MORRISON SOIL AND WATER CONSERVATION DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
WITH
INDEPENDENT AUDITOR'S REPORT

Mayer, Porter & Nelson, Ltd.
Certified Public Accountants

MORRISON SOIL AND WATER CONSERVATION DISTRICT
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December 31, 2010

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MORRISON SOIL AND WATER CONSERVATION DISTRICT
ORGANIZATION
December 31, 2010

		Term Expires
SUPERVISORS		
	Cynthia Anez	1-01-13
	Tom Brutscher	1-01-13
	Claude Dahmen	1-01-11
	Robert Holmgren	1-01-13
	Marvin Stangl	1-01-11

OFFICERS

CHAIRPERSON	Marvin Stangl
VICE-CHAIRPERSON	Claude Dahmen
SECRETARY	Robert Holmgren
TREASURER	Tom Brutscher

FISCAL MANAGER

Helen McLennan

Mayer, Porter & Nelson, Ltd.
CERTIFIED PUBLIC ACCOUNTANTS

Charles G. Mayer, CPA | Keith G. Porter, CPA | Julie A. Nelson, CPA

INDEPENDENT AUDITOR'S REPORT

To the Supervisors
Morrison Soil and Water Conservation District
Little Falls, MN 56345

We have audited the accompanying financial statements of the governmental activities and the major fund of Morrison Soil and Water Conservation District (District) as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrison Soil and Water Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morrison Soil and Water Conservation District as of December 31, 2010, and the respective changes in financial position and the budgetary comparisons for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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MORRISON SOIL AND WATER CONSERVATION DISTRICT
Management's Discussion and Analysis
(Unaudited)

The Morrison Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the year ended 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements (beginning on page 9).

FINANCIAL HIGHLIGHTS

Total net assets at the end of the year were $295,802. The District had no restricted net assets, $273,934 of unrestricted net assets and $21,868 invested in capital assets, net of related debt.

The assets of the Morrison Soil and Water Conservation District in the governmental funds balance sheet exceeded its liabilities at the close of the most recent calendar year by $287,596. Of this amount $668 is reserved for prepaid items and the remaining balance of $286,928 is considered unreserved fund balance.

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 (on pages 9 and 10) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements (on pages 11-15) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the 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 District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in Morrison County's property tax base, the overall

financial health of Morrison County residents, and the overall state budget set by the Minnesota Legislature, to assess the overall health of the District.

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

Fund Financial Statements

The fund financial statements begin on page 11 and provide detailed information about the General Fund - not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the General Fund, which focuses on how money flows into and out of this fund and the balance left at year-end that is 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 District'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 District'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 the reconciliations on pages 12 and 14.

THE DISTRICT AS A WHOLE

The District's combined net assets were decreased from $ 314,290 to $ 295,802. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities.

TABLE 1 - STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITES

	2010	2009
Current and other assets	$ 802,249	$ 533,606
Capital assets	21,868	24,128
Total assets	$ 824,117	$ 557,734
Long-term liabilities outstanding	$ 13,662	$ 13,928
Other liabilities	514,653	229,516
Total liabilities	$ 528,315	$ 243,444
Net assets		
Invested in capital assets, net of related debt	$ 21,868	$ 24,128
Unrestricted	273,934	290,162
Total net assets	$ 295,802	$ 314,290

Net assets of the District governmental activities decreased by 6% ($314,290 compared to $295,802). Unrestricted net assets - the part of net assets without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from $290,162 at December 31, 2009 to $273,934 at December 31, 2010.

TABLE 2 - CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITES

	2010	2009
Revenues		
Program revenues:		
Charges for services	$ 146,440	$ 249,894
Operating grants and contributions	129,894	123,029
General revenues:		
County allocation	67,760	78,165
State aid	51,799	31,110
Unrestricted investment earnings	8,375	6,207
Miscellaneous	12,407	4,806
Total revenues	416,675	493,211
Expenses		
Conservation	435,163	468,603
Total expenses	435,163	468,603
Change in net assets	(18,488)	24,608
Net assets - beginning	314,290	289,682
Net assets - ending	$ 295,802	$ 314,290

The decrease in net assets for 2010 of $18,488 compares to a $24,608 increase in net assets in 2009. The District's total revenues decreased by 16%, or $76,536. The District did not earn as much income in 2010 due to the lack of revenue taken in for permitting fees for administering the Wetland Conservation Act and the 2010 tree sales were down by about $32,000 from 2009.

