

**LYON SOIL AND WATER
CONSERVATION DISTRICT
AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2011**

LYON SOIL AND WATER CONSERVATION DISTRICT

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LYON SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF BOARD MEMBERS AND OFFICIALS

DECEMBER 31, 2011

		<u>Term Expires</u>
Steve Prairie	Chairman	12-31-12
Otto Nyquist	Vice Chairman	12-31-14
Mark Meulebroeck	Secretary/Treasurer	12-31-12
Allen Deutz	Public Relations/ Information	12-31-14
Gary Crowley	Member	12-31-12

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INDEPENDENT AUDITOR'S REPORT

Lyon Soil & Water Conservation District
1424 East College Drive, Suite 600
Marshall, MN 56258


We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Lyon Soil and Water Conservation District, as of and for the year ended December 31, 2011, 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 Lyon Soil and Water Conservation District, as of December 31, 2011, 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 September 25, 2012 on our consideration of the Lyon 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

September 25, 2012

LYON SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

This section of the annual financial report of the Lyon 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, 2011. 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 increased due to the expenses being less than anticipated in the budget. This was due in part to a staff person not collecting salary during a short term illness and a decrease in the anticipated project expenditures.

USING THIS ANNUAL REPORT

This annual report consists of five main topics: 1) Management's Discussion and Analysis (MDA); 2) Financial Statements; 3) Reconciliation Statements; 4) Notes to the Financial Statement; and 5) Required Supplementary Information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities, found on pages 8 and 10, provide information about the activities of the Soil and Water Conservation District (SWCD) 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. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Since the SWCD's are single-purpose, special-purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Lyon SWCD has elected to present in this format.

Reconciliation Statements – pages 9 and 11:

- 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.
- Reconciliation of the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances explains the differences in the two statements. The Statement of Activities under the "Adjustments" column shows the differences in the two statements.

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; 9) Operating Leases; and 10) Subsequent Events. The Notes to the Financial Statement are on pages 12 – 19.

Required Supplementary Information, found on pages 20 and 21, includes the Budgetary Comparison Statement and Notes to Required Supplementary Information.

**LYON SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Statement of Net Assets and Statement of Activities

Our analysis of the Lyon SWCD as a whole begins on page 4. 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 SWCD's net assets - the difference between assets and liabilities - as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the 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 to assess the overall health of the SWCD.

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

Reporting the SWCD's General Fund

Fund Financial Statements

Our analysis of the SWCD's general fund begins on page 5. The fund financial statements provide detailed information about the general fund. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD'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 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 SWCD's programs.

THE SWCD AS A WHOLE

Statement of Net Assets

The SWCD's combined assets were higher, increasing from \$756,450 to \$850,753. In contrast, last year net assets decreased by \$13,594. Looking at the net assets and net of revenues and expenses of governmental activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) of the District's governmental activities.

**LYON SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Table 1

Statement of Net Assets

	Governmental Activities	
	<u>Dec 31, 2011</u>	<u>Dec. 31, 2010</u>
Current Assets	\$ 97,725	\$194,143
Capital Assets Net of Depreciation	<u>4,494</u>	<u>5,924</u>
Total Assets	<u>\$101,686</u>	<u>\$200,067</u>
Current and Other Liabilities	\$ 73,081	\$ 181,790
Net Assets:		
Invested in Capital Assets	4,494	5,924
Restricted	0	0
Unrestricted	<u>24,111</u>	<u>12,353</u>
Total Net Assets	<u>28,605</u>	<u>18,277</u>
Total liabilities and Net Assets	<u>\$101,686</u>	<u>\$200,067</u>

Net assets of the SWCD's governmental activities increased by 34.6% (\$28,605 compared to \$18,277). 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 is \$24,111.

Statement of Activities

Table 2 reflects changes in Governmental activities of the District. It also reflects some of the actual SWCD's charges for services.

Table 2

Changes in Net Assets

	Governmental Activities	
	<u>Dec 31, 2011</u>	<u>Dec. 31, 2010</u>
Revenues		
<u>General:</u>		
County	\$ 96,130	\$ 97,500
State	175,369	106,288
Interest Earnings	294	425
<u>Program:</u>		
Miscellaneous	30,136	24,644
Charges for Services	<u>9,668</u>	<u>27,187</u>
Total Revenues	<u>\$311,597</u>	<u>\$256,044</u>
Expenses		
District Operation	\$145,170	\$162,726
Project Expenses	154,669	93,006
Depreciation	<u>1,430</u>	<u>1,644</u>
Total Expenses	<u>\$301,269</u>	<u>\$257,376</u>
Change in Net Assets	<u>\$ 10,328</u>	<u>\$ (1,332)</u>

**LYON SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The Changes in Net Assets are as follows:

State Funds: This reflects a difference in revenue due to the increase in cost share funding available through the Clean Water Legacy program and the amount of contracts that were completed in 2011. This also is reflected in the increase in expenditures for cost share projects completed. We also had a reduction in administrative funds due to cuts from the State agencies.

