased in 2010 by \$57,511; this compares to a decrease of \$7,784 in net assets in 2009.

The SWCD did not request an increase in its county allocation in 2010, so it remained at \$210,000, which was the same as the amount received in 2008 and 2009 and what was requested and approved for 2011. The SWCD has been fortunate not to have its county allocation cut as has happened in some counties. However, this does mean that increases in expenses, especially personnel costs, must be made up through other sources. The SWCD has been taking opportunities to bring in more revenues through grants and contracts for additional services. For example, a contribution agreement with NRCS brought in \$2,111 for assisting with EQIP projects. Another contract for \$25,000 in technical assistance funds from BWSR was a result of two successful applications to NRCS for the Mississippi River Basin Initiative (MRBI). The MRBI applications for the Watson Creek watershed and the Upper South Fork Root River/Wisel Creek watershed provide over \$500,000 per year in EQIP funds for conservation practices in these watersheds. The SWCD is in its third year as the lead agency for the Root River Turbidity TMDL under a contract with the MPCA, and in its second year as the primary administrator of funds for the MN Department of Agriculture's "From Field to Watershed" edge-of-field monitoring project. These contracts support two staff positions and pay for administrative time to administer several subcontracts.

The cost of all governmental activities this year was \$1,130,236 compared to \$885,595 last year. Overall, the Fillmore SWCD's governmental program revenues, including intergovernmental aid and fees for services, increased from \$836,291 in 2009 to \$1,043,065 in 2010 primarily based on local and state grants. The Fillmore SWCD paid for the remaining "public benefit" portion of governmental activities with \$0 in taxes and with other revenues, such as interest (\$24,446) and other miscellaneous revenues (\$5,214).

THE FILLMORE SWCD'S FUNDS

As the Fillmore SWCD completed the year, its general fund (as presented in the balance sheet on page 13) reported a combined fund balance of \$294,982, which is slightly lower than last year's total of \$326,287.

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 were \$1,576 below the final budget amounts. A decrease in state grant revenues of \$130,661 was the largest variation. Part of this was offset by an increase in interest earnings of \$9,446 over what was budgeted. The variance in expenditures was \$79,809 below the final budget, so the final result was an excess of revenues over expenditures of \$31,306. The most significant variance from the budget in expenditures occurred in the SWCD's expenditures for services and charges (\$28,158), which were under budget in every category, and in expenditures for District and state projects (\$44,927), some of which were over and others under the budgeted amounts for several grant funded projects. The Board did not approve a cost of living increase for staff in 2010 to slow the increase in expenses

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2010**

THE FILLMORE SWCD'S FUNDS (continued)

General Fund Budgetary Highlights (continued)

for personnel services. However, step increases were given as scheduled to all employees in recognition of the need to keep highly qualified and dedicated employees. There was a vacancy in one grant-funded position for three months, which was temporarily filled by a summer intern. This resulted in personnel costs being slightly under budget in 2010.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the Fillmore SWCD had \$107,569 invested in a broad range of capital assets, including a building, three vehicles, computers, and miscellaneous field equipment. (See Table 4 below) This amount represents a net decrease of \$22,326.79, or just under 17 percent, over last year.

| Table 4 Capital Assets at Year-end | Governmental Activities | |
|---|----------------------------|------------------|
| | 2010 | 2009 |
| | <u>2010</u> | <u>2009</u> |
| Conservation Building | \$ 68,770 | \$ 74,061 |
| Equipment | 38,799 | 55,835 |
| Total | <u>\$107,569</u> | <u>\$129,896</u> |

This year's major additions included:

| | |
|---|----------------|
| Equipment for MDA Small Watershed Project | \$ 691 |
| Equipment for Bacteria Testing Lab | 752 |
| Computer station for Engineering Technician | 1,492 |
| Windows 7 upgrade | 600 |
| | <u>\$3,535</u> |

