

**PIPESTONE SOIL AND WATER
CONSERVATION DISTRICT**

**ANNUAL FINANCIAL REPORT
DECEMBER 31, 2014**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Pipestone Soil and Water Conservation District's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2014. 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 SWCD's financial statements beginning on page 6.

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 6 and 7 provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements start on page 8. 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 SWCD's most significant funds. Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Pipestone Soil and Water Conservation District has elected to present in this format.

The Statement of Net Position and the Statement of Activities

Our analysis of the SWCD as a whole begins on page 2. One of the most important questions asked about the SWCD's finances is, "Is the SWCD as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by 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 SWCD's net position and changes in them. You can think of the SWCD's net position — 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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the SWCD's property tax base to assess the overall health of the SWCD.

In the Statement of Net Position 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 finance most activities.

Reporting the SWCD's General Fund

Fund Financial Statements

Our analysis of the SWCD's general fund begins on page 2. The fund financial statements begin on page 6 and provide detailed information about the general fund—not the SWCD as a whole. 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 is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE SWCD AS A WHOLE

The SWCD's combined net position was decreased from \$557,590 to \$503,377. In contrast, last year net position decreased by \$37,963. Looking at the net position and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the SWCD's governmental and business-type activities.

Table 1
Net Position

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current and other assets	573,378	592,209
Capital assets	<u>135,207</u>	<u>124,453</u>
Total assets	708,585	716,662
Long-term liabilities		
Current liabilities	<u>205,208</u>	<u>159,072</u>
Total liabilities	205,208	159,072
Net Position		
Net investment in capital assets	135,207	124,453
Unrestricted	<u>368,170</u>	<u>433,137</u>
Total net position	<u>503,377</u>	<u>557,590</u>

Net position of the SWCD governmental activities decreased by 9.7 percent (\$503,377 compared to \$557,590). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$433,137 surplus at December 31, 2013, to a \$368,170 surplus at the end of this year.

TABLE 2
 Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues:		
Charges for services	34,736	27,812
Federal Grants		
State grants and entitlements	191,267	186,084
County	50,000	70,000
General revenues		
Other general revenues	7,872	11,253
Other taxes		
Total revenues	<u>283,875</u>	<u>295,149</u>
Program expenses		
Conservation	<u>338,088</u>	<u>331,112</u>
Total expenses	<u>338,088</u>	<u>331,112</u>
Increase (decrease) in net position	<u>(54,213)</u>	<u>(35,963)</u>

The SWCD’s total revenues decreased by 3.8 percent (\$11,274). The total cost of all programs and services increased by \$13,556 with no new programs added this year. Even with this growth in expenses, the SWCD covered this year’s costs. Our analysis below separately considers the operations of governmental activities.

Governmental Activities

Revenues excluding the sale of special items sold for the SWCD governmental activities decreased by 3.8 percent (\$11,274), while total expenses increased 2.1 percent (\$6,976).

The cost of all governmental activities this year was \$338,088 compared to \$331,112 last year. However, as shown in the Statement of Activities on pages 7 the amount that our taxpayers ultimately financed for these activities through county taxes was only \$50,000 because some of the cost was paid by those who directly benefitted from the programs (\$34,736) or by other governments and organizations that subsidized certain programs with grants and contributions (\$191,267). Overall, the SWCD’s governmental program revenues, including intergovernmental aid and fees for services, decreased in 2014 from \$283,896 to \$276,003, principally based on decreases in intergovernmental aid. The SWCD paid for the remaining “public benefit” portion of governmental activities with other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the SWCDs five largest programs as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the SWCD’s taxpayers by each of these functions.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Conservation	<u>\$344,668</u>	<u>\$328,422</u>	<u>\$68,665</u>	<u>\$44,546</u>
Totals	<u>\$344,668</u>	<u>\$328,422</u>	<u>\$68,665</u>	<u>\$44,546</u>

THE SWCD’s FUNDS

As the SWCD completed the year, its general fund (as presented in the balance sheet on page 3 reported a combined fund balance of \$374,864, which is below last year’s total of \$435,657. Included in this year’s total change in fund balance, however, is a deficit of \$68,665 in the SWCD’s General Fund. The primary reasons for the General Fund’s surplus mirror the governmental activities analysis highlighted on pages 7.

