

**GRANT SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

December 31, 2006

TABLE OF CONTENTS

FINANCIAL SECTION	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets and Governmental Fund Balance Sheet	8
Statement of Activities and Governmental Fund Revenues, Expenditures And Changes In Fund Balance	9
Budgetary Comparison Statement, Budget and Actual, General Fund	10
Notes to Financial Statements	11-15
ADDITIONAL REPORTS	
Report on Legal Compliance	16
Report on Internal Control Over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	17

JAMES MAISER
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT

44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Grant Soil and Water Conservation District
Elbow Lake, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Grant Soil and Water Conservation District, Elbow Lake, Minnesota as of and for the year ended December 31, 2006 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. My responsibility is to express opinions on these financial statements based on the audit.

I conducted the 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the Grant Soil and Water Conservation District, Elbow Lake, Minnesota as of December 31, 2006, and the results of operations and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, I have also issued a report dated August 31, 2007 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

JAMES MAISER
Certified Public Accountant and Consultant

August 31, 2007
Waconia, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS

GRANT SWCD – 2006

OVERVIEW

The SWCD's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31st, 2006. 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 and the Notes to the Financial Statements.

USING THIS ANNUAL REPORT

This annual report consists of two: 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 Assets and the Statement of Activities provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD'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 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. Grant SWCD has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the 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 Assets 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 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.

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 finance most activities, along with the self-generated funds from the sale of trees and tree planting.

Reporting the SWCD's General Fund

Fund Financial Statements

The fund financial statements 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 Assets 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 assets were higher, increasing from \$137,866.07 in 2005 to \$148,412.46 in 2006 (\$10,546 increase). Last years net assets increased by \$19,692 from 2004. The increase this year was due largely in part to receiving 2 years of payment of the farm bill grant in 1 year, 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the SWCD's governmental and business-type activities.

Table 1 – Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 193,944.76	\$ 221,762.34
Capital assets	<u>4,535.00</u>	<u>2,913.00</u>
Total assets	\$ 198,479.76	\$ 224,675.34
Long-term debt outstanding	\$ 22,190.97	\$ 21,628.36
Other liabilities (Deferred Revenue)	<u>38,422.72</u>	<u>54,634.52</u>
Total liabilities	\$ 60,613.69	\$ 76,262.88
Net assets		
Invested in capital assets, net of debt	\$ 4,535.00	\$ 2,913.00
Restricted		
Unrestricted	<u>\$ 133,331.07</u>	<u>\$ 145,499.46</u>
Total net assets	\$ 137,866.07	\$ 148,412.46

Net assets of the SWCD governmental activities increased to \$148,412.46 compared to \$137,866.07 in 2005. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or

other legal requirements—changed from \$133,331.07 at December 31st, 2005 to \$145,499.46 at the end of this year.

TABLE 2 - Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 56,527.10	\$ 50,681.26
Intergovernmental	194,097.03	189,037.96
General revenues:		
Interest earnings	1,477.59	2,287.52
Other revenue	<u>5,682.90</u>	<u>2,862.80</u>
Total revenues	\$ 257,784.62	\$ 244,870.54
Program expenses		
District Operations	\$ 175,925.60	\$ 178,233.15
Project Expenditures (District)	33,653.00	23,967.64
Project Expenditures (other)	<u>28,514.16</u>	<u>32,123.97</u>
Total expenses	\$ 238,092.76	\$ 234,324.76
Increase (decrease) in net assets	\$ 19,691.86	\$ 10,545.78

The SWCD’s total revenues decreased \$12,915. The total cost of all programs and services was virtually unchanged, decreasing by \$3,768.00 or less than 3 percent with no new programs added this year. Even with this low decrease in expenses and the sale of trees, tree mats and tree shelters, the SWCD covered this year’s costs.

Governmental Activities

Revenues **excluding** the sale of trees, tree planting, tree mats and tree shelters for the SWCD governmental activities decreased by 4.0 percent (\$7,058.76), while total expenses increased 7.0 percent (\$14,480.71). Even with the loss on the sale of the trees, the increase in net assets for governmental activities was widened to \$10,545.78 in 2006. This compares to a \$29,316.21 increase in net assets in 2005.

THE SWCD’s FUNDS

As the SWCD completed the year, its general fund, as presented in the balance sheet reported a combined fund balance of \$167,127.82, which is above last year’s total of \$155,522.04. Included in this year’s total change in fund balance, is a surplus of \$10,546 in the SWCD’s General Fund.