The Fillmore SWCD's fiscal year 2011 capital budget calls for it to spend \$48,356 for capital projects, principally for the replacement of its oldest field vehicle, which is ten years old. There are four computers which are five years old and the copier, which is used by both the SWCD and NRCS, is nine years old, so \$6,000 has been set aside to replace these as needed. Also included in the total capital outlay amount is over \$29,000 to be transferred to the District's three-month operating fund to get the balance to what it should be to reflect the increased operating budget. The SWCD has no plans to issue additional debt to finance these projects. Rather, the SWCD's Designated Funds for Computer and Equipment Replacement, Vehicle Replacement, District Building Maintenance, and Three-Month Operating Expense will be used for these expenditures. More detailed information about the SWCD's capital assets is presented in Note V (page 21) to the financial statements.

Long-term Liabilities

The Fillmore SWCD purchases commercial insurance for property and casual claims and has claims and judgments of \$0 outstanding at year-end compared with \$0 last year. 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 2011 budget and fees that will be charged for the business-type activities. The local, state, and national economies are affecting SWCD funding from both the state and local level. The state cost share grant is about half of what it was in 2009, and another 25 percent cut is anticipated in fiscal year 2012. The ag economy, especially for dairy and beef

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)

producers, is still trying to recover, which reduces interest in some conservation programs. Crop prices are good right now, but that also provides an incentive to plant more acres rather than put acres into conservation practices. Livestock producers who were previously approved for EQIP and those who want to improve their operations and manure management as a way to improve profits are utilizing the free services of the SWCD's Grazing Specialist, Nutrient Management Specialist, and Feedlot Technician. Three large feedlot runoff control projects were completed in 2010 along with 15 smaller projects. A Clean Water Fund application for \$534,850 was approved for seven feedlot projects, all of which should be completed in 2011 along with others funded from previous fiscal years. Those projects have technical assistance funds tied to them which help to support the technician position. The Root River Grazing Specialist assisted 36 producers with developing and implementing grazing plans and will expand his work area into the Whitewater watershed and Winona County in 2011. The Nutrient Management Specialist serves five counties and has 149 contracts covering 52,000 acres. A small fee will be charged for her plans as a match for the Clean Water Fund grant that will continue funding the position. All but about \$5,200 in 2007 flood relief grant funds were encumbered by the end of 2010 out of the original \$395,416. The remaining projects are expected to be completed in 2011. Two staff are partially funded through the Root River Turbidity TMDL grant from MPCA, which ends June 30, 2011. Those staff will continue to work on the Root River Comprehensive Strategy, for which the SWCD will be the lead agency. They will also continue to be funded in part through a grant to MDA for a study of BMP effectiveness in three small watersheds in the Root River watershed. Two staff are licensed as septic system inspectors to assist the county with new installations, which generates some revenue for the SWCD. The bacteria testing lab was certified in May of 2009, which is a service that can also generate income for the SWCD. Although maintaining the lab certification is costly, it is a service that is especially beneficial for stream monitoring projects conducted by the SWCD and other entities. The SWCD will continue to charge a small fee for staff to complete Conservation Assessment Plans for landowners enrolled in the Rural Preserves Program, although proposed legislation may change this requirement. Personnel services are the SWCD's largest expense and the expense continues to rise, although 2010 expenditures in this category came in slightly under budget. Reducing the allowable cap on PTO accumulation will help to reduce the rising liability for compensated absences. Other sources of revenue in 2011 that had not been available in the past are \$16,000 from a contribution agreement with NRCS for the general CRP sign up that concluded in December 2010 and the technical assistance funds received from BWSR to support staffing for the MRBI watersheds to promote the additional federal funding available in those watersheds through EQIP and WHIP. The SWCD has responsibility for promoting the programs and providing technical assistance for many of the practices funded. All of these additional funds should allow the SWCD to maintain staffing and cover some of the administrative costs.

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 Donna Rasmussen, the District Administrator, at Fillmore SWCD, 900 Washington Street NW, Box A, Preston, Minnesota, 55965, phone (507) 765-3978, extension 3.