General Fund Budgetary Highlights

Over the course of the year, the governing board revised the SWCD’s budget once. This revision was made to reflect known changes in revenues from state and county sources and related changes in expenditures.

The actual charges to appropriations (expenditures) were \$80,784 above the final budget amounts. The most significant positive variance (\$3,949) occurred in the SWCD’s other services and charges account, where a conscious effort to control operating costs resulted in a 6.7% decrease in miscellaneous operating expenses.

On the other hand, resources available for appropriation were \$59,991 above the final budgeted amount. Appropriations from the county were equal to expected. Increases in state funding also affected grant resources available for appropriation.

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2014, the SWCD had \$135,207 invested in a broad range of capital assets. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$10,754, or 8.6 percent, over last year.

Table 4
Capital Assets at Year-end

	Governmental <u>Activities</u>	
	<u>2014</u>	<u>2013</u>
Equipment	\$ <u>135,207</u>	\$ <u>124,453</u>
	\$ <u>135,207</u>	\$ <u>124,453</u>

This year's major additions included a no-till drill.

Long-Term Liabilities

Long term obligations consist solely of accrued vacation pay and sick leave. More detailed about the SWCD's long-term liabilities is presented in Note VI to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget, tax rates.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Pipestone Soil and Water Conservation District, 119 2nd Avenue SW, Pipestone, MN 56164.

Pipestone Soil and Water Conservation District
 Pipestone, Minnesota

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
 PIPESTONE, MINNESOTA

STATEMENT OF NET POSITION AND
 GOVERNMENTAL FUND BALANCE SHEET
 FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and investments	\$568,980		\$568,980
Prepaid items	4,398		4,398
Capital Assets:			
Equipment (net of accumulated depreciation)		135,207	135,207
Total Assets	\$573,378	\$135,207	\$708,585
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$3,857		\$3,857
Unearned revenue	194,657		194,657
Long-term liabilities:			0
Due within one year		6,694	6,694
Due after one year		0	0
Total Liabilities	\$198,514	\$6,694	\$205,208
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Nonspendable (Prepays, Inventories)	\$4,398	(\$4,398)	\$0
Unrestricted			
Committed or Assigned	350,000	(350,000)	0
Unassigned	20,466	(20,466)	0
Total Fund Balance	\$374,864	(\$374,864)	\$0
Net Position			
Net investment in capital assets		\$135,207	\$135,207
Unassigned		368,170	368,170
Total Net Position		\$503,377	\$503,377

Notes are an integral part of the basic financial statements.

Pipestone Soil and Water Conservation District
 Pipestone, Minnesota

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
 PIPESTONE, MINNESOTA

STATEMENT OF ACTIVITIES AND
 GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$241,267	\$0	\$241,267
Charges for services	34,736	0	34,736
Investment earnings	1,711	0	1,711
Miscellaneous	6,161	0	6,161
Total Revenues	\$283,875	\$0	\$283,875
Expenditures/Expenses			
Conservation			
Current	\$314,623	\$23,465	\$338,088
Capital outlay	30,045	(30,045)	0
Total Expenditures/Expenses	\$344,668	(\$6,580)	\$338,088
Excess of Revenues Over (Under)			
Expenditures/Expenses	(\$60,793)	\$6,580	(\$54,213)
Fund Balance/Net Position January 1	435,657	121,933	557,590
Fund Balance/Net Position December 31	\$374,864	\$128,513	\$503,377

