

**MURRAY SOIL AND WATER
CONSERVATION DISTRICT
AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2010**

MURRAY SOIL AND WATER CONSERVATION DISTRICT

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MURRAY SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF BOARD MEMBERS AND OFFICIALS

DECEMBER 31, 2010

		<u>Term Expires</u>
Shannon Cohrs	Chairman	12-31-12
Roger Steinman	Vice Chairman	12-31-12
Paul Posthuma	Secretary	12-31-10
Gary Brinks	Treasurer	12-31-10
Arlan Moger	Public Relations	12-31-12
Howard Konkol	District Manager	Indefinite
Shelly Lewis	District Secretary	Indefinite
Craig Christensen	District Technician	Indefinite
Brian Christiansen	District Conservationist	Indefinite

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INDEPENDENT AUDITOR'S REPORT

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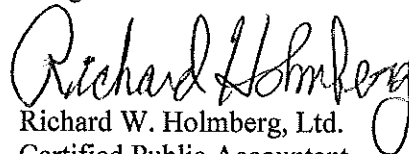
We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Murray Soil and Water Conservation District, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Minnesota Legal Compliance Audit Guide for Local Governments, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute 6.65. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and the major fund, the general fund, of the Murray Soil and Water Conservation District, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2011, on our consideration of the Murray Soil and Water Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Richard W. Holmberg, Ltd.
Certified Public Accountant

October 13, 2011

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

This section of the annual financial report of the Murray Soil and Water Conservation District presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December, 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

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

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis (MD&A-this section). This section relates mostly to the changes in the District's finances and explains the Governmental Wide-Financial Statements in detail. The MD&A is on pages 3-7;
- Financial Statements – pages 8-10:
 - The Governmental Wide-Financial Statement includes a series of financial statements that provide information about the activities of the District as a whole and present a longer-term view of the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending; and
 - The Fund Financial Statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Fund financial statements also report the District's operations.
- Reconciliation Statements – pages 13 and 14:
 - Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities explains the differences in the two statements. The Statement of Activities under the "Adjustments" column shows the differences in the two statements; and
 - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets explains the differences in these two statements. The Statement of Net Assets under the "Adjustments" column shows the differences in the two statements.
- Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, which can be found on pages 12-19.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

Statement of Net Assets and Statement of Activities

Our analysis of the Murray Soil and Water Conservation District begins with the Statement of Net Assets and the Statement of Activities of which can be found on pages 8 and 10 of this report. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

FUND FINANCIAL STATEMENTS

The Murray Soil and Water Conservation District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Activities and the Statement of Net Assets) and governmental funds through the Reconciliation's of these statements, which are on pages 13 and 14 (after the Fund Financial Statements). The basic governmental financial reports can be found on pages 8 and 10 of this report.

Notes to the Financial Statement

The Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of significant accounting policies; 2) Stewardship, compliance and accountability; 3) Deposits and Investments; 4) Changes in General Fixed Assets; 5) Deferred Revenue; 6) Compensated Absences Payable; 7) Risk Management; 8) Pension Plan; and 9) Operating Leases. The Notes to the Financial Statement are on pages 15-18.

Statement of Net Assets

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

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

Table 1	Statement of Net Assets	Governmental Activities	
		December 31, 2010	December 31, 2009
	Current Assets	\$ 204,190	\$ 180,207
	Capital Assets Net of Depreciation	120,432	136,955
	Total Assets	<u>\$ 324,622</u>	<u>\$ 317,162</u>
	Current and Other Liabilities	86,427	51,251
	Net Assets:		
	Invested in Capital Assets	120,432	136,955
	Unrestricted	117,763	128,956
	Total Net Assets	<u>238,195</u>	<u>265,911</u>
	Total Liabilities and Net Assets	<u>\$ 324,622</u>	<u>\$ 317,162</u>

The District had more revenue than expenses in 2010. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – which was \$128,956 in 2009 and \$117,763 in 2010, a decrease of \$11,193.

STATEMENT OF ACTIVITIES

Table 2 reflects changes in Governmental activities of the District. It also reflects some of the actual District's Charges for Services - District program changes from 2009 to 2010. Table 2 is on the next page.

Interest Earnings	1,177	1,317
Other	5,884	4,383
Total Revenues	<u>688,998</u>	<u>273,022</u>
Expenses		
Conservation-All Other	214,911	189,991
Depreciation	24,966	24,045
Other Services & chgs	458,096	49,044
Projects - State	18,740	22,363
Total Expenses	<u>\$ 716,713</u>	<u>\$ 285,443</u>

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

The State funds reflect funds received for General Services, RIM, and State Cost-Share program. The District's revenues for Charges for Services increased from \$55,980, in 2009 to \$57,136 in 2010. This increase is related to the District selling more mats & purchasing a Land Roller to rent.