The cost of all governmental activities this year was $435,163 compared to $468,603 last year, a decrease of 7%. However, as shown in the Statement of Activities on page 10, some of the cost was paid by those who directly benefited from the programs ($146,440) or by other governments and organizations that subsidized certain programs with grants and contributions ($129,894). The District paid for the remaining "public benefit" portion of governmental activities with county allocations, state aids, interest earnings and other miscellaneous revenues.

Table 3 presents the cost of the District's only program - Conservation. Conservation includes the following activities: General Cost Share, Feedlot Water Quality Grants, Wetland Conservation Act, ACUB, and the Tree Program. The table also shows the program's net cost (total cost less revenues

generated by the activities). The net cost shows the financial burden that was placed on the District by this function.

TABLE 3 - COSTS OF PROGRAM SERVICES

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Conservation	$ 435,163	$ 468,603	$ 158,829	$ 95,680

THE DISTRICT'S FUNDS

As the District completed the year, its general fund (as presented in the balance sheet on page 11) reported a fund balance of $287,596, which is below last year's total of $304,091. The primary reason for the General Fund's decrease in fund balance of $16,495 is due in large part to the decrease in charges for services.

See Figure A for a pictorial analysis of revenues by source and Figure B for expenditures by type.

Figure A - Revenues by Source

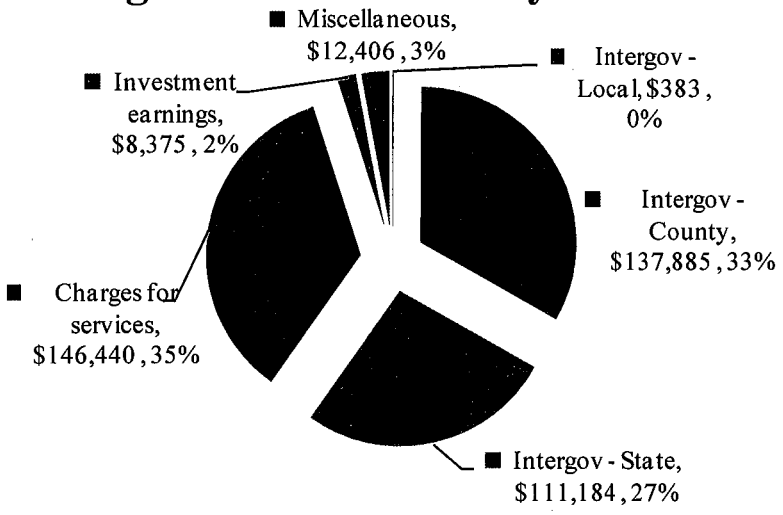
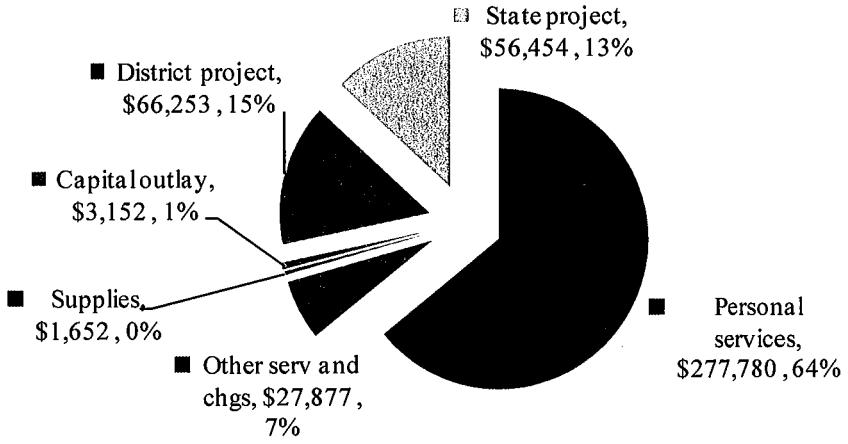


Figure B - Expenditures by Type



General Fund Budgetary Highlights

The actual expenditures were $77,605 under the final budget amounts, a 15% variance from budget. The most significant under budget variance ($39,546) occurred in the District's state project expenditures. This is due in large part to a multiple animal waste project that was not completed by the end of 2010, but is projected to be finished in 2011.