General Fund Budgetary Highlights

There was no change in the originally adopted budget by the Board of Soil & Water Supervisors for the year ended 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2006, the SWCD had \$2,913.00 invested in capital assets, including a 1992 GMC pickup and a 1988 Chevrolet pickup. (See Table 3 below) This amount represents a net decrease (including deductions) of \$1,622.00, or 1 year of depreciation on a 7 year depreciation schedule.

Table 3 – Capital Assets at Year-end

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Vehicles	\$ 4,535.00	\$ 2,913.00
Equipment	<u>0.00</u>	<u>0.00</u>
	<u>\$ 4,535.00</u>	<u>\$ 2,913.00</u>

Fixed assets (capital assets) are no longer reported on a gross basis (this change took place in 2004); they are now reported on a net (depreciated) basis. Everything that was on the inventory prior to 2004 has been depreciated out except the 2 pickups. More detailed information about the SWCD's capital assets is presented in the Notes to the Financial Statements.

Long-Term Liabilities

The SWCD's long-term obligations include accrued vacation pay and sick leave. More detailed information about the SWCD's long-term liabilities is presented in the Notes to the Financial Statements, along with a break down of compensated absences payable.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected officials considered many factors when setting the fiscal-year 2007 budget and fees that will be charged for the business-type activities. These factors included the consumer price index, county levy and property valuations. There was no change to the SWCD fee structure.

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 Mary Jo Knutson at the Grant SWCD office, 712 Industrial Park Blvd, Elbow Lake, MN 56531 or telephone at (218) 685-5395.

GRANT SOIL AND WATER CONSERVATION DISTRICT
ELBOW LAKE, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	Original/Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Neg)
Revenues			
Intergovernmental			
County	\$ 100,167	\$ 96,117	\$ (4,050)
State Grant	44,114	66,867	22,753
Federal Grant	37,346	26,054	(11,292)
Total intergovernmental	<u>\$ 181,627</u>	<u>\$ 189,038</u>	<u>\$ 7,411</u>
Charges for services	<u>\$ 43,000</u>	<u>\$ 50,681</u>	<u>\$ 7,681</u>
Miscellaneous			
Interest earnings	\$ 500	\$ 2,288	\$ 1,788
Other	557	2,863	2,306
Total miscellaneous	<u>\$ 1,057</u>	<u>\$ 5,151</u>	<u>\$ 4,094</u>
Total Revenues	<u>\$ 225,684</u>	<u>\$ 244,870</u>	<u>\$ 19,186</u>
Expenditures			
District operations			
Personnel services	\$ 160,100	\$ 163,186	\$ (3,086)
Other services and charges	18,000	13,766	4,234
Supplies	500	220	280
Capital outlay	1,000	-	1,000
Total district operations	<u>\$ 179,600</u>	<u>\$ 177,172</u>	<u>\$ 2,428</u>
Project expenditures			
District	\$ 20,300	\$ 23,968	\$ (3,668)
State	15,638	32,124	(16,486)
Total project expenditures	<u>\$ 35,938</u>	<u>\$ 56,092</u>	<u>\$ (20,154)</u>
Total Expenditures	<u>\$ 215,538</u>	<u>\$ 233,264</u>	<u>\$ (17,726)</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ 10,146</u>	<u>\$ 11,606</u>	<u>\$ 1,460</u>
Fund Balance - January 1	<u>\$ 155,522</u>	<u>\$ 155,522</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 165,668</u></u>	<u><u>\$ 167,128</u></u>	<u><u>\$ 1,460</u></u>

Notes are an integral part of the basic financial statements.

GRANT SOIL AND WATER CONSERVATION DISTRICT
ELBOW LAKE, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 189,038	\$ -	\$ 189,038
Charges for services	50,681	-	50,681
Investment earnings	2,288	-	2,288
Miscellaneous	2,863	-	2,863
Total Revenues	<u>\$ 244,870</u>	<u>\$ -</u>	<u>\$ 244,870</u>
Expenditures/Expenses			
Conservation			
Current	\$ 233,264	\$ 1,060	\$ 234,324
Capital outlay	-	-	-
Total Expenditures/Expenses	<u>\$ 233,264</u>	<u>\$ 1,060</u>	<u>\$ 234,324</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 11,606</u>	<u>\$ (1,060)</u>	<u>\$ 10,546</u>
Fund Balance/Net Assets January 1	<u>\$ 155,522</u>	<u>\$ (17,656)</u>	<u>\$ 137,866</u>
Fund Balance/Net Assets December 31	<u><u>\$ 167,128</u></u>	<u><u>\$ (18,716)</u></u>	<u><u>\$ 148,412</u></u>

Notes are an integral part of the basic financial statements.