THE DISTRICT'S FUNDS

As the District completed the year, under the general fund column as presented in the Statement of Net Assets on page 8, reported a combined fund balance of \$153,700 (includes Designated and Undesignated Fund Balances). This amount plus the net of accumulated depreciation (\$120,432) and minus the Compensated Absences \$35,936, gives a total of \$238,195 under the "Adjustments" column for the Statement of Net Assets. This amount was above last year's total of \$265,163.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

CAPITAL ASSETS

The District uses a threshold of \$1,000 for its asset capitalization policy. At the end of 2010, the District had \$237,538 invested in a broad range of capital assets, including Vehicles, Buildings, Equipment and Machinery (see Table 3). This amount represents a net increase of total capital assets (including additions and deductions) of \$8,443.

Assets	Governmental Activities	
	December 31, 2010	December 31, 2009
Equipment/Machinery	\$ 187,578	\$ 179,135
Buildings	49,960	49,960
Total Assets	237,538	229,095
Net of Depreciation	\$ 120,432	\$ 136,955

This year's major additions included: Purchases of a Loader for Tractor, in the amount of \$ 8,443.

The District's fiscal-year 2010 capital budget has designated funds of \$5,000 for capital projects.

LONG-TERM LIABILITIES

Long-term liability obligations include accrued vacation pay for which employees are paid upon termination from the District by retirement, illness or death. Detailed information about the District's long-term liabilities is presented in the Notes to the Financial Statement under Section I. Summary of Significant Accounting Policies- G. Vacation and Sick Leave on page 15; and under II.C. Compensated Absences Payable on page 16.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected officials considered many factors when setting the fiscal-year 2010 budget. Some of the economic factors taken into account for the 2010 budget include: sales of trees and tree matting, State funding and the County allocation. Expense factors include building expenses and employee salary increases.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Murray Soil and Water Conservation District, 2740 22nd St., Slayton, MN 56172 or call 507-836-6990, Ext. 3.

MURRAY SOIL AND WATER CONSERVATION DISTRICT
Statement of Net Assets and Governmental Fund Balance Sheet
December 31, 2010

	<u>General Fund</u>	<u>Adjustments See Reconciliation</u>	<u>Statement of Net Assets</u>
Assets			
Cash and Investments	\$ 194,697		\$ 194,697
Accounts Receivable	6,390		6,390
Due from Other Governments	2,013		2,013
Prepaid Items	1,090		1,090
Capital Assets, Net of Accumulated Depreciation		120,432	120,432
Total Assets	<u>\$ 204,190</u>	<u>\$ 120,432</u>	<u>\$ 324,622</u>
Liabilities			
Accounts Payable	\$ 3,115	\$ -	\$ 3,115
Sales Tax Payable	58		58
Tree Deposits	113		113
Deferred Revenue	47,205		47,205
Compensated Absences		35,936	35,936
Total Liabilities	<u>50,491</u>	<u>35,936</u>	<u>86,427</u>
Fund Balance			
Undesignated	<u>153,700</u>	<u>(153,700)</u>	<u>-</u>
	<u>153,700</u>	<u>(153,700)</u>	<u>-</u>
Net Assets			
Invested in Capital Assets		120,432	120,432
Unrestricted		117,763	117,763
		<u>\$ 238,195</u>	<u>\$ 238,195</u>

See Notes to the Financial Statements

MURRAY SOIL AND WATER CONSERVATION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
December 31, 2010

Total Fund Balance - Total Governmental Funds	\$ 153,700
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet.	120,432
Compensated absences are not due and payable in the current period and are not reported in the general funds.	<u>(35,936)</u>
Net Assets of Governmental Funds	<u><u>\$ 238,196</u></u>

See Notes to the Financial Statements

MURRAY SOIL AND WATER CONSERVATION DISTRICT
Statement of Activities and Governmental Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2010