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
 PIPESTONE, MINNESOTA

BUDGETARY COMPARISON STATEMENT
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
Revenues				
Intergovernmental				
County	\$70,000	\$50,000	\$50,000	\$0
State grant	141,596	161,273	191,267	29,994
Total intergovernmental	\$211,596	\$211,273	\$241,267	\$29,994
Charges for services	\$40,000	\$10,000	\$34,736	\$24,736
Miscellaneous				
Interest earnings	\$2,000	\$2,611	\$1,711	(\$900)
Other	0	0	6,161	6,161
Total miscellaneous	\$2,000	\$2,611	\$7,872	\$5,261
Total Revenues	\$253,596	\$223,884	\$283,875	\$59,991
Expenditures				
District operations				
Personnel services	\$147,633	\$146,893	\$152,680	(\$5,787)
Other services and charges	73,503	59,313	55,364	3,949
Supplies	3,000	2,000	2,359	(359)
Capital outlay	0	10,000	30,045	(20,045)
Total district operations	\$224,136	\$218,206	\$240,448	(\$22,242)
Project expenditures				
District	\$12,952	\$19,344	\$42,521	(\$23,177)
State	16,508	26,334	61,699	(35,365)
Total project expenditures	\$29,460	\$45,678	\$104,220	(\$58,542)
Total Expenditures	\$253,596	\$263,884	\$344,668	(\$80,784)
Excess of Revenues Over (Under)				
Expenditures	\$0	(\$40,000)	(\$60,793)	(\$20,793)
Fund Balance - January 1	\$435,657	\$435,657	\$435,657	\$0
Fund Balance - December 31	\$435,657	\$395,657	\$374,864	(\$20,793)

Notes are an integral part of the basic financial statements.

**BREAKDOWN OF COUNTY REVENUE
2014**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$ <u>50,000</u>
WATER PLAN MONEY	\$ _____
WETLAND MONEY	\$ _____
FEEDLOT MONEY	\$ _____
ABANDONED WELL	\$ _____
DNR SHORELAND	\$ _____
OTHER (specify (1/2 Time Solid Waste Position)	\$ _____
 TOTAL	 \$ <u>50,000</u>

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

List other "non-cash" county support (i.e. rent, health insurance, etc.) that does not show up anywhere on your annual report.

**UNEARNED REVENUE BREAKDOWN
 2014**

Balance of BWSR Service Grants: \$ _____

Balance of unencumbered BWSR Cost-Share Grants: Current fiscal year \$ 186,935

Previous fiscal year \$ _____

Balance of encumbered BWSR Cost-Share Grant (list each contract separately):

<u>FY</u>	<u>Contract No.</u>	<u>Contract Amount</u>	<u>T & A Encumbered</u>

Total of all Cost-Share Encumbrances \$ _____

Balance of County WCA Funds: \$ _____

Balance of County Water Plan Funds: \$ _____

Balance of other funds being deferred (list if any):

State of Minnesota Farm Bill Aid \$ 7,722

_____ \$ _____

_____ \$ _____

Subtotal of other funds: \$ 7,722

TOTAL OF ALL UNEARNED REVENUE: \$ 194,657

**Reconciliation of the Statements of Revenues, Expenditures, and changes in Fund Balance of
Governmental Funds to the Statements of Activities**

Net Changes in Fund Balance – Total Governmental Funds \$(60,793)

Amounts reported for governmental activities in the Statement of Activities are different. Under the “Adjustments” column, are the following: for the Conservation Current expense: The amount of \$23,465 is made up of the following: the 2014 Depreciation of \$19,291 plus \$4,174 increase in compensated absences from 2013 of \$2,520 to 2014 of \$6,694.