GRANT SOIL AND WATER CONSERVATION DISTRICT
ELBOW LAKE, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$ 221,762	\$ -	\$ 221,762
Capital Assets:			
Equipment (net of accumulated depreciation)	-	2,913	2,913
Total Assets	\$ 221,762	\$ 2,913	\$ 224,675
<u>Liabilities</u>			
Current liabilities:			
Deferred Revenue	\$ 54,634	\$ -	\$ 54,634
Long-term liabilities:			
Due within one year	-	-	-
Due after one year	-	21,628	21,628
Total Liabilities	\$ 54,634	\$ 21,628	\$ 76,262
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Unreserved			
Designated, Future Projects	\$ -	\$ -	\$ -
Undesignated	167,128	(167,128)	-
Total Fund Balance	\$ 167,128	\$ (167,128)	\$ -
Net Assets			
Invested in capital assets		\$ 2,913	\$ 2,913
Unrestricted		145,500	145,500
Total Net Assets		\$ 148,413	\$ 148,413

Notes are an integral part of the basic financial statements.

GRANT SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Grant Soil and Water Conservation District is organized under the provisions of Minnesota Statutes Chapter 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 Grant 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 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 District is not considered a part of Grant County because, even though the County provides a significant amount of the District's revenues 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.

Government-Wide Financial Statements

The government-wide financial statements (ie., the Statement of Net Assets and The Statement of Activities) report information on all of 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 revenues 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 is recognized when the corresponding expenditures are

GRANT SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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.

Investment earnings and revenue from 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.

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.

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 reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Fund Equity Accounts

Assets

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

Capital assets are reported on a net (depreciated) basis. General capital assets are still valued at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for as an adjustment to Net Assets.

Equity

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

Unreserved, designated account indicates the portion of fund equity that the District has set aside for planned future expenditures.

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

GRANT SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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 240 hours and the limit on sick leave is 720 hours. Upon termination of employment from the district, employees are paid accumulated annual leave and one half of accrued sick leave.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through commercial insurance. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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

Note 2 – Detailed Notes on All Funds and Account Groups

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Equipment	\$11,353	\$ 0	\$ 0	\$11,353
Less: Accumulated Depreciation	<u>6,818</u>	1,622	0	<u>8,440</u>
Net Capital Assets	<u>\$ 4,535</u>			<u>\$ 2,913</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation are Machinery and equipment 5 to 10 years. Current year depreciation is \$1,622.

Deferred Revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2006, consists of the following: BWSR Cost Share Programs, \$22,635; Farm Bill Grant, \$ 32,000; Total, \$54,635.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2006 are:

Balance January 1, 2006	\$22,191
Net Change in Compensated Absences	<u>(563)</u>
Balance December 31, 2006	<u>\$21,628</u>

GRANT SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

Deposits

Minn. Statutes 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 protected 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 institution's banking day, not covered by insurance or bonds.

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 of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

At December 31, 2006, the District's deposits totaled \$221,762, of which \$58,762 were cash deposits and \$163,000 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2006, the District's deposits were not exposed to custodial credit risk.

Note 3 - Defined Benefit Pension Plans – Statewide

Plan Description - Public Employees Retirement Association

The district contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee 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. The plan and its benefits are established and administered in accordance with Minn. 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.

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 9.10% and 5.5%, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.0% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005 and 2004 were \$6,129, \$5,878, and \$5,677 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 4 – Operating Leases

The District leases office space on a yearly basis. Under the current agreement, total costs for 2006 were \$3,786.

Note 5 - Stewardship, Compliance, and Accountability

Excess of expenditures over budget - The general fund had expenditures in excess of budget for the year as follows: Expenditures \$233,264; Budget \$215,538; Excess \$17,726.