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

BASIC FINANCIAL STATEMENTS

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2010

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 872,869.64 |
| Accounts Receivable | 65.84 |
| Interest Receivable | 1,077.51 |
| Capital Assets: | |
| Building, Net of Accumulated Depreciation | 80,608.25 |
| Equipment, Net of Accumulated Depreciation | <u>26,960.92</u> |
| TOTAL ASSETS | \$ <u><u>981,582.16</u></u> |
| <u>LIABILITIES</u> | |
| Current Liabilities: | |
| Earnest Money | \$ 8,000.00 |
| Accrued Salaries Payable | 8,560.48 |
| Payroll Taxes Payable | 1,951.88 |
| Sales Tax Payable | 129.00 |
| Deferred Revenue Tree Sales | 1,040.92 |
| Deferred Revenue | <u>559,348.80</u> |
| Total Current Liabilities | <u>579,031.08</u> |
| Long Term Liabilities: | |
| Due within One Year | 6,208.68 |
| Due in More Than One Year | <u>55,878.21</u> |
| TOTAL LIABILITIES | <u>641,117.97</u> |
| <u>NET ASSETS</u> | |
| Invested in Capital Assets, Net of Related Debt | 107,569.17 |
| Restricted | 194,866.73 |
| Unrestricted | <u>38,028.29</u> |
| TOTAL NET ASSETS | \$ <u><u>340,464.19</u></u> |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2010

| | 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 | \$ 1,130,235.75 | \$ 52,927.51 | \$ 717,422.40 | \$ (359,885.84) |
| | | | | |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 1,130,235.75 | \$ 52,927.51 | \$ 717,422.40 | (359,885.84) |
| | | | | |
| General Revenues: | | | | |
| | | | | 272,714.67 |
| | | | | 5,213.77 |
| | | | | 24,446.23 |
| | | | | 302,374.67 |
| | | | | |
| | | | CHANGE IN NET ASSETS | (57,511.17) |
| | | | | |
| | | | NET ASSETS - BEGINNING OF YEAR | 397,975.36 |
| | | | NET ASSETS - END OF YEAR | \$ 340,464.19 |

See accompanying Notes to Basic Financial Statements.

**FILLMORE SOIL & WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2010**

| | <u>General Fund</u> |
|---|-----------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 872,869.64 |
| Accounts Receivable | 65.84 |
| Interest Receivable | <u>1,077.51</u> |
| TOTAL ASSETS | <u><u>\$ 874,012.99</u></u> |
| <u>LIABILITIES & FUND BALANCES</u> | |
| <u>Liabilities</u> | |
| Accrued Salaries Payable | \$ 8,560.48 |
| Earnest Money | 8,000.00 |
| Payroll Taxes Payable | 1,951.88 |
| Sales Tax Payable | 129.00 |
| Deferred Revenue Trees Sales | 1,040.92 |
| Deferred Revenue Projects | <u>559,348.80</u> |
| TOTAL LIABILITIES | <u>579,031.08</u> |
| <u>Fund Balances</u> | |
| Unreserved: | |
| Designated (Note VI) | 194,866.73 |
| Undesignated | <u>100,115.18</u> |
| TOTAL FUND BALANCE | <u>294,981.91</u> |
| TOTAL LIABILITIES & FUND BALANCE | <u><u>\$ 874,012.99</u></u> |

See accompanying Notes to Basic Financial Statements.

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

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUND
December 31, 2010**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 294,981.91

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 | 335,795.68 |
| Less: Accumulated Depreciation | (228,226.51) |

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 | (62,086.89) |
|------------------------------|-------------|