District Expenditures and Revenues: There was a decrease in expenditures from 2011. We show an increase in revenues due to cost share grants received to install practices with landowners that were completed in 2011. These funds are not available for day-to-day activities of the SWCD but are obligated to go to landowners for on the ground projects. We also entered into a contract with Lyon County to assist in a level three feedlot inventory that is reflected in the miscellaneous income.

THE SWCD'S FUNDS

As the SWCD completed the year, its general fund as presented in the balance sheet on page 8, reported a combined fund balance of \$31,329. This amount plus the capital assets net of accumulated depreciation of \$4,494 and minus the compensated absences of \$7,218 gives a total of \$28,605 under the "adjustments" column for the Statement of Net Assets. This amount was over last year's total by \$10,328. The reasons for the General Fund increase mirror the Statement of Net Assets under the Fund Financial Statements section as highlighted in the attached report.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$52,855 above the final budget amounts. The most significant change occurred in the cost share projects paid to landowners. The year proved to have excellent weather conditions to complete a large number of projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

In 2004, the Lyon Soil and Water Conservation District developed the following schedules:

- Guide to Capital Assets
- Schedule of General Capital Assets and Changes

These are part of the compliance by the District to the GASB #34 accounting changes for the District. These will be maintained and updated as needed. These are available upon request.

The Schedules of General Capital Assets and the Summary of Changes in General Capital Assets consists of capital assets over the District threshold of \$1,000. At the end of 2011, the District had \$27,511 invested in capital assets, including vehicles, equipment and furniture and fixtures (Table 4). There were no purchases of capital assets in 2011.

**LYON SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

Table 4

Capital Assets at Year-end
(Net of Depreciation)

<u>Capital Assets</u>	<u>Governmental Activities</u>	
	<u>Dec 31, 2011</u>	<u>Dec. 31, 2010</u>
Vehicles and Equipment	\$ 27,511	\$ 27,511
(Net of Depreciation)	\$ 4,494	\$ 5,924

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- H (2) (b). Vacation and Sick Leave on page 15; and under II(C) Compensated Absences Payable on page 16.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected officials considered many factors when setting the fiscal-year budget. Some of the economic factors taken into account for the 2011 budget include: sales of trees and tree matting, State funding, Federal Contribution Agreements, County Contribution Agreements, and the County allocation. The 2012 budget planning will be challenging and will reflect reductions in various areas as it is anticipated cuts in funding will happen to state and federal programs due to poor economic forecasts.

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 Lyon Soil and Water Conservation District, 1424 East College Drive – Suite 600, Marshall, MN 56258 or call 507-537-0396, Ext. 3.

LYON SOIL AND WATER CONSERVATION DISTRICT
Statement of Net Assets and Governmental Fund Balance Sheet
For the Year Ended December 31, 2011

	General Fund	Adjustments See Reconciliation	Statement of Net Assets
Assets			
Cash			
Checking Accounts	\$ 10,187		\$ 10,187
Savings Accounts	69,983		69,983
Total Cash	<u>80,170</u>		<u>80,170</u>
Inventory	2,546		2,546
Due from other Governments	14,476		14,476
Capital Assets, Net of Accumulated Depreciation	-	4,494	4,494
Total Assets	<u>97,192</u>	<u>4,494</u>	<u>101,686</u>
Liabilities			
Accounts Payable	1,228	-	1,228
Customer Deposits	748		748
Deferred Revenue	63,887		63,887
Compensated Absences	-	7,218	7,218
Total Liabilities	<u>65,863</u>	<u>7,218</u>	<u>73,081</u>
Fund Balance			
Non-spendable	2,546	(2,546)	-
Committed	8,000	(8,000)	-
Assigned	8,726	(8,726)	-
Unassigned	12,057	(12,057)	-
	<u>31,329</u>	<u>(31,329)</u>	<u>-</u>
Net Assets			
Invested in Capital Assets		4,494	4,494
Unrestricted		24,111	24,111
		<u>\$ 28,605</u>	<u>\$ 28,605</u>

See the Notes to the Financial Statements.

LYON SOIL AND WATER CONSERVATION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
December 31, 2011

Total Fund Balance - Total Governmental Funds	\$ 31,329
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet.	4,494
Compensated absences are not due and payable in the current period and are not reported in the general funds.	<u>(7,218)</u>
Net Assets of Governmental Funds	<u>\$ 28,604</u>

See the Notes to the Financial Statements.