GRANT SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

Note 6 – Reconciliation of Fund Balance to Net Assets

Governmental Fund Balance, January 1	\$155,522
Plus: Excess of Revenue Over Expenditures	<u>11,606</u>
Governmental Fund Balance, December 31	<u>\$167,128</u>
Adjustments from Fund Balance to Net Assets:	
Add: Capital Assets, net of depreciation	\$2,913
Less: Long Term Liabilities	<u>(\$21,628)</u>
Net Assets	<u>\$148,412</u>

Note 7 – Reconciliation of Change in Fund Balance to Change in Net Assets

Change in fund balance	\$11,606
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(1,622)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>563</u>
Net change in net assets	<u>\$ 10,546</u>

JAMES MAISER
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT

44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

REPORT ON LEGAL COMPLIANCE

Board of Supervisors
Grant Soil and Water Conservation District
Elbow Lake, Minnesota

I have audited the accompanying financial statements of the governmental activities, and the General fund of the Grant Soil and Water Conservation District, Elbow Lake, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements and have issued my report thereon dated August 31, 2007.

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

The Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. My study included all of the listed categories except public indebtedness. The public indebtedness category was not tested because the District is not allowed to issue debt.

The results of my test indicate that for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

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

JAMES MAISER
Certified Public Accountant and Consultant

August 31, 2007
Waconia, Minnesota

**JAMES MAISER
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

44 West First Street, Waconia, MN 55387 Office: 952-442-4807 Fax: 952-442-6888

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Supervisors
Grant Soil and Water Conservation District
Elbow Lake, Minnesota

In planning and performing my audit of the financial statements of the governmental activities, and the General fund of the Grant Soil and Water Conservation District, Elbow Lake, Minnesota as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

Internal Control

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Soil and Water Conservation District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This communication is intended solely for the information and use of management and others within the organization and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

JAMES MAISER
Certified Public Accountant and Consultant

August 31, 2007
Waconia, Minnesota

**Grant SWCD
 Materiality Worksheet for Planning Puropsep
 December 31, 2006**

	Assets	Revenues
Base/computation Amount	<u>221762</u>	<u>276869</u>
Amount from Table	<u>2000</u>	<u></u>
Percent X Base	<u>4435.24</u>	<u></u>
Planning Materiality	<u>6435.24</u>	<u></u>
Tolerable misstatement 75% of planning materiality.	<u>4826.43</u>	<u></u>

TABLE
 Over

	<u>But/not over</u>	<u>Amount</u>	<u>% = Base</u>
\$0	\$100,000	-	4.00%
\$100,000	\$500,000	2,000	2.00%
\$500,000	\$1,000,000	7,000	1.00%
\$1,000,000	\$5,000,000	8,000	0.90%

Preliminary and final materiality are the same.

SWCD

Understanding the Entity and Environment

December 31, 2006

Name, address, board members, district staff, phone numbers and email address, see audit file cover. Districts have only one location. See notes to financial statements for governing and nature of the SWCD.

All employees are paid on an hourly basis, and belong to PERA. Specific benefits i.e.: vacation and sick leave policy see notes to financial statements. Employee health insurance benefits are reviewed in conjunction with the audit of payroll.

Financial reporting requirements are dictated by MN Board of Soil and Water Resources (BWSR). Audited financial reports are reviewed and approved by the State Auditor. Major funding source is from BWSR, and BWSR auditors audit these BWSR programs annually. Monthly reports of District Activities, including the Treasurer Reports and copies of board minutes are sent to and reviewed by BWSR. Cost share audits for the years 2003-2005 were completed during the year, they were clean audit.

Memo: Audit history, personnel, accounting system, review systems, internal control. This is a 2nd time audit for me. Prior audit was 2 years ago. The District Coordinator, (accountant office manager) MaryJo has been with the district 15 years. Accounting system is quickbooks.

This was a clean audit. Note the only asset balance sheet is cash and the only liability is deferred revenue. Comment from MaryJo, she cleans up all bills and collects everything before year end, Makes her job easier.

Related parties, per management, per audit of the district. None

Grant SWCD
Work Papers
12/31/06

Jm 8/15/07

Cash, Checking

Balance per bank, 12/31/06	44,923.79	CC = Confirmed
Deposit in transit	15,665.14	Per list to Jan 07
Outstanding Checks Per list.	(24,481.12)	Per list to Jan 07
Total OS checks	-	

Balance to Financial statements 36,107.81

Savings, Money Market Account

Balance per bank, to FS 22,634.55

Certificate of Deposits

Bank of West	100000	See Tre Report.
Fintegra	43000	CC at 42,975 ok Jm
Eagle Bank	20000	

Total certificates 163,000.00

Total cash and investments 221,742.36 To FS

See client prepared workpapers.

