BIG STONE SOIL AND WATER
CONSERVATION DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2013
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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Big Stone Soil and Water Conservation District
Ortonville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Big Stone Soil and Water Conservation District, Ortonville, Minnesota, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.
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 general fund of the Big Stone Soil and Water Conservation District, Ortonville, Minnesota as of December 31, 2013, and the respective changes in financial position, and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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 auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2014, on our consideration of the Big Stone Soil and Water Conservation District's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Big Stone Soil and Water Conservation District's internal control over financial reporting and compliance.

Peterson Company Ltd

PETE RSON COMPANY, LTD.
Certified Public Accountants
Waconia, Minnesota

September 18, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
BIG STONE SOIL AND WATER CONSERVATION DISTRICT
DECEMBER 31, 2013

The Big Stone Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2013. 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 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 Position and the Statement of Activities 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 start on page 9. 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 District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Since Districts are single-purpose, special-purpose government units, the District combines the government-wide and fund financial statements into a single presentation.

The Statement of Net Position 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 Position 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 position and changes in them. You can think of the District's net position — 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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the District.

In the Statement of Net Position 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.

Reporting the District's General Fund

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 the fund 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 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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1
Net Position:

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Current Assets</td>
<td>$ 130,568</td>
<td></td>
<td>$ 112,011</td>
</tr>
<tr>
<td>Capital Assets, net of depreciation</td>
<td>70,348</td>
<td></td>
<td>2,238</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 200,916</td>
<td></td>
<td>$ 114,249</td>
</tr>
<tr>
<td>Liabilities, Unearned Revenue</td>
<td>$ 44,327</td>
<td>$ 32,087</td>
<td></td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>2,870</td>
<td></td>
<td>1,545</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$ 47,197</td>
<td></td>
<td>$ 33,632</td>
</tr>
<tr>
<td>Investment in Capital Assets</td>
<td>$ 70,348</td>
<td>$ 2,238</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>83,371</td>
<td></td>
<td>78,379</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$ 153,719</td>
<td></td>
<td>$ 80,617</td>
</tr>
</tbody>
</table>

Net position of the District's governmental activities increased by $73,102 or 91 percent. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from $78,379 at December 31, 2012 to $83,371 at the end of this year.
Table 2
Change in Net Position:

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 381,369</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>144,122</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>97</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,337</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 529,925</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
</tr>
<tr>
<td>Conservation</td>
<td>$ 456,823</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$ 456,823</td>
</tr>
<tr>
<td>Increase (decrease) in Net Position</td>
<td>$ 73,102</td>
</tr>
</tbody>
</table>

The District's total revenues increased by $231,986 or 78 percent. The total cost of programs and services increased by $149,982 or 49 percent.

THE DISTRICT'S FUNDS

As the District completed the year, its general fund as presented in the balance sheet reported a combined fund balance of $86,241, which is above last year's total of $79,924.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were $333,564 above the final budgeted amounts. The most significant negative variance of $195,616 occurred in State Project Expenditures. The most significant positive variance of $233,316 occurred in State Revenues.

CAPITAL ASSETS & LONG-TERM LIABILITIES

Capital Assets
At the end of 2013, the District had $70,348 invested in capital assets. This amount represents a net increase (including additions and deductions) of $68,110 over last year.

Long-Term Liabilities
At the end of 2013, the District had $2,870 in accrued compensated absences. This compares to $1,545 in 2012.
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials considered many factors when setting the fiscal-year 2014 budget and fees that will be charges for the business-type activities. The District took into consideration the fees charged by other Districts; inflation, charges for rent and materials that have increased, fees and dues that have put higher demands on the budget. The District has had a significant drop in the number of agricultural producers. The funding from the County did increase by $2,500 per year, beginning in 2013. Financial support from BWSR has been cut significantly in past years, causing the Board to consider changes within the financial structure. The District has re-evaluated charges for services and is searching to obtain additional funding for increased costs for 2014. The District is also offering additional services to landowners and operators in an effort to increase income to charges for services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers 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 Big Stone Soil and Water Conservation District at 990 US Highway 12, Ortonville, MN 56278. The phone number is 320-839-6149 extension #3.
# BIG STONE SOIL AND WATER CONSERVATION DISTRICT
ORTONVILLE, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2013