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 340,464.19

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, 2010

| | <u>General Fund</u> |
|---|-----------------------------|
| REVENUES | |
| Intergovernmental | |
| County | \$ 272,714.67 |
| State | 717,422.40 |
| Federal | <u>2,110.72</u> |
| Total Intergovernmental | 992,247.79 |
| Charges for Services | 52,927.51 |
| Miscellaneous Revenue | |
| Interest Income | 24,446.23 |
| Miscellaneous Other Revenue | <u>3,447.33</u> |
| Total Miscellaneous Revenue | <u>27,893.56</u> |
| TOTAL REVENUES | <u>1,073,068.86</u> |
| | |
| EXPENDITURES | |
| District Operations | |
| Personal services | 518,455.74 |
| Other services & charges | 62,191.68 |
| Capital Outlay | <u>3,534.98</u> |
| Total District Operations | 584,182.40 |
| Project expenditures | |
| District | 37,357.28 |
| State | <u>482,834.30</u> |
| Total Project expenditures | <u>520,191.58</u> |
| TOTAL EXPENDITURES | <u>1,104,373.98</u> |
| | |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (31,305.12) |
| | |
| FUND BALANCE - January 1 | 326,287.03 |
| | |
| FUND BALANCE - December 31 | <u><u>\$ 294,981.91</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 31,2010

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (31,305.12)

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 | 3,534.98 |
| Depreciation Expense | (25,861.77) |

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 | (3,879.26) |
|--|------------|

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (57,511.17)

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, 2010

| | Budgeted Amounts | | 2010 Actual | Variances with Final Budget Positive (Neg) |
|---|-------------------|-------------------|-------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | | | | |
| County | \$ 263,750 | \$ 263,750 | \$ 272,715 | \$ 8,965 |
| State | 848,083 | 848,083 | 717,422 | (130,661) |
| Federal | - | - | 2,111 | 2,111 |
| Total Intergovernmental | <u>1,111,833</u> | <u>1,111,833</u> | <u>992,247</u> | <u>(119,586)</u> |
| Charges for Services | 53,200 | 53,200 | 52,928 | (272) |
| Miscellaneous Revenue | | | | |
| Interest Income | 15,000 | 15,000 | 24,446 | 9,446 |
| Miscellaneous Revenue Other | 2,150 | 2,150 | 3,447 | 1,297 |
| Total Miscellaneous Revenue | <u>17,150</u> | <u>17,150</u> | <u>27,894</u> | <u>10,744</u> |
| TOTAL REVENUES | <u>1,182,183</u> | <u>1,182,183</u> | <u>1,073,068</u> | <u>(109,115)</u> |
| EXPENDITURES | | | | |
| District Operations | | | | |
| Personal services | 520,414 | 520,414 | 518,456 | 1,958 |
| Other services & charges | 90,350 | 90,350 | 62,192 | 28,158 |
| Supplies | 4,300 | 4,300 | - | 4,300 |
| Capital Outlay | 2,000 | 2,000 | 3,535 | (1,535) |
| Total District Operations | <u>617,064</u> | <u>617,064</u> | <u>584,182</u> | <u>32,882</u> |
| Project Expenditures | | | | |
| District | 46,700 | 46,700 | 37,357 | 9,343 |
| State | 518,419 | 518,419 | 482,834 | 35,585 |
| Total Project Expenditures | <u>565,119</u> | <u>565,119</u> | <u>520,192</u> | <u>44,927</u> |
| TOTAL EXPENDITURES | <u>1,182,183</u> | <u>1,182,183</u> | <u>1,104,374</u> | <u>77,809</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>0</u> | <u>0</u> | <u>(31,306)</u> | <u>(31,306)</u> |
| FUND BALANCE - January 1 | 326,287 | 326,287 | 326,287 | 0 |
| FUND BALANCE - December 31 | <u>\$ 326,287</u> | <u>\$ 326,287</u> | <u>\$ 294,981</u> | <u>\$ (31,306)</u> |

See accompanying Notes to Basic Financial Statements.

FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

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, 2010

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, 2010**

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 appropriate 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 and up to 50% of accrued sick leave, up to a maximum of 600 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 600 hours of combined leave as of December 31, 2010.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures over Budget

During 2010, 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, 2010, District deposits totaled \$872,869.64 (all) of which \$66,453.57 was cash deposits, \$83,539.30 was invested in money market savings and \$722,876.77, is invested in certificate of deposit accounts. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2010, 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> |
|----------------------|------------------------|
| \$874,609.27 | \$872,869.64 |

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, 2010

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, 2010 consists of the following:

| | |
|--------------------------------|----------------------------|
| BWSR Flood Relief Cost Share | \$119,000.20 |
| BWSR Feedlot Cost-Share | 216,799.08 |
| BWSR Regular Cost-Share | 83,406.36 |
| BWSR Service Grant | 21,671.00 |
| MRBI TA | 22,500.00 |
| LWP Challenge Grant | 12,299.00 |
| Grazing Specialist | 59,435.69 |
| Nutrient Management Specialist | <u>24,237.47</u> |
| TOTAL | <u><u>\$559,348.80</u></u> |

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, 2010 is as follows:

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|-------------------------|---------------------|---------------------|---------------------|
| Capital Assets 12-31-09 | \$111,812.22 | \$220,448.48 | \$332,260.70 |
| Additions | - | 3,534.98 | \$3 3,534.98 |
| Deletions | - | - | - |
| Capital assets 12-31-10 | <u>\$111,812.22</u> | <u>\$223,983.46</u> | <u>\$335,795.68</u> |

Accumulated depreciation activity for the year ended December 31, 2010 is as follows:

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|-----------------------|--------------------|---------------------|---------------------|
| Accum. Depr. 12-31-09 | \$37,751.47 | \$164,613.27 | \$202,364.74 |
| Additions | 3,366.44 | 22,495.33 | 25,861.77 |
| Deletions | - | - | - |
| Accum. Depr. 12-31-10 | <u>\$41,117.91</u> | <u>\$187,108.60</u> | <u>\$228,226.51</u> |

Depreciation expense for 2010 was \$25,861.77.

| | |
|--------------------------|---------------------|
| Capital Assets | \$335,795.68 |
| Accumulated Depreciation | <u>228,226.51</u> |
| Net Fixed Assets | <u>\$107,569.17</u> |

**FILLMORE SOIL AND WATER CONSERVATION DISTRICT
PRESTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010**

NOTE VI. UNRESERVED DESIGNATED FUND BALANCE

| | |
|-----------------------------------|---------------------|
| 3 Month Operating | \$154,655.00 |
| Conservation Building Maintenance | 3,792.69 |
| Equipment Replacement | 303.82 |
| Pond Clean Out | 3,148.12 |
| Special Projects | 12,880.10 |
| No Till Promotion | 844.88 |
| Vehicle Replacement | 19,033.87 |
| Renewable Energy | 208.25 |
| Total | <u>\$194,866.73</u> |

Designated for Cash/Flow Operating Expenses (3 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, 2010 are:

| | |
|-----------------------------|--------------------|
| Balance January 1, 2010 | \$58,207.62 |
| 2010 Fiscal year net change | <u>3,879.27</u> |
| Balance December 31, 2010 | <u>\$62,086.89</u> |

| | |
|---------------------------------------|--------------------|
| Current Portion Long Term Liabilities | \$ 6,208.68 |
| Long Term Portion | <u>55,878.21</u> |
| Total Long Term Liabilities | <u>\$62,086.89</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 Intergovernmental Trust. The District is covered for errors and omissions through Minnesota Counties Intergovernmental Trust.

The Minnesota Counties Intergovernmental 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, 2010**

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, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

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. Coordinated Plan members are required to contribute 6.0% of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll: 7.0% for Coordinated Plan PERA members. Employer contribution rates for the Coordinated Plan will increase to 7.25% effective January 1, 2011. The District's employer share of contributions to PERA for the years ending December 31, 2010, 2009, and 2008 were \$25,926.38, \$24,869.67, and \$22,059.80 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

NOTE X. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2010 were \$18,378.72.

**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, 2010, and have issued my report thereon dated August 9, 2011. 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 except public indebtedness. The District has not and is not allowed to issue any debt. 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.

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.

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
August 9, 2011

FILLMORE SOIL & WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2010

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.