Client policy is to clear as many items before year end as possible.
No carryovers is possible.

Current assets and current liabilities.
Reviewed receipts, disbursements and board minutes for
06 activity in 2007. No noted, no Carryforward.

Grant SWCD
Board Minutes
December 31, 2006

Jm 8/15/07

12/28/06

Attorney, a petition with the court has been filed concerning the election process.

Approved payment of bills, listing of bills attached to the minutes.

Tre. Report Listing of bills approved for payment, budget report, comparison of actual income and expenses to budget with percent variances. Program summary, cash balances, receipts, disbursements and ending cash balance by project. Note 03 cost share is still open, reports ties to cash in the bank. Reports are signed by the Tre.

11/22

Open house in the new office next month.

NRCS rental agreement approved for 3,786.

10/12

State cost share rescinded all previous cost share policies, and adopted new Cost Share Handbook. Maximum set at \$5,000.

05 Final cost share report approved.

Reviewed 07 budget.

8/24

Farm bill assistant grant of 38,000 was approved.

Copies of state cost share recommendation were distributed.

Moving date to the new office is 9/26.

7/27

6/22

Employee health insurance switching from Medica to Blue Cross.

5.25

4/28

3/23

BWSR Minnesota River Cost share audit completed, information is correct as reported .

2/23

Office lease, bids are in.

1/26

Board reorganization, see audit file cover for Board of Supervisors and district staff.

Depository, Bank of the West.

Mileage to 44.5

Per diem to \$65.

Approved 06 budget.

Personnel evaluations, Reviews , satisfactory work. 4% increase across the board.

1/25/07

Discussion on the election, appears that the ballots were incorrect at the county level, will be a new election .

Mileage to .485

Per diem to 75.

Approved 07 budget.

Personnel evaluations satisfactory work. 5% pay increase.

2/ No meeting because of election problems.

3/21

Working Land Initiative Agreement with DNR approved, in the amount of 70,000 55000 to landowners and 15,000 for administrative.

Maiser for the audit.

Cost share audit for 2003, 04, and 05 completed, financial part of audit OK, reminder to inspect operation and maintenance of the plan.

4/26

5/24

6/28

Grant SWCD

Jm 8/15/07

See Budget comparison report.

Audit Planning

Fraud Risk Assessment:

Discussion, Review my background of SWCD, their accounting, control systems, and control environment. Considered susceptible to misstatement due to fraud. How management could perpetrate and conceal fraud, How assets could be stolen, Pressures and opportunities to rationalization of fraud, risk of management override of controls, and the importance of maintaining skepticism during the audit.

Discussion with Maryjo, District coordinator.

Test of Controls:

Voucher Test

Accounting wise this is a one person office.

Invoices are received and prepared for payment vouchers are used for all payments by Mary Jo. Vouchers are signed approved by the District Manager and District Checks are manual and only one signature is on the check, Mary Jo the District Coordinator.

Complete listing of checks approved are part of the minutes and also part of the Tre report which is signed by the Tre.

Payroll Audit

As part of voucher test, tested individual payroll calculations. Pay schedule attached to deferred comp. District has an Excel worksheet that ties withholdings to quarterly and annual reporting. Traced totals from worksheet to reporting, I will accept payroll.

Internal Control

Control for all districts are the same with some minor exceptions. SWCD are small governmental units. The accounting system is controlled by one person. The control is maintained at the Board of Supervisor Level. The board needs to be reviewing the monthly Tre report, verifying cash balances and approving all expenses.

Major funding for the SWCD's comes from the Mn Board of Soil and Water Resources, (BWSR). BWSR audits the cost share programs, dollars and procedures annually. Annual reporting requirements come from BWSR. The monthly Treasurer reports and board minutes are sent to BWSR for review. Audit reports are reviewed and approved, accepted by the State Auditor. Districts have relative small and very tight budgets, even small amounts of cash or mis-coding would be missed.

With oversight from the Board of Supervisors, BWSR and the State Auditor the districts have relative good internal control.

Understanding the Client

The specifics concerning Grant: This is my second audit of Grant SWCD. This an every other or every 2nd year audit. This was a very clean audit. Accounting System is Quicbooks.

I anticipate a very clean audit.

Audit Differences

Farm bill assistance grant for 2007 received 2006 was not booked as deferred revenue. Recommended correction. Corrected.