<table>
<thead>
<tr>
<th>Assets</th>
<th>General Fund</th>
<th>Adjustments</th>
<th>Statement of Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
<td>$ 79,481</td>
<td>-</td>
<td>$ 79,481</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>30,538</td>
<td>-</td>
<td>30,538</td>
</tr>
<tr>
<td>Due From Other Governments</td>
<td>20,549</td>
<td>-</td>
<td>20,549</td>
</tr>
<tr>
<td>Capital Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment (net of accumulated depreciation)</td>
<td>-</td>
<td>70,348</td>
<td>70,348</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 130,568</td>
<td>$ 70,348</td>
<td>$ 200,916</td>
</tr>
</tbody>
</table>

| Liabilities             |              |             |                           |
| Current Liabilities:    |              |             |                           |
| Unearned Revenue        | $ 33,007     | -           | $ 33,007                  |
| Accounts Payable        | 11,320       | -           | 11,320                    |
| Long-term Liabilities:  |              |             |                           |
| Due after one year      | -            | 2,870       | 2,870                     |
| Total Liabilities       | $ 44,327     | $ 2,870     | $ 47,197                  |

| Fund Balance/Net Position |              |             |                           |
| Fund Balance             |              |             |                           |
| Unassigned               | $ 88,241     | $ (88,241)  | -                         |
| Total Fund Balance       | $ 88,241     | $ (88,241)  | -                         |

| Net Position             |              |             |                           |
| Investments in Capital Assets | $ 70,348     | -           | $ 70,348                  |
| Unrestricted             | 83,371       | -           | 83,371                    |
| Total Net Position       | $ 153,719    | -           | $ 153,719                 |

Notes are an integral part of the basic financial statements.
### BIG STONE SOIL AND WATER CONSERVATION DISTRICT
### ORTONVILLE, MINNESOTA
### STATEMENT OF ACTIVITIES AND
### GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
### FOR THE YEAR ENDED DECEMBER 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Adjustments</th>
<th>Statement of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 381,369</td>
<td>$</td>
<td>$ 381,369</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>144,122</td>
<td></td>
<td>144,122</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>97</td>
<td></td>
<td>97</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,337</td>
<td></td>
<td>4,337</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$ 529,925</td>
<td>$</td>
<td>$ 529,925</td>
</tr>
</tbody>
</table>

| **Expenditures/Expenses** |              |             |                         |
| Conservation            |              |             |                         |
| Current                 | $ 445,840    | $ 10,983    | $ 456,823               |
| Capital Outlay          | 77,768       | (77,768)    |                         |
| **Total Expenditures/Expenses** | $ 523,608  | (66,785)    | $ 456,823               |

| Excess of Revenues Over (Under) Expenditures/Expenses | $ 6,317 | $ 68,785 | $ 73,102 |

| Fund Balance/Net Position January 1 | $ 79,924 | $ 693 | $ 80,617 |
| Fund Balance/Net Position December 31 | $ 86,241 | $ 67,476 | $ 153,719 |

Notes are an integral part of the basic financial statements.
BIG STONE SOIL AND WATER CONSERVATION DISTRICT
ORTONVILLE, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Original/Final Budget</th>
<th>Actual</th>
<th>Variance With Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intergovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County</td>
<td>$ 64,800</td>
<td>$ 64,389</td>
<td>$ (411)</td>
</tr>
<tr>
<td>Local</td>
<td>-</td>
<td>$ 11,000</td>
<td>$ 11,000</td>
</tr>
<tr>
<td>State Grant</td>
<td>$ 72,664</td>
<td>$ 305,980</td>
<td>$ 233,316</td>
</tr>
<tr>
<td>Total Intergovernmental</td>
<td>$ 137,464</td>
<td>$ 381,369</td>
<td>$ 243,905</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$ 30,550</td>
<td>$ 144,122</td>
<td>$ 113,572</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>$ 200</td>
<td>$ 97</td>
<td>$ (103)</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>$ 4,337</td>
<td>$ 4,337</td>
</tr>
<tr>
<td>Total Miscellaneous</td>
<td>$ 200</td>
<td>$ 4,434</td>
<td>$ 4,234</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 168,214</td>
<td>$ 529,925</td>
<td>$ 361,711</td>
</tr>
</tbody>
</table>