LYON SOIL AND WATER CONSERVATION DISTRICT
Statement of Activities and Governmental Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2011

	General Fund	Adjustments See Reconciliation	Statement of Activities
Revenues			
Intergovernmental			
County	\$ 96,130	\$ -	\$ 96,130
State	175,369		175,369
Federal	-		-
Total Intergovernmental Revenues	<u>271,499</u>	<u>-</u>	<u>271,499</u>
Charges for Services	<u>9,668</u>	<u>-</u>	<u>9,668</u>
Miscellaneous			
Interest	294		294
Other	30,136		30,136
Total Miscellaneous	<u>30,430</u>	<u>-</u>	<u>30,430</u>
Total Revenues	<u>311,597</u>	<u>-</u>	<u>311,597</u>
Expenditures\Expenses			
District Operations			
Personal Services	111,979	(846)	111,133
Other Services and Charges	30,456		30,456
Supplies	3,581		3,581
Depreciation		1,430	1,430
Total District Operations	<u>146,016</u>	<u>584</u>	<u>146,600</u>
Project Expenditures\Expenses			
District	6,935		6,935
State	147,734		147,734
Total Project Expenditures\Expenses	<u>154,669</u>	<u>-</u>	<u>154,669</u>
Total Expenditures\Expenses	<u>300,685</u>	<u>584</u>	<u>301,269</u>
Excess of Revenues Over(Under) Expenditures\Expenses	10,912	(584)	10,328
Fund Balance\Net Assets - January 1	<u>20,417</u>	<u>(2,140)</u>	<u>18,277</u>
Fund Balance\Net Assets - December 31	<u>\$ 31,329</u>	<u>\$ (2,724)</u>	<u>\$ 28,605</u>

See the Notes to the Financial Statements.

LYON 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, 2011

Net Change in Fund Balance - Total Governmental Funds	\$ 10,912
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.	(1,430)
Compensated Absences are also reflected in the government-wide statement of activities. In 2011, the compensated absences decreased by \$1,902 from 2010.	<u>846</u>
Changes in Net Assets of Governmental Activities	<u><u>\$ 10,328</u></u>

See the Notes to the Financial Statements.

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lyon 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 Lyon 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 and account groups 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 Lyon 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 appropriations 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.

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 corporation.

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 thirty days 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

Lyon 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.

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Lyon 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.

G. 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. General capital assets are still valued at historical or estimated historical cost.

Depreciation of all exhaustible capital 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 Lyon 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.”

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Fund Financial Statements

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

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

H. 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 expenditures 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.

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 for full time employees can be earned up to 300 hours of vacation (annual) leave per year. Sick leave is accrued by full time employees at a rate of 4 hours per pay period; upon reaching 240 accrued hours, the employee will earn 2 hours per pay period with no maximum. On termination of employment by illness or death, employees are paid their accrued vacation leave but no sick leave is compensated.

II. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Changes in Capital Assets:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Vehicles & Equipment	27,511	-	-	27,511
Total	27,511	-	-	27,511
Accumulated Depreciation	(21,587)	(1,430)	-	(23,017)
Governmental Capital Assets, Net	\$ 5,924	\$ (1,430)	\$ -	\$ 4,494

B. Deferred Revenue

Deferred revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Lyon County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2011, consists of the following:

BWSR Service Grants	\$ 31,324
State Cost Share Grants	32,563
Total	\$ 63,887

C. Compensated Absences

Changes in long-term debt for the period ended December 31, 2011, are:

Balance - January 1, 2011	\$ 8,064
Net change in compensated absences	(846)
Balance - December 31, 2011	\$ 7,218

LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

D. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 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 investment.

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 standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in

a restricted account at the Federal Reserve Bank or in an account at a trust department at a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

As of December 31, 2011, the carrying amount of the District's deposits with financial institutions was \$80,170, and the bank balance was \$94,755. The bank balance is categorized as follows:

Insured by FDIC Insurance	\$ 94,755
Covered by Collateral	0
Uninsured/Uncollateralized	0
Total	\$ 94,755

E. 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, 2011.

**LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

III. PENSION PLANS

Plan Description

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

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

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

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate 2.7 percent of average salary for Basis Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF members hired prior to July 1, 1989 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 be 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 of this section 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 on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 Coordinated Plan members are required to contribute 6.25% of their annual covered salary in 2011. The Lincoln Soil and Water Conservation District is required to contribute the following percentage of annual covered payroll: 7.25% for Coordinated Plan PERF members. The employer contribution rate for the Coordinated Plan will increase to 7.5% effective January 1, 2012. The district's employer share of contributions to PERA for the years ending December 31, 2011, 2010, and 2009 were \$5,209 and \$6,190 and \$6,023 respectively, equal to the contractually required contributions for each year as set by state statute.

