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**FREEBORN SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2005**

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**JAMES MAISER**

CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT

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**FREEBORN SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2005**

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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

**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
Freeborn Soil and Water Conservation District  
Albert Lea, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Freeborn Soil and Water Conservation District, Albert Lea, Minnesota as of and for the year ended December 31, 2005 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 Freeborn Soil and Water Conservation District, Albert Lea, Minnesota as of December 31, 2005, 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 September 15, 2006 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

September 15, 2006  
Waconia, Minnesota

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

### **USING THIS ANNUAL REPORT**

This annual report consists of two parts: management’s discussion and analysis 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 Freeborn County Soil and Water Conservation District as a whole and present a longer-term view of the Freeborn County SWCD’s finances. Fund financial statements. 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 Freeborn County SWCD’s operations in more detail than the government-wide statements by providing information about the Freeborn County 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. Freeborn County SWCD has elected to present in this format.

### **The Statement of Net Assets and the Statement of Activities**

Our analysis of the Freeborn County SWCD as a whole. One of the most important questions asked about the Freeborn County SWCD’s finances is, “Is the Freeborn County 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 Freeborn County SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Freeborn County SWCD’s net assets and changes in them. You can think of the Freeborn County SWCD’s net assets — the difference between assets and liabilities—as one way to measure the Freeborn County SWCD’s financial health, or financial position. Over time, increases or decreases in the Freeborn County 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 Freeborn County SWCD presents Governmental activities. All of the Freeborn County SWCD’s basic services are reported here. Appropriations from the county and state finance most activities.

## Reporting the Freeborn County SWCD's General Fund

### Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the Freeborn County SWCD as a whole. The Freeborn County SWCD presents only a general fund, which is a governmental fund. All of the Freeborn County 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 Freeborn County 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 Freeborn County 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 FREEBORN COUNTY SWCD AS A WHOLE

The Freeborn County SWCD's combined net assets were higher, increasing from \$145,376.32 to \$154,633.67. In contrast, last year net assets increased by \$9,257.35. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Freeborn County SWCD's governmental and business-type activities.

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Current and other assets	189,350.37	233,736.81
Capital assets	21,224.99	16,494.44
Total assets	210,575.36	250,231.25
Long-term debt outstanding	11,506.57	12,012.89
Other liabilities	53,692.47	83,584.69
Total liabilities	65,199.04	95,597.58
Net assets		
Invested in capital assets, net of debt	21,224.99	16,494.44
Restricted		
Unrestricted	124,151.33	138,139.23
Total net assets	145,376.32	154,633.67

Net assets of the Freeborn County SWCD's governmental activities increased by 6.3 percent \$145,376.32 compared to \$154,633.67. 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 a \$124,151.33 to \$138,139.23 at the end of this year.

TABLE 2  
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
<b>Revenues</b>		
Program revenues	87,309.14	130,152.00
Charges for service	23,780.32	27,195.77
State grants and entitlements	43,434.69	69,388.13
General revenues		
Interest Earnings	2,008.61	2,498.48
Other general revenues (Farm Bill Partnership Grant)	288.16	20,129.00
Total revenues	156,820.92	249,363.38
<b>Program expenses</b>		
General government		
Conservation	196,799.81	240,106.03
Total expenses	196,799.81	240,106.03
Excess (deficiency) before special items and transfers		
Special items		
Transfers		
<b>Increase (decrease) in net assets</b>	(39,978.89)	9,257.35

The Freeborn County SWCD’s total revenues increased by 59 percent \$92,542.46. The total cost of all programs and services increased by \$43,306.22, with no new programs added this year. Even with this high growth in expenses the Freeborn County SWCD’s was still able to cover this year’s costs.

### **Governmental Activities**

Revenues for the Freeborn County SWCD’s governmental activities increased by 59 percent \$92,542.46, while total expenses increased just over 22 percent \$43,306.22.

The cost of all governmental activities this year was \$240,106.03 compared to \$196,799.81 last year. Overall, the Freeborn County SWCD’s governmental program revenues, including intergovernmental aid and fees for services, increased in 2005, principally based on an increase in intergovernmental (county) aid.