	General Fund	Adjustments See Reconciliation	Statement of Activities
Revenues			
Intergovernmental			
County	\$ 144,861	\$ -	\$ 144,861
State	479,939		479,939
Total Intergovernmental Revenues	<u>624,800</u>	<u>-</u>	<u>624,800</u>
Charges for Services	<u>57,137</u>	<u>-</u>	<u>57,137</u>
Miscellaneous			
Interest	1,177		1,177
Other	5,884		5,884
Total Miscellaneous	<u>7,061</u>	<u>-</u>	<u>7,061</u>
Total Revenues	<u>688,998</u>	<u>-</u>	<u>688,998</u>
Expenditures			
District Operations			
Personal Services	191,322	1,508	192,830
Other Services and Charges	19,578		19,578
Supplies	2,503		2,503
Capital Outlay	8,443	(8,443)	-
Depreciation		24,966	24,966
Total District Operations	<u>221,845</u>	<u>18,032</u>	<u>239,877</u>
Project Expenditures			
District	458,096	-	458,096
State	18,740		18,740
Total Project Expenditures	<u>476,836</u>	<u>-</u>	<u>476,836</u>
Total Expenditures	<u>698,681</u>	<u>18,032</u>	<u>716,713</u>
Excess of Revenues Over(Under) Expenditures	(9,684)	(18,032)	(27,716)
Fund Balance - January 1	<u>163,384</u>	<u>102,527</u>	<u>265,911</u>
Fund Balance - December 31	<u>\$ 153,700</u>	<u>\$ 84,495</u>	<u>\$ 238,195</u>

See Notes to the Financial Statements

MURRAY SOIL AND WATER CONSERVATION DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010

Net Change in Fund Balance - Total Governmental Funds	\$ (9,684)
Governmental funds report capital outlay as expenditures. However, in the government wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	8,443
Depreciation expense on capital assets is reported in the government-wide statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds	(24,966)
Compensated Absences are also reflected in the government-wide statement of activities. In 2010, the compensated absences increased by \$1508.47 from 2009.	<u>(1,508)</u>
Changes in Net Assets of Governmental Activities	<u><u>(\$27,716)</u></u>

See Notes to the Financial Statements

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

A. Financial Reporting Entity

In conformance with standards established by the Governmental Accounting Standards Board, the District includes all funds that are controlled by or dependent on the District Board. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

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

B. Basis of Accounting

Government-Wide Financial Statements

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

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

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

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

Fund Financial Statements

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

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

C. Use of Estimates

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

D. Budget

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

E. Cash Equivalents

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

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

F. Assets, Liabilities, and Equity Accounts

1. Assets

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

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

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

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

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

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

2. Liabilities

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

3. Equity

Government-wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

G. Revenues and Expenses

1. Revenues

a. Intergovernmental

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

b. Other Revenue

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

2. Expenses

a. Project Expenses

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

b. Vacation and Sick Leave

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

II. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Changes in Capital Assets:

	<u>Buildings</u>	<u>Machinery & Equipment</u>	<u>Vehicles</u>	<u>Totals</u>
Primary Government				
Balance, December 31, 2009	\$ 49,960	\$ 179,135	\$ -	\$ 229,095
Increases		8,443	-	8,443
Decreases	-	-	-	-
Balance, December 31, 2010	<u>49,960</u>	<u>187,578</u>	<u>-</u>	<u>237,538</u>
Accumulated Depreciation				
Balance, December 31, 2009	1,249	90,891	-	92,140
Increases	624	24,342	-	24,966
Decreases	-	-	-	-
Balance, December 31, 2008	<u>1,873</u>	<u>115,233</u>	<u>-</u>	<u>117,106</u>
Capital Assets, Net	<u>\$ 48,087</u>	<u>\$ 72,345</u>	<u>\$ -</u>	<u>\$ 120,432</u>

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

B. Deferred Revenue

Deferred revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Murray County for various programs. Revenues will be recognized when the related program expenses are recorded. Deferred revenue for the year ended December 31, 2010, consists of the following:

Regular/Special State Cost-Share		\$ 22,205		
Cost Share Flood Relief		25,000		
Total		<u>\$ 47,205</u>		

C. Compensated Absences

Changes in long-term debt for the period ended December 31, 2010, are:

Balance – January 1, 2010	\$34,427
Net change in compensated absences	<u>1,508</u>
Balance – December 31, 2010	<u>\$35,935</u>

There were no compensated absences payable to terminated employees as of December 31, 2010. Therefore, the balance at the end of the year is considered to be long-term in nature and no disclosure for a current portion is required.

C. Cash and Investments

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

Deposits

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

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

MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

As of December 31, 2010, the carrying amount of the District's deposits with financial institutions was \$194,672, and the bank balance was \$198,934. The bank balance is categorized as follows:

Insured by FDIC Insurance	\$ 198,934
Covered by Collateral	0
Uninsured/Uncollateralized	<u>0</u>
Total	<u>\$ 198,934</u>

Investments

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

The District does not carry any investments on its financial statements as of December 31, 2010.