| Expenditures            |                       |            |                             |
| District Operations     |                       |            |                             |
| Personnel Services      | $ 89,295              | $ 97,771   | $ (8,476)                   |
| Other Services and Charges | 76,550             | 56,330     | 20,220                      |
| Supplies                | 1,000                 | 1,319      | (319)                       |
| Capital Outlay          | -                     | 77,766     | (77,766)                    |
| Total District Operations| $ 166,845            | $ 233,188  | $ (66,343)                  |
| Project Expenditures    |                       |            |                             |
| District                | $ 18,125              | $ 89,730   | $ (71,605)                  |
| State                   | 5,074                 | 200,690    | (195,616)                   |
| Total Project Expenditures| $ 23,199            | $ 290,420  | $ (267,221)                 |
| Total Expenditures      | $ 190,044             | $ 523,606  | $ (333,564)                 |
| Excess of Revenues Over (Under) Expenditures | $(21,830) | $ 6,317 | $ 28,147 |
| Fund Balance - January 1| $ 79,924              | $ 79,924   | $ -                         |
| Fund Balance - December 31| $ 58,094            | $ 86,241   | $ 28,147                    |

Notes are an integral part of the basic financial statements.
Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the Big Stone Soil and Water Conservation District conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Financial Reporting Entity
The Big Stone 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 Big Stone 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 Big Stone 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 (i.e. The Statement of Net Position 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 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 revenues as soon as all eligibility requirements imposed by the provider have been met.
BIG STONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

Governmental fund financial statements are reported using the current financial resources
measurement focus and the modified accrual basis of accounting. Revenues are recognized
as soon as they are both measurable and available. Revenues are considered to be
available when they are collectible within the current period or soon enough thereafter to
pay liabilities of the current period. For this purpose, the District considers all revenues,
except reimbursement grants, to be available if they are collected within 60 days of the end
of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the
end of the current fiscal period. Expenditures are recorded when a liability is incurred under
accrual accounting.

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. 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
defered until the appropriate period.

Investment earnings and revenue from sale of trees are recognized when earned. Agricultural
conservation fees and other revenues 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 Net Position**

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012. Under the new standards, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report net position instead of net assets.

**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.

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

**Liabilities**
Long-term liabilities, such as compensated absences, are accounted for as an adjustment to net position.

**Classification of Net Position**
Net position in the government-wide financial statements are classified in the following categories:

- Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

**Classification of Fund Balances**

The District follows Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*.

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually
required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the District Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Explanation of Adjustments Column in Statements

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

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence Liability the District has as of the report date. See note on Long-Term Liabilities.

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 the note on Long-Term Liabilities.
Paid Time Off
Under the District's personnel policies, employees are granted paid time off (PTO) in varying amounts based on their length of service. PTO accrual varies from 8 to 16 hours per month. The limit on the accumulation of PTO is 360 hours. Upon termination of employment from the District, employees are paid accumulated PTO.

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; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental 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 Intergovernmental 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

Capital Assets

<table>
<thead>
<tr>
<th></th>
<th>Beginning</th>
<th>Addition</th>
<th>Deletion</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$117,369</td>
<td>$77,768</td>
<td>$42,441</td>
<td>$152,696</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>115,131</td>
<td>9,658</td>
<td>42,441</td>
<td>82,348</td>
</tr>
<tr>
<td>Net Capital Assets</td>
<td>$ 2,238</td>
<td></td>
<td></td>
<td>$ 70,348</td>
</tr>
</tbody>
</table>

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 is 5 to 10 years for Machinery and Equipment. Current year depreciation is $9,658.

The District uses the threshold of $1,000 for capitalizing assets purchased.