### **THE FREEBORN COUNTY SWCD’S FUNDS**

As the Freeborn County SWCD completed the year, its general fund reported a combined fund balance of \$150,152.12, which is above last year’s total of \$135,657.90. Included in this year’s

total change in fund balance, is an increase of \$14,494.22 in the Freeborn County SWCD's General Fund.

### **General Fund Budgetary Highlights**

The actual charges to appropriations were \$14,494.22 below the final budget amounts. The most significant variances included; staff changes, equipment replacements and more project dollars were spent this year than anticipated.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of 2005, the Freeborn County SWCD's had \$16,494 invested in a broad range of capital assets, including (computers, vehicle, trailer and tree planter). This amount represents a net decrease including (including additions and deletions)\* of \$4,731 over last year.

\*replacement of two (2) computers

#### **Long-Term Liabilities**

Freeborn County SWCD obligations include accrued vacation leave and sick leave. More detailed information about the Freeborn County SWCD's long-term liabilities is presented in the Notes to the Financial Statements.

### **CONTACTING THE FREEBORN COUNTY 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 Freeborn County SWCD's finances and to show the Freeborn County SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Freeborn County SWCD at 1400 W Main Street, Albert Lea, MN 56007. The telephone number is (507) 373-5607.

FREEBORN SOIL AND WATER CONSERVATION DISTRICT  
ALBERT LEA, MINNESOTA

STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 233,737	\$ -	\$ 233,737
Capital Assets:			
Equipment (net of accumulated depreciation)	-	16,494	16,494
Total Assets	\$ 233,737	\$ 16,494	\$ 250,231
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable	\$ 249	\$ -	\$ 249
Salary Payroll	1,889	-	1,889
Deferred Revenue	81,447	-	81,447
Long-term liabilities:			
Due within one year	-	-	-
Due after one year	-	12,013	12,013
Total Liabilities	\$ 83,585	\$ 12,013	\$ 95,598
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Unreserved			
Designated, Future Projects	\$ 15,000	\$ (15,000)	\$ -
Undesignated	135,152	(135,152)	-
Total Fund Balance	\$ 150,152	\$ (150,152)	\$ -
Net Assets			
Invested in capital assets		\$ 16,494	\$ 16,494
Unrestricted		138,139	138,139
Total Net Assets		\$ 154,633	\$ 154,633

Notes are an integral part of the basic financial statements.

FREEBORN SOIL AND WATER CONSERVATION DISTRICT  
ALBERT LEA, MINNESOTA

STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 219,669	\$ -	\$ 219,669
Charges for services	27,196	-	27,196
Investment earnings	2,498	-	2,498
Miscellaneous	-	-	-
Total Revenues	<u>\$ 249,363</u>	<u>\$ -</u>	<u>\$ 249,363</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 231,344	\$ 8,762	\$ 240,106
Capital outlay	3,525	(3,525)	-
Total Expenditures/Expenses	<u>\$ 234,869</u>	<u>\$ 5,237</u>	<u>\$ 240,106</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 14,494</u>	<u>\$ (5,237)</u>	<u>\$ 9,257</u>
Fund Balance/Net Assets January 1	<u>\$ 135,658</u>	<u>\$ 9,718</u>	<u>\$ 145,376</u>
Fund Balance/Net Assets December 31	<u>\$ 150,152</u>	<u>\$ 4,481</u>	<u>\$ 154,633</u>

Notes are an integral part of the basic financial statements.

