

AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$394,826	\$0	\$394,826
Charges for services	\$0	\$0	\$0
Investment earnings	\$114	\$0	\$114
Miscellaneous	\$3,140	\$0	\$3,140
Total Revenues	<u>\$398,081</u>	<u>\$0</u>	<u>\$398,081</u>
Expenditures/Expenses			
Conservation			
Current	\$351,055	\$30,080	\$381,134
Capital outlay	\$46,971	-\$46,971	\$0
Total Expenditures/Expenses	<u>\$398,026</u>	<u>-\$16,892</u>	<u>\$381,134</u>
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$55	\$16,892	\$16,946
Fund Balance/Net Position July 1	<u>\$207,741</u>	<u>\$71,752</u>	<u>\$279,493</u>
Fund Balance/Net Position June 30	<u><u>\$207,796</u></u>	<u><u>\$88,644</u></u>	<u><u>\$296,440</u></u>

Notes are an integral part of the basic financial statements.

AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and investments	\$147,500		\$147,500
Accounts receivable	\$0		\$0
Due from other governments	\$64,890		\$64,890
Prepaid items	\$3,058		\$3,058
Capital Assets:			
Equipment (net of accumulated depreciation)		\$96,066	\$96,066
Total Assets	\$215,448	\$96,066	\$311,514
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$0		\$0
Salaries payable	\$6,660		\$6,660
Unearned revenue	\$0		\$0
Long-term liabilities:			\$0
Due within one year	\$992	\$0	\$992
Due after one year		\$7,421	\$7,421
Total Liabilities	\$7,652	\$7,421	\$15,074
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Nonspendable (Prepays, Inventories)	\$3,058	-\$3,058	\$0
Unrestricted			
Committed or Assigned	\$0	\$0	\$0
Unassigned	\$204,738	-\$204,738	\$0
Total Fund Balance	\$207,796	-\$207,796	\$0
Net Assets			
Invested in capital assets		\$96,066	\$96,066
Unassigned		\$200,374	\$200,374
Total Net Position		\$296,440	\$296,440

Notes are an integral part of the basic financial statements.

AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
Revenues				
Intergovernmental				
Local	\$223,150	\$223,150	\$238,842	\$15,692
State grant	\$130,000	\$130,000	\$155,984	\$25,984
Total intergovernmental	\$353,150	\$353,150	\$394,826	\$41,676
Miscellaneous				
Interest earnings	\$200	\$200	\$114	-\$86
Other	\$100	\$100	\$3,140	\$3,040
Total miscellaneous	\$300	\$300	\$3,255	\$2,955
Total Revenues	\$353,450	\$353,450	\$398,081	\$44,631
Expenditures				
District operations				
Personnel services	\$290,197	\$290,197	\$298,254	-\$8,057
Other services and charges	\$46,253	\$46,253	\$47,396	-\$1,143
Supplies	\$2,000	\$2,000	\$5,405	-\$3,405
Capital outlay	\$15,000	\$15,000	\$46,971	-\$31,971
Total district operations	\$353,450	\$353,450	\$398,026	-\$44,576
Total Expenditures	\$353,450	\$353,450	\$398,026	-\$44,576
Excess of Revenues Over (Under)				
Expenditures	\$0	\$0	\$55	\$55
Fund Balance - January 1	\$0	\$0	\$207,741	\$207,741
Fund Balance - December 31	\$0	\$0	\$207,796	\$207,796

Notes are an integral part of the basic financial statements.

**DEFERRED REVENUE BREAKDOWN
2014**

Balance of BWSR Service Grants:	\$0
Balance of <u>other</u> funds being deferred (list if any):	
_____	\$0
Subtotal of other funds:	\$0
TOTAL OF ALL DEFERRED REVENUE:	\$0

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of Area 3 SWCD Technical Service Area (TSA) 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 TSA is organized under the provisions of Minnesota Statutes Chapter 103C and 457 and is governed by a Board of Supervisors composed of nine members selected by Member District and that are elected to four-year terms by the voters of the County of their member SWCD.

The purpose of the TSA is to assist member SWCDs and 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 TSA and 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 TSA 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 TSA's objectives.

The TSA is not considered a part of any county or SWCD because, even though some SWCDs may provide some amount of the TSA's revenue in the form of an appropriation, no SWCD retains any control over the operations of the TSA.

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 TSA does not have any component units.

B. Basis of Presentation - Fund Accounting

The accounts of the Area 3 SWCD Technical Service Area (TSA) 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.

C. Basis of Presentation - Fund Accounting (Continued)

1. Governmental Funds: General Fund

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

2. General Fixed Assets Account Group

This account group is used to record the TSA'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.

D. Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the TSA. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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 TSA'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.

Investment earnings and other revenues are recognized when earned.

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.

E. Budget Information

The TSA 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 TSA does not use encumbrance accounting.

F. Assets, Liabilities, and Equity Accounts

1. Assets

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

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 TSA'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 TSA 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.

G. Explanation of Adjustments Column in Statements

1. Capital Assets: In the Statement of Net Assets and Governmental Fund Balance Sheet, an adjustment is made if the TSA 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 Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the TSA 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.

H. Vacation and Sick Leave

Under the TSA's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from four to eight hours per pay period. Sick leave accrual is four hours per pay period. The limit on the accumulation of annual leave is 240 hours and there is no limit on sick leave. Upon termination from the TSA by retirement, employees are paid accrued vacation leave and up to 80 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 80 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At June 30, 2014, the TSA did not have a General Fund deficit.