III. PENSION PLANS

Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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

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

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

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

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 plan equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.00%, respectively, of their annual covered salary. The Murray Soil and Water Conservation District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members 7.0% for Coordinated Plan PERF members. The District's contribution for 2011 will be 7.25%. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$8,029.16 and \$7,437.16 and \$,536.95, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

IV. RISK MANAGEMENT

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

The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

V. OPERATING LEASE

The District leases office space for \$12,468, storage for \$1,200, and pays \$680 for LAN/WAN/Voice costs on a yearly basis. Southwest Prairie Joint Powers Organization subleases from the District for \$5,328.00. Under this agreement, the net costs for 2010 were \$4,974.82. Under this agreement, the net costs for 2010 were \$9,673.23. The terms of the lease state that either party can terminate the agreement with written notice. The lease payment would be pro-rated based on the number of days the space was used. Therefore, no minimum lease requirement can be determined.

VI. SUBSEQUENT EVENTS

Management's review of subsequent events included an evaluation through October 13, 2011, which is the date the financial statements were available to be issued. The evaluation resulted in no changes to the financial statements or disclosures.

MURRAY SOIL AND WATER CONSERVATION DISTRICT
Statement of Activities and Governmental Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
County	\$160,285	\$160,285	\$144,861	(\$15,424)
State	58,756	58,756	479,939	421,183
Total Intergovernmental Revenues	<u>219,041</u>	<u>219,041</u>	<u>624,800</u>	<u>405,759</u>
Charges for Services	<u>45,500</u>	<u>45,500</u>	<u>57,137</u>	<u>11,637</u>
Miscellaneous				
Interest	2,500	2,500	1,177	(1,323)
Other	<u>0</u>	<u>0</u>	<u>5,884</u>	<u>5,884</u>
Total Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>7,061</u>	<u>4,561</u>
Total Revenues	<u>267,041</u>	<u>267,041</u>	<u>688,998</u>	<u>421,957</u>
Expenditures				
District Operations				
Personal Services	189,331	189,331	191,322	(1,991)
Other Services and Charges	25,000	25,000	19,578	5,422
Supplies	2,000	2,000	2,503	(503)
Capital Outlay	<u>5,000</u>	<u>5,000</u>	<u>8,443</u>	<u>(3,443)</u>
Total District Operations	<u>221,331</u>	<u>221,331</u>	<u>221,845</u>	<u>(514)</u>
Project Expenditures				
District	10,000	10,000	458,096	(448,096)
State	<u>16,269</u>	<u>16,269</u>	<u>18,740</u>	<u>(2,471)</u>
Total Project Expenditures	<u>26,269</u>	<u>26,269</u>	<u>476,836</u>	<u>(450,567)</u>
Total Expenditures	<u>247,600</u>	<u>247,600</u>	<u>698,681</u>	<u>(451,081)</u>
Excess of Revenues Over(Under)				
Expenditures	19,441	19,441	(9,684)	(29,125)
Fund Balance - January 1	<u>163,384</u>	<u>163,384</u>	<u>163,384</u>	<u>0</u>
Fund Balance - December 31	<u>\$182,825</u>	<u>\$182,825</u>	<u>\$153,700</u>	<u>(\$29,125)</u>

See Notes to the Financial Statements

**MURRAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010**

Basis of Presentation

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

Budgetary Legal Requirements

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

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

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Certified Public Accountant

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

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

We have audited the financial statements of the governmental activities and the major fund, the general fund, of Murray Soil and Water Conservation District as of and for the year ended December 31, 2010, which collectively comprise the Murray Soil and Water Conservation District's basic financial statements and have issued our report thereon dated October 13, 2011. We conducted our 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.

Internal Control Over Financial Reporting

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

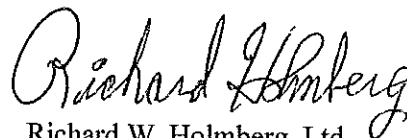
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. This item is 2010-1 on the schedule of findings and questioned costs. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Compliance and Other Matters

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

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



Richard W. Holmberg, Ltd.
Certified Public Accountant

October 13, 2011

MURRAY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2010-1. FINDING – Segregation of Duties

Condition – Due to the small size of the District’s accounting staff, proper segregation of duties is not possible.

Criteria – Proper segregation of duties is required in the accounting department to ensure the proper processing, recording and reporting of financial data.

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

Response -- Management agrees with the finding.

Corrective Plan of Action – The District’s Manager and Board members will continue to monitor control procedures for possible deficiencies.

RICHARD W. HOLMBERG, LTD

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

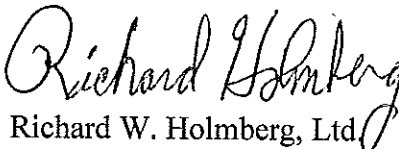
We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Murray Soil and Water Conservation District, as of and for the year ended December 31, 2010 and have issued our report thereon dated October 13, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories except public indebtedness and tax increment financing which do not apply to the District.

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

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


Richard W. Holmberg, Ltd.
Certified Public Accountant

October 13, 2011