Revenues were $39,810 over the final budgeted amount, an 11% variance from budget. Six of the Clean Water Legacy -Feedlot Water Quality Management Grant applications were funded with new funds and two were paid using existing funds in the District coffers, which also increased grant rollover resources available for appropriation to other landowners.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had $21,868 invested in a broad range of capital assets, including vehicles, computer technology, and office improvements. This amount represents a net decrease (including additions and deductions) of $2,260 compared to the prior year.

This year's major additions were new office furniture for two workstations in the amount of $3,152.

The District's fiscal-year 2011 capital budget calls for it to spend $2,500 for capital projects. More detailed information about the District's capital assets is presented in Notes 1 and 3 to the financial statements.

Long-Term Liabilities

Obligations include accrued compensated absences. More detailed information about the District's long-term liabilities is presented in Notes 1 and 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget, state aid, county aid, and fees that will be charged for the program services. The District will also be watching the budget closely due to the state of the current economy to determine if changes will need to be made. The District has been notified that the Wetland Conservation Act and the Local Water Plan funding will be experiencing some cuts through the Natural Resources Block Grant. Those amounts have been noted in the 2011 budget. The District is also expecting to receive over $40,000 in ACUB T&A for work to be completed in 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Morrison Soil and Water Conservation District at 16776 Heron Rd, Little Falls, MN 56345.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
December 31, 2010

	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	$ 494,306	$ 494,306
Investments	269,156	269,156
Receivables	11,271	11,271
Due from other governmental agencies	26,848	26,848
Other assets	668	668
Capital assets, net	21,868	21,868
Total assets	$ 824,117	$ 824,117
LIABILITIES		
Accounts payable	$ 3,284	$ 3,284
Accrued salaries and payroll taxes	5,357	5,357
Sales tax payable	1,012	1,012
Due to other governmental agencies	540	540
Deferred revenues	489,027	489,027
Deposits - tree sales	15,433	15,433
Long-term liabilities		
Due within one year		
Compensated absences	13,662	13,662
Total liabilities	528,315	528,315
NET ASSETS		
Invested in capital assets, net of related debt	21,868	21,868
Unrestricted	273,934	273,934
Total net assets	295,802	295,802
Total liabilities and net assets	$ 824,117	$ 824,117

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Total**
Primary government						
Governmental activities						
Conservation	$ 435,163	$ 146,440	$ 129,894	$	$ (158,829)	$ (158,829)
Total governmental activities	435,163	146,440	129,894		(158,829)	(158,829)
Total primary government	$ 435,163	$ 146,440	$ 129,894	$	(158,829)	(158,829)
General revenues:						
County allocation					67,760	67,760
State aid					51,799	51,799
Unrestricted investment earnings					8,375	8,375
Miscellaneous					12,407	12,407
Total general revenues, special items, and transfers					140,341	140,341
Change in net assets					(18,488)	(18,488)
Net assets - beginning					314,290	314,290
Net assets - ending					$ 295,802	$ 295,802

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	$ 494,306	$ 494,306
Investments	269,156	269,156
Receivables	11,271	11,271
Due from other governments	26,848	26,848
Prepaid items	668	668
Total assets	$ 802,249	$ 802,249
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 3,284	$ 3,284
Accrued salaries and payroll taxes	5,357	5,357
Sales tax payable	1,012	1,012
Due to other governments	540	540
Deferred revenue	489,027	489,027
Deposit - tree sales	15,433	15,433
Total liabilities	514,653	514,653
Fund balances:		
Reserved for:		
Prepaid expenses	668	668
Unreserved	286,928	286,928
Total fund balances	287,596	287,596
Total liabilities and fund balances	$ 802,249	$ 802,249

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
December 31, 2010

Total fund balance, governmental funds	$	287,596
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net		
Capital assets		68,656
Accumulated depreciation		(46,788)
Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.		(13,662)
Net Assets of Governmental Activities in the Statement of Net Assets	$	295,802

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General Fund	Total Governmental Funds
REVENUES		
Intergovernmental		
Local	$ 383	$ 383
County	137,885	137,885
State	111,184	111,184
Charges for services	146,440	146,440
Investment earnings	8,375	8,375
Miscellaneous	12,406	12,406
Total revenues	416,673	416,673
EXPENDITURES		
District operations		
Current:		
Personal services	277,780	277,780
Other services and charges	27,877	27,877
Supplies	1,652	1,652
Capital outlay	3,152	3,152
Total district operations	310,461	310,461
Project expenses		
District	66,253	66,253
State	56,454	56,454
Total project expenditures	122,707	122,707
Total expenditures	433,168	433,168
Net change in fund balances	(16,495)	(16,495)
Fund balances - beginning	304,091	304,091
Fund balances - ending	$ 287,596	$ 287,596

