Anoka Conservation District
Ham Lake, Minnesota
FINANCIAL STATEMENTS
AND SUPPLEMENTAL DATA
December 31, 2011
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# Anoka Conservation District

Ham Lake, Minnesota

**FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

December 31, 2011

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Independent Auditor’s Report

We have audited the accompanying financial statements of the major funds of the Anoka Conservation District as of and for the year ended December 31, 2011 which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Anoka Conservation District’s management. Our responsibility is to express an opinion 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 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 opinion.

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 Anoka Conservation District as of December 31, 2011, and the results of operations and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated August 2, 2012 on our consideration of the Anoka Conservation District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

The Supplementary Data which includes Breakdown or County Revenue, Deferred Revenue Breakdown and Management’s Discussion and Analysis as listed in the table of contents are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of management inquiries regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Babcock, Langbein and Company
August 2, 2012
MANAGEMENT’S DISCUSSION AND ANALYSIS
Anoka Conservation District 2011 Financial Statements

The Anoka Conservation District’s (ACD) discussion and analysis provides an overview of ACD’s financial activities for the fiscal year ended December 31, 2011. 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 ACD’s financial statements.

FINANCIAL HIGHLIGHTS

- Although ACD derived 80 percent ($1,186,728.60 of $1,473,537.79) of its revenue from other governmental sources in 2011, all but $153,600 was acquired competitively through grants or through annual contracts. This means that only 10% of revenues can be relied upon as stable funding from year to year. As such, when preparing the budget, the Board of Supervisors elects to err on the side of caution when speculating on which programs will be funded and the level of staffing that will be needed to implement projects. In a successful year, actual revenues and expenditures will far exceed those budgeted.

- ACD’s General Fund Balance increased by $14,503.05 in 2011.

- With the implementation of GASB#34 requirements, capital assets are being depreciated, which resulted in a 2011 depreciation of $13,702.00.

- ACD holds two conservation easements wherein landowners provided funds that were deposited into separate investment accounts. Interest earned may be withdrawn each year to cover the cost of administering the easements. Each account has a base balance of $10,000 (Kern Easement Administration Account and the Rum River Nature Area Easement Administration Account) for a total of $20,000. On paper, ACD withdrew the interest from these accounts to cover the cost of annual site inspections conducted by ACD staff. The actual transfer of funds to ACD’s checking account didn’t occur until 2012. The actual December 31, 2011 balance on these two accounts totaled $20,008.64. In the case of the Kern easement, the landowner also provided $20,000 to establish a property management account. The management account is used for habitat restoration projects and may only be used for enhancement of ecosystems the property. At year end, the Kern Easement Management account had a balance of $18,791.40.

- ACD purchased land and buildings for its office headquarters in 2010. Under the terms of the mortgage, total future costs for principal is $377,331.60 ($5,066.68 due in 2012 and $372,264.92 due after 2012). Interest payable under this mortgage is $81,185.12 ($22,627.64 due in 2012 and $58,557.48 due after 2012). Of the $427,777 value, $150,000 is attributed to the land, which is not depreciable. The structures are depreciated over 50 years and experienced $5,555.54 in depreciation in 2011.

- ACD administered the majority of a $1,000,000.00 Clean Water Fund grant for the Metropolitan Landscape Restoration Program that was largely distributed to participating soil and water conservation districts in the eleven county Twin Cities metropolitan area. Distributions were made for project installations and as compensation for the completion of subwatershed stormwater retrofit assessments. These distributions totaled $480,554.56. In addition to this, the Metro Conservation Districts (MCD) was compensated for providing staffing services to support the program. Disbursements totaling $129,310.00 were made to MCD for this purposes. In all $609,864.56 was paid out in 2011 as part of the grant program. It is due to this that ACD’s expenses neared

See Notes to Financial Statements
1.5 million dollars whereas in most years they are typically around eight hundred thousand.

- 2011 marks the end of the Landscape Restoration Program, a metro-wide partnership of shared staff that ACD initiated in 1999 in cooperation with three other metro area SWCDs. ACD hosted the program for the entirety of its tenure. Failure to secure funding for 2012 and beyond necessitated a reduction in staffing levels, which will reduce ACD’s annual personnel expenses by 20%. This greatly impacts ACD’s ability to provide technical services and requires several adjustments to long term plans and forecasts.

**USING THIS ANNUAL REPORT**
This annual report consists of three parts: management’s discussion and analysis, financial statements, and notes to the financial statements. The financial statements include the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Revenues, Expenditures/Expenses and Changes in Fund Balance, which provide information about the activities of ACD as a whole, and present a longer-term view of ACD’s finances. Thereafter, Fund financial statements are provided, which tell how these services were financed in the short term as well as what remains for future spending. The Fund financial statements include; the Budgetary Comparison Schedule General Fund, the Breakdown of County Revenue and the Deferred Revenue Breakdown. Fund financial statements report ACD’s operations in more detail than the government-wide statements by providing information about ACD’s most significant funds in 2011. Since ACD is primarily a single-purpose special purpose government we are able to combine the government-wide and fund financial statements into single presentations. ACD has elected to present in this format even though ACD added a non-conservation function related to the purchase of the office headquarters. All expenses and revenues associated with ownership of the property at McKay Drive are reflected under Land Operation. The total value of this function is small relative to the overall function of the District and so does not warrant a separate presentation.