IV. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, employee health, and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities, errors and omissions and workers' compensation are insured through Minnesota Counties Insurance Trust. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the general-purpose 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 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 on a yearly basis as an independent lease from the building owner. As of 2009, the District no longer leases under the USDA lease.

LYON SOIL AND WATER CONSERVATION DISTRICT
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
County	\$ 96,130	\$ 96,130	\$ 96,130	\$ -
State	120,650	120,650	175,369	54,719
Total Intergovernmental Revenues	<u>216,780</u>	<u>216,780</u>	<u>271,499</u>	<u>54,719</u>
Charges for Services	<u>20,600</u>	<u>20,600</u>	<u>9,668</u>	<u>(10,932)</u>
Miscellaneous				
Interest	450	450	294	(156)
Other	10,000	10,000	30,136	20,136
Total Miscellaneous	<u>10,450</u>	<u>10,450</u>	<u>30,430</u>	<u>19,980</u>
Total Revenues	<u>\$ 247,830</u>	<u>\$ 247,830</u>	<u>\$ 311,597</u>	<u>\$ 63,767</u>
Expenditures				
District Operations				
Personal Services	\$ 124,530	\$ 124,530	\$ 111,979	\$ 12,551
Other Services and Charges	29,400	29,400	30,456	(1,056)
Supplies	3,500	3,500	3,581	(81)
Total District Operations	<u>157,430</u>	<u>157,430</u>	<u>146,016</u>	<u>11,414</u>
Project Expenditures				
District	10,400	10,400	6,935	3,465
State	80,000	80,000	147,734	(67,734)
Total Project Expenditures	<u>90,400</u>	<u>90,400</u>	<u>154,669</u>	<u>(64,269)</u>
Total Expenditures	<u>\$ 247,830</u>	<u>\$ 247,830</u>	<u>\$ 300,685</u>	<u>\$ (52,855)</u>
Excess of Revenues Over(Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,912</u>	<u>\$ 10,912</u>
Fund Balance - January 1	<u>\$ 20,417</u>	<u>\$ 20,417</u>	<u>\$ 20,417</u>	
Fund Balance - December 31	<u>\$ 20,417</u>	<u>\$ 20,417</u>	<u>\$ 31,329</u>	

See the Notes to the Financial Statements.

**LYON SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011**

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.

RICHARD W. HOLMBERG, LTD

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

Lyon Soil and Water Conservation District
1424 East College Drive, Suite 600
Marshall, MN 56258

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Lyon Soil and Water Conservation District, as of and for the year ended December 31, 2011, which collectively comprise the District's financial statements and have issued our report dated September 25, 2012. 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 Lyon Soil and Water Conservation 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 Lyon Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lyon Soil and Water Conservation 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, 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.

Our consideration of the 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 the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questionable costs that we consider to be significant deficiencies in internal control over financial reporting; 2011-1 and 2011-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

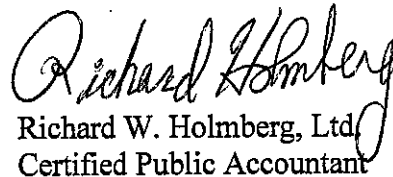
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lyon 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, noncompliance with which could have a direct and material effect on the determination of financial statements 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*.

We noted certain matters that we reported to management of the District in a separate letter dated September 25, 2012.

Lyon SWCD's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the 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

September 25, 2012

**LYON SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Prior Audit:

There were no findings in the prior year.

Current Audit:

Internal Controls:

Significant Deficiency – Not a Material Weakness

2011-1. FINDING – Segregation of Duties

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

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

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

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

2011-2. FINDING – Financial Statement Disclosures

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

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

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

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

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

RICHARD W. HOLMBERG, LTD

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Lyon Soil and Water Conservation District
1424 East College Drive, Suite 600
Marshall, MN 56258


We have audited the governmental activities and the major fund, the general fund, of the Lyon Soil and Water Conservation District, as of and for the year ended December 31, 2011 and have issued our report thereon dated September 25, 2012.

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

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

The results of our tests indicate that for the items tested, the Lyon 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 Lyon Soil and Water Conservation District had not complied with such legal provisions.

This report is intended solely for the information and use of the District's Board of Trustees, Office of the State Auditor and other federal and state grantor or cognizant agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.


Richard W. Holmberg, Ltd.
Certified Public Accountant

September 25, 2012