FREEBORN SOIL AND WATER CONSERVATION DISTRICT  
ALBERT LEA, MINNESOTA

BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2005

	Original/Final Budget	Actual	Variance with Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
County	\$ 130,152	\$ 130,152	\$ -
Other Governments	3,988	20,129	16,141
State Grant	54,938	69,388	14,450
Total intergovernmental	<u>\$ 189,078</u>	<u>\$ 219,669</u>	<u>\$ 30,591</u>
Charges for services	<u>\$ 21,000</u>	<u>\$ 27,196</u>	<u>\$ 6,196</u>
Miscellaneous			
Interest earnings	\$ 1,000	\$ 2,498	\$ 1,498
Other	100	-	(100)
Total miscellaneous	<u>\$ 1,100</u>	<u>\$ 2,498</u>	<u>\$ 1,398</u>
Total Revenues	<u>\$ 211,178</u>	<u>\$ 249,363</u>	<u>\$ 38,185</u>
<b>Expenditures</b>			
District operations			
Personal services	\$ 147,747	\$ 160,508	\$ (12,761)
Other services and charges	23,516	22,354	1,162
Supplies	1,750	1,031	719
Capital outlay	500	3,525	(3,025)
Total district operations	<u>\$ 173,513</u>	<u>\$ 187,418</u>	<u>\$ (13,905)</u>
Project expenditures			
District	\$ 12,200	\$ 17,643	\$ (5,443)
State	21,477	29,808	(8,331)
Federal	3,988	-	3,988
Total project expenditures	<u>\$ 37,665</u>	<u>\$ 47,451</u>	<u>\$ (9,786)</u>
Total Expenditures	<u>\$ 211,178</u>	<u>\$ 234,869</u>	<u>\$ (23,691)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ 14,494</u>	<u>\$ 14,494</u>
Fund Balance - January 1	<u>\$ 135,658</u>	<u>\$ 135,658</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 135,658</u></u>	<u><u>\$ 150,152</u></u>	<u><u>\$ 14,494</u></u>

Notes are an integral part of the basic financial statements.

**FREEBORN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

**Note 1 - Summary of Significant Accounting Policies**

Financial Reporting Entity

The Freeborn 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 Freeborn 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 Freeborn 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.

**FREEBORN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

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 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.

**FREEBORN SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005**

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

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 40 to 200 hours per year. Sick leave accrual is 13 days per year.. There limit on the accumulation of annual leave 80 hours and the limit on sick leave is 1200 hours. Upon termination of employment from the district, employees are paid accumulated annual leave and 25% 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 Minnesota Counties Insurance Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. 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	\$51,012	\$3,525	\$4,330	\$50,207
Less: Accumulated Depreciation	<u>29,787</u>	8,256	4,330	<u>33,713</u>
Net Capital Assets	<u>\$21,225</u>			<u>\$ 16,494</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 was \$8,256.

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, 2005, consists of the following: BWSR Regular Cost-Share Programs, \$34,088; County WCA Funds, \$3,988; Farm Bill Assistance Grant, \$43,371; Total, \$81,447.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2005 are:

Balance January 1, 2005	\$11,507
Net Change in Compensated Absences	<u>506</u>
Balance December 31, 2005	<u>\$12,013</u>

**FREEBORN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

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, 2005, the District's deposits totaled \$233,737, all of which were cash 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, 2005, 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 are required to contribute 9.10% and 5.10%, 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 5.53% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004 and 2003 were \$6,102, \$5,515, and \$5,640 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 2005 were \$6,315.

**FREEBORN SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005**

**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 \$234,869; Budget \$211,178; Excess \$23,691.

**Note 6 – Reconciliation of Fund Balance to Net Assets**

Governmental Fund Balance, January 1	\$135,658
Plus: Excess of Revenue Over Expenditures	<u>14,494</u>
Governmental Fund Balance, December 31	<u>\$150,152</u>
Adjustments from Fund Balance to Net Assets:	
Add: Capital Assets, net of depreciation	\$16,494
Less: Long Term Liabilities	<u>(\$12,013)</u>
Net Assets	<u>\$ 154,633</u>

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

Change in fund balance	\$14,494
Capital outlay reported as an expenditure in the General Fund, but not at the government-wide level	\$3,525
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(8,256)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>(506)</u>
Net change in net assets	<u>\$9,257</u>

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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

**REPORT ON LEGAL COMPLIANCE**

Board of Supervisors  
Freeborn Soil and Water Conservation District  
Albert Lea, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Freeborn Soil and Water Conservation District, Albert Lea, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued my report thereon dated September 15, 2006.

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

September 15, 2006  
Waconia, Minnesota

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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**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  
Freeborn Soil and Water Conservation District  
Albert Lea, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Freeborn Soil and Water Conservation District, Albert Lea, Minnesota as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued my report thereon dated September 15, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeborn 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 report is intended solely for the information and use of management, 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

September 15, 2006  
Waconia, Minnesota