Unearned Revenue
Unearned 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. Unearned revenue for the year ended December 31, 2013, consists of the following: BWSR Cost Share Programs, $9,340; BWSR Service Grant, $23,667; Total, $33,007.
Long-Term Liabilities - Compensated Absences Payable
Changes in long-term liabilities for the period ended December 31, 2013 are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance January 1, 2013</td>
<td>$1,545</td>
</tr>
<tr>
<td>Net Change in Compensated Absences</td>
<td>1,326</td>
</tr>
<tr>
<td>Balance December 31, 2013</td>
<td>$2,870</td>
</tr>
</tbody>
</table>

Deposits
Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 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
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, 2013, 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 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. The plan and its benefits are established and administered in accordance with Minnesota Statutes 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. Coordinated Plan Members were required to contribute 6.25% of their annual covered salary. The District is required to contribute 7.25% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were $4,737, $4,727, and $4,336 respectively. The District's
Contributions were equal to the contractually required contributions for each year as set by Minnesota Statutes.

**Note 4 - Operating Lease**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2013 were $8,856.

**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 $523,608; Budget $190,044; Excess $333,564.

**Note 7 - Reconciliation of Fund Balance to Net Position**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Fund Balance, January 1</td>
<td>$79,924</td>
</tr>
<tr>
<td>Plus: Excess of Revenue Over Expenditures</td>
<td>6,317</td>
</tr>
<tr>
<td>Governmental Fund Balance, December 31</td>
<td>$86,241</td>
</tr>
<tr>
<td>Adjustments from Fund Balance to Net Position:</td>
<td></td>
</tr>
<tr>
<td>Plus: Capital Assets</td>
<td>$70,348</td>
</tr>
<tr>
<td>Less: Long-Term Liabilities</td>
<td>(2,870)</td>
</tr>
<tr>
<td>Net Position</td>
<td>$153,719</td>
</tr>
</tbody>
</table>

**Note 8 - Reconciliation of Change in Fund Balance to Change in Net Position**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in fund balance</td>
<td>$6,317</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>77,768</td>
</tr>
</tbody>
</table>

The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level. (9,658)

In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned. (1,325)

Net change in net position          | $73,102  |
MINNESOTA LEGAL COMPLIANCE REPORT

Board of Supervisors
Big Stone Soil and Water Conservation District
Ortonville, Minnesota

We have audited, 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 the financial statements of Big Stone Soil and Water Conservation District of Ortonville, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2014.

The Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Big Stone Soil and Water Conservation District failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions. However, our audit was not directed primarily toward obtaining the knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Big Stone Soil and Water Conservation District’s noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

September 18, 2014
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
Big Stone Soil and Water Conservation District
Ortonville, Minnesota

We have audited, in accordance with the 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, the
financial statements of the governmental activities of Big Stone Soil and Water Conservation
District, Ortonville, Minnesota, as of and for the year ended December 31, 2013, and the
related notes to the financial statements, which collectively comprise Big Stone Soil and
Water Conservation District’s basic financial statements, and have issued our report thereon
dated September 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Stone
Soil and Water Conservation District’s internal control over financial reporting (internal
control) to determine the audit procedures that are appropriate in the circumstances for the
purpose of expressing our opinions on the financial statements, but not for the purpose of
expressing an opinion on the effectiveness of Big Stone Soil and Water Conservation
District’s internal control. Accordingly, we do not express an opinion on the effectiveness of
Big Stone Soil and Water Conservation District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not
allow management or employees, in the normal course of performing their assigned
functions, to prevent, or detect and correct, misstatements on a timely basis. A material
weakness is a deficiency, or a combination of deficiencies, in internal control, such that
there is a reasonable possibility that a material misstatement of the entity’s financial
statements will not be prevented, or detected and corrected on a timely basis. A significant
deficiency is a deficiency, or a combination of deficiencies, in internal control that is less
severe than a material weakness, yet important enough to merit attention by those charged
with governance.

Our consideration of internal control was for the limited purpose described in the first
paragraph of this section and was not designed to identify all deficiencies in internal control
that might be material weaknesses or, significant deficiencies. Given these limitations,
during our audit we did not identify any deficiencies in internal control that we consider to be
material weaknesses. However, material weaknesses may exist that have not been
identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Stone Soil and Water
Conservation District’s financial statements are free from material misstatement, we
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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETE RSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

September 18, 2014