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

Net change in fund balances - total governmental funds:	$	(16,495)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which capital outlays, $3,152, were exceeded by depreciation, $5,412, in the current period.		(2,260)
Changes in the accrual for compensated absences is reflected in the expenditures in the governmental funds, but is reflected as changes in long-term liabilities in the Statement of Net Assets.		267
Change in net assets of governmental activities	$	(18,488)

See notes to financial statements.

MORRISON SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Intergovernmental				
Local	$ 0	$ 0	$ 383	$ 383
County	140,951	140,951	137,885	(3,066)
State	49,362	49,362	111,184	61,822
Charges for services	175,050	175,050	146,440	(28,610)
Investment earnings	8,000	8,000	8,375	375
Miscellaneous	3,500	3,500	12,406	8,906
Total revenues	376,863	376,863	416,673	39,810
EXPENDITURES				
District operations				
Current:				
Personal services	282,728	282,728	277,780	(4,948)
Other services and charges	36,045	36,045	27,877	(8,168)
Supplies	2,500	2,500	1,652	(848)
Capital outlay	2,500	2,500	3,152	652
Total district operations	323,773	323,773	310,461	(13,312)
Project expenses				
District	91,000	91,000	66,253	(24,747)
State	96,000	96,000	56,454	(39,546)
Total project expenses	187,000	187,000	122,707	(64,293)
Total expenditures	510,773	510,773	433,168	(77,605)
Net change in fund balances	(133,910)	(133,910)	(16,495)	$ 117,415
Fund balances - beginning	304,091	304,091	304,091	
Fund balances - ending	$ 170,181	$ 170,181	$ 287,596	

See notes to financial statements.

1. Summary of significant accounting policies

Financial reporting entity

The District is organized under the provisions of Minnesota Statutes Chapter 103C and is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The Morrison 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 Morrison County because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

U.S. 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.

Basis of presentation

The accompanying financial statements of the Morrison Soil and Water Conservation District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial

reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2010. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

Basic financial statement presentation

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Depreciation expenses can be specifically identified by function and are included in the direct expenses of each function.

Measurement focus and basis of accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenues must meet both the measurable and available criteria to be recognized. "Measurable" means the amount of the transaction can be determined and "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. Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. If the District also receives an annual appropriation from the County, it is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

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

2. Expenditures are generally recorded when a liability is incurred. Expenditures also include the acquisition of fixed assets. 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.

Description of funds

The District reports the following major governmental fund:

General Fund

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

Budget

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 U.S. generally accepted accounting principles. Amendments to the original budget require board approval. No amendments were adopted during the year. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Cash and investments

Investments are stated at fair value except for non-brokered certificates of deposit which are stated at cost.

Capital assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as all assets with an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Property and equipment of the government are depreciated using the straight-line method over the useful lives. Useful lives vary from 3 to 15 years for property and equipment.

Compensated absences

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 eight to fourteen hours per month. Sick leave accrual varies from twelve to eighteen days per year. The limit on the accumulation of annual leave is 140 hours and the limit of sick leave is 600 hours. Upon termination from the District by retirement, illness or death, employees or their beneficiaries are paid accrued vacation leave and up to $1,000 of accrued sick leave.

Net assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 06, 2012, the date the financial statements were available to be issued.

2. Deposits and investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the Supervisors.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety 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.

Deposit balances at December 31, 2010 are as follows:

	Carrying amount	Bank balance
Total bank deposits (checking, savings, and CD's)	$ 494,306	$ 495,495

The District's deposits in banks at December 31, 2010 were entirely covered by federal depository insurance, NCUA insurance, private insurance by the Excess Share Insurance (ESI) Corporation, or by pledged collateral held by the bank's agent in the District's name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by Minnesota Statutes.

Investments

The District does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.

2. General obligations rated "A" or better.

3. Revenue obligations rated "AA" or better.

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

5. Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

6. Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks.

7. High-risk mortgage-backed securities described as interest-only or principal-only mortgage-backed securities and mortgage derivative securities that have an expected average life greater than ten years, and that have an expected average life that will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points, that will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points, or will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

8. Temporary general obligation bonds of the same governmental entity.

9. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, with a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers regulated by the SEC and maintaining a combined capital and surplus of $40,000,000 or more, exclusive of subordinated debt.