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount of depreciation expense for 2014. \$(19,291)

This is the amount of Capital Asset Additions for 2014. \$ 30,045

Compensated Absences are also reflected in the Statement of Activities In 2014 the compensated absences increased by \$4,174 from 2013. \$(4,174)

Changes in Net Position of Governmental Activities \$(54,213)

Total Fund Balance – Total Governmental Funds \$374,864

Amounts reported for governmental activities in the Statement of Net Assets are different because as shown under the “Adjustments” column the Capital Assets are added to the Net Position while the Compensated Absences are a liability and are therefore subtracted from Net Position from the Total Net Position as follows: Capital assets of \$135,207 net of accumulated depreciation are not financial resources and, therefore, are not reported in the general funds. \$135,207

Compensated absences are not due and payable in the current period and are not reported in the general funds. \$(6,694)

Net Position of Governmental Funds \$503,377

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Pipestone Soil and Water Conservation District (District) conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. Financial Reporting Entity

The district is organized under the provisions of Minnesota Statutes Chapter 103C and 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 Pipestone Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture 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 that 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 District is not considered a part of Pipestone County because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

B. Basis of Presentation - Fund Accounting

The accounts of the Pipestone Soil and Water Conservation District are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

1. Governmental Funds: General Fund

The General Fund is used to account for all revenues and expenditures incurred in operating the District.

2. General Fixed Assets Account Group

This account group is used to record the District's general fixed assets, which include furniture and equipment.

3. General Long-Term Debt Account Group

This account group records earned but unpaid vacation and sick leave that has vested or is expected to vest.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Position and the Statement of Activities) report information on all the nonfiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

The District's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. If the District also receives an annual appropriation from the County, it 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.

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

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

In accordance with Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

D. Budget Information

The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

E. 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.

Beginning with statement year 2004, fixed assets (capital assets) are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General fixed assets are still valued at historical or estimated historical cost.

2. Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the General Long-Term Debt Account Group.

3. Equity

Investment in general fixed assets represents the District's equity in general fixed assets.

Nonspendable fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriable for spending.

Unrestrictive, committed or assigned account indicates the portion of fund equity that the District has set aside for planned future expenditures.

Unrestricted, unassigned fund balance account indicates the portion of fund balance that is available for budgeting and spending in future periods.

F. Explanation of Adjustments Column in Statements

1. Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the district has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount report in Note IV.

2. Long-Term liabilities: In the Statement of Net Position and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the district has as of the report date. See Note 1-G below.

3. Depreciation and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and in Note I-G below.

G. 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 14 hours per month. Sick leave accrual is 6 to 12 days per year. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 240 hours. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 240 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 120 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At December 31, 2014, the District had no deficit fund balances.

B. Excess of Expenditures Over Budget

During 2014, actual expenditures, \$344,668, exceeded budgeted expenditures, \$263,884, by \$80,784.

C. Uncollateralized deposits

During 2014, the District's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2014, the District's deposits totaled \$568,981, of which \$382,332 were cash deposits and \$186,649 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2014, all the District's deposits were covered by insurance or collateralized with securities held by the District or its agent in the District's name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

Balance January 1, 2014	\$ <u>124,453</u>
Additions	\$ <u>30,045</u>
2014 depreciation	\$ <u>19,291</u>
Balance December 31, 2014	\$ <u>135,207</u>

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$90,454 as of December 31, 2014.

The District uses a threshold of \$500 for capitalizing assets purchased. Those physical assets under \$500 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Unearned Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Unearned Revenue as itemized on "Unearned Revenue Breakdown" is \$194,657.

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2014 are:

Balance January 1, 2014	\$ <u>2,520</u>
Net Changes in Compensated Absences	\$ <u>4,174</u>
Balance December 31, 2014	\$ <u>6,694</u>

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through MCIT. The District is covered for errors and omissions through MCIT.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

VIII. PENSION PLAN

A. Plan Description

The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. PERA administers the Public Employees Retirement Fund (PERF.) The plan and its benefits are established and administered in accordance with Minnesota Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 7.0%, respectively, of their annual covered salary in 2013. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 7.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011. The District's employer share of contributions to PERA for the years ending December 31, 2014, 2013, and 2012 were \$8,478, \$7,470, and \$7,222, respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2014 were \$8,298.