B. Excess of Expenditures Over Budget

During 2014, actual expenditures, \$398,026, were more than budgeted expenditures, \$353,450 by \$44,576. However, actual revenue exceeded budgeted revenue by \$44,631.

C. Uncollateralized deposits

During 2014, the TSA'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 TSA to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At June 30, 2014, the TSA's deposits totaled \$215,448, of which \$88,302 was cash deposits and \$59,198 was invested in certificates of deposit. Minnesota Statutes require that all TSA deposits be covered by insurance, surety bond, or collateral. At June 30, 2014, all the TSA's deposits were covered by insurance or collateralized with securities held by the TSA or its agent in the TSA's name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

Balance July 1, 2013	\$78,810
Additions	\$46,971
Deletions	\$5,602
2014 depreciation	\$29,716
Balance June 30, 2014	\$96,066

Note: Beginning and Ending Balance are net of accumulated depreciation, which totaled \$74,140 as of June 30, 2014.

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

V. DEFERRED REVENUE

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

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$0 for 2014.

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended June 30, 2014 are:

Balance July 1, 2013	\$7,057
Net Changes in Compensated Absences	\$364
Balance June 30, 2013	\$7,421

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. RISK MANAGEMENT

The TSA 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 TSA has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The TSA is covered for errors and omissions through Minnesota Counties Intergovernmental Trust.

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 TSA 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 TSA makes annual contributions to the pension plans equal to the amount required by state statutes. The TSA was required to contribute the following percentages of annual covered payroll: 7.25% for Coordinated Plan PERF members. The TSA's employer share of contributions to PERA for the years ending June 30, 2014, 2013, and 2012 were equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASES

The TSA leases office space on a yearly basis from the South St. Louis SWCD for the Duluth Office, and from Lyle Katterhagen for the Mora Office. Under the current agreements costs for 2014 were \$11,409.

**Area 3 SWCD Technical Service Area
For the Year ended June 30, 2014**

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Area 3 SWCD Technical Service Area’s (TSA 3) discussion and analysis provides an overview of the TSA’s financial activities for the fiscal year ended June 30, 2014. Since this information is designed to focus on the 2014 activities, resulting changes, and currently known facts, it should be read in conjunction with the JPB’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. 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 TSA 3 as a whole and present a longer-term view of the TSA’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 TSA’s operations in more detail than the government-wide statements by providing information about the TSA’s most significant funds. Since TSAs are joint powers entities created by single-purpose special purpose governments (SWCDs) they are generally able to combine the government-wide and fund financial statements into single presentations. TSA 3 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 TSA 3’s finances is, “Is the JPB 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 TSA 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 2014’s revenues and expenses are taken into account regardless of when cash is received or paid.

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

Reporting the TSA 3’s General Fund

Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the TSA as a whole. The TSA presents only a general fund, which is a governmental fund. All of the TSA’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 TSA’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 TSA’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 Area 3 SWCD TSA AS A WHOLE

The TSA 3’s combined net assets increased at the end 2014 to \$296,440 compared to \$279,493 at the end of 2013. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the TSA 3’s governmental and business-type activities.

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$215,448	\$211,143
Capital assets	\$96,066	\$78,8104
Total assets	\$311,514	\$290,702
Long-term debt outstanding	\$8,414	\$7,559
Other liabilities	\$6,660	\$3,650
Total liabilities	\$15,074	\$11,208
Net assets		
Invested in capital assets,	\$96,066	\$78,810
Unrestricted	\$200,374	\$200,683
Total net assets	\$296,440	\$279,493

At the end of 2014, net assets of the TSA 3’s governmental activities increased \$16,947. This increase is primarily due to increased capital assets. 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—decreased \$309 at the end of this year.

TABLE 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues:		
Local	\$238,842	\$198,096
State grants and entitlements	\$155,984	\$131,423
General revenues		
Other general revenues	\$3,255	\$6,834
Total revenues	\$398,081	\$336,353
Program expenses		
General government		
Conservation	\$398,026	\$311,675
Total expenses	\$398,026	\$311,675
Increase (decrease) in net assets	\$55	\$24,678

At the end of 2014 TSA 3’s total revenues increased by \$61,728 compared to 2013. Compared to 2013, the total cost of all programs and services increased by \$86,351 for 2014. The increase was due to staff additions and significant outlay for capital assets.

Governmental Activities

The cost of all governmental activities this year was \$398,026 compared to \$311,675 last year. The TSA does not collect any tax revenue directly from tax payers. However, taxpayers ultimately financed most of these activities through taxes collected by other agencies.

THE AREA 3 SWCD TSA's FUNDS

As the TSA completed the year, its general fund reported a combined fund balance of \$207,796 which is above last year's total of \$207,741.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the TSA #3 had \$96,066 invested in capital assets, including vehicles, computers, furniture and other equipment. (See Table 4 below) This amount represents a net increase (including additions, depreciation and deductions) of \$17,256 above last year.

Table 4

Capital Assets at Year-end

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Equipment	\$96,066	\$78,810

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Area 3 SWCD Technical Service Area's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget. The budget is set primarily by analyzing anticipated revenues and required expenditures to complete TSA projects and goals.

CONTACTING Area 3 SWCD Technical Service Area

This financial report is designed to provide our citizens, taxpayers, customers, with a general overview of the TSA 3's finances and to show the TSA accountability for the money it receives. If you have questions about this report or need additional financial information, contact the TSA at:

Area 3 SWCD Technical Service Area
C/O South St. Louis Soil & Water Conservation District
215 North 1st Ave East
Room 301
Duluth, MN 55802
(218) 723-4867
www.southstlouisswcd.org