10. Securities lending agreements, including custody agreements, with financial institutions qualified as a "depository" by the government entity or with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, and which has its principal executive office in Minnesota.

11. Shares of Minnesota joint powers investment trusts whose investments are restricted to securities described in 1-10 and 12; or units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency in which investments are restricted to securities described in 1-10 and 12; or shares of investment companies registered under the Federal Investment Company Act of 1940 which hold themselves out as money market funds meeting the conditions of rule 2a-7 of the SEC and rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a nationally recognized statistical rating agency and is invested in financial instruments with a final maturity of 13 months or less.

12. Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing and with a credit quality in one of the two highest categories by a nationally recognized rating agency.

The District's investments are potentially subject to various risks including the following:

- Custodial credit risk - The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution) the government would not be able to recover the value of the investment or collateral securities.
- Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- Concentration risk - Investing 5 percent or more of the District's portfolio in the securities of a single issuer. This disclosure excludes U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds.
- Interest rate risk - The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

The following table presents the District's deposit and investment balances at December 31, 2010, and information relating to potential investment risks:

	Interest rate risk	Concentration risk	Credit risk	
Deposits/Investments	Maturity date	Over 5% of portfolio	Credit rating Moody/S&P	Carrying value
Cash equivalents				
Deposits (checking, savings and CD's)			n/a	$ 494,306
Stifel Nicolaus investments				
Stifel Nicolaus money market fund		8%	n/a	22,172
Brokered certificate of deposit	11/14/2011	17%	n/a	45,784
Brokered certificate of deposit	11/21/2011	19%	n/a	50,157
Corporate bonds	5/13/2011	19%	A3/A	50,197
Corporate bonds	5/14/2012	19%	A3/A	50,438
Corporate bonds	5/21/2012	19%	A2/A	50,408
Total cash and investments				$ 763,462

n/a - not applicable

3. Capital assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets				
Buildings and improvements				
Machinery and equipment	$ 65,504	$ 3,152	$	$ 68,656
Total capital assets	65,504	3,152		68,656
Less accumulated depreciation for:				
Machinery and equipment	41,376	5,412		46,788
Total accumulated depreciation	41,376	5,412		46,788
Total capital assets, net	$ 24,128	$ (2,260)	$ 0	$ 21,868

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
Conservation	$ 5,412
Total depreciation expense - governmental activities	$ 5,412

4. Deferred revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Morrison County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2010 consists of:

General Services	$ 4,109
Feedlot Cost-Share	366,574
State Cost-Share	81,352
Other state projects	992
Native Buffer Invasive Species	36,000
Total deferred revenue	$ 489,027

5. Long-term liabilities

Changes in compensated absences payable for the period ended December 31, 2010 are:

Balance January 1, 2010	$	13,928
Additions		15,966
Deletions		(16,232)
Balance December 31, 2010	$	13,662

6. Defined benefit pension plan

A. Plan description

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is

payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. Morrison Soil and Water Conservation District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were $15,300, $13,895, and $11,314, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

7. Risk management

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

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

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

The District's workers compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers compensation rates and

salaries for the year are known. The final premium adjustment was recorded in the year the adjustment was made.

8. Contingencies

The District has participated in state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

9. Operating leases

The District leases office space under a five year lease which commenced September 1, 2006. Payments under the lease are $762 per month. The District also leases a copier under a 36-month lease which expires in December 2011. Total rent expense for 2010 was $12,165. The District's leases require the following annual lease payments as of December 31: 2011 - $9,117.

ADDITIONAL REPORTS

Mayer, Porter & Nelson, Ltd.
CERTIFIED PUBLIC ACCOUNTANTS

Charles G. Mayer, CPA | Keith G. Porter, CPA | Julie A. Nelson, CPA

AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Supervisors
Morrison Soil and Water Conservation District
Little Falls, MN 56345

We have audited the financial statements of the governmental activities and the major fund of Morrison Soil and Water Conservation District as of and for the year ended December 31, 2010 and have issued our report thereon dated January 06, 2012.

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the District is not allowed to issue debt.

The results of our tests indicate that for the items tested, Morrison Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions.

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

Mayer, Porter & Nelson, Ltd.

January 06, 2012

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