**The Statement of Net Assets and the Statement of Activities** include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report ACD’s net assets and changes in them. You can think of ACD’s net assets (the difference between assets and liabilities) as one way to measure ACD’s financial health, or financial position. Over time, increases or decreases in ACD’s net assets are one indicator of whether its financial health is improving or deteriorating.

**The Statement of Net Assets and Governmental Fund Balance Sheet** shows ACD’s net assets to be $247,304.85, however much of this value is tied to the value of the land held by the ACD. Ideally, the Board of Supervisors would like to have sufficient undesignated funds to cover 6 months of operating expenses, which would equate to $225,384.50 in 2012. The current undesignated fund is only $31,743.70. While the relationship between long term and short term principal and interest for the McKay property is explained in the Notes to the Financial Statements it was necessary to make one entry to the General Fund to reflect the Mortgage Principal paid in 2011 under Liabilities as this is not reflected elsewhere in the report. Principal payments toward the mortgage serve to reduce the liability and so do not record as an expense but function more like a transfer between accounts; Checking (Asset) and Mortgage Principal (Liability).
The Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance is intended to show the differentiation of expenses between operational functions. As of 2011, ACD’s purchase of the office complex that includes several rentable suites has added an operation as a non-conservation related function of the district. As a percentage of district operations it remains small at only 2.5%.

The Fund Financial Statements provides detailed information about the general fund not ACD as a whole. ACD presents only a general fund, which is a governmental fund. All of ACD’s basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of ACD’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance ACD’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

Budgetary Comparison
ACD’s budget is composed primarily of competitive grants and service fees. Of the $1,473,537.79 in 2011 revenue, $174,365.00 is relatively stable ($153,600.00 in county general services and $20,765.00 in state general services). Of the $646,093.14 variance in total Intergovernmental Revenues, $648,239.18 was in State grants. This was due to Clean Water Funds that were received as revenue that were not included in the budget as they were pass through funds to other metro SWCDs. ACD only received the grant as revenue in 2011 when the pass through expense was incurred.

A negative variance of $6,511.81 in County revenue resulted from less project installation cost share funds being received from Deferred Ag. Preserves grants in accordance with the level of project installation expenses.

Charges for Services were $1,273.64 less than budgeted which includes 32 programs and 10 funding sources with total revenues exceeding $230,000.

A positive variance of $12,208.19 in Land Operations was experienced largely due to a budgeted expense of $9,700 for and additional payment toward principle on the mortgage that we could not afford to make. There was also a $1,972.18 positive variance for interest paid on the mortgage because ACD submits payments several weeks early in conjunctions with the timing of our board meetings. A single payment made three weeks early results in a transient positive variance of over $1,200. Because our January payment is posted in December as a prepaid expense, the November mortgage statements are used to reflect the year end balance.

A negative variance of $33,166.41 in Personnel Services expenses was experienced due to $8,749.32 in severance payments and an adjustment needed to account for discovery that payroll services provided by Anoka County have not historically been calculated through month end as previously believed. Anoka County Finance and Central Services processes payroll and pays ACD employees and then invoices ACD in the following month for reimbursement. The invoices indicate that they are for the preceding month. ACD interpreted this to mean that the January invoice for December payroll included payment for all hours worked in December. We recently learned that the December invoice actually covered the last two weeks of November.
and the first two weeks of December because it is based on when the checks are issued to the employees and not when the employees work the hours. We adjusted for this to ensure that annual financials fully reflect the hours worked by employees not just the payments made to employees. This required an adjustment of $14,649.14 plus FICA/PERA and benefits.

Under Project expenditures a negative variance of $661,112.56 for State projects was experience due to the Clean Water Fund expenses noted in the first paragraph of this section. A positive variance was experienced in relatively small increments spread out over 21 different projects implemented in cooperation with twelve partners totaling $28,105.15 under District projects.

CONTACT THE CONSERVATION DISTRICT
This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Conservation District’s finances and to show the Conservation District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Conservation District’s Manager 1318 McKay Drive NE Suite 300 Ham Lake, MN 55304, chris.lord@anokaswcd.org, 763-434-2030 extension 13.
ANOKA CONSERVATION DISTRICT  
HAM LAKE, MINNESOTA  
STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
FOR DECEMBER 31, 2011

<table>
<thead>
<tr>
<th>Assets</th>
<th>General Fund</th>
<th>Adjustments See Notes</th>
<th>Statement of Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>$ 239,603.71</td>
<td></td>
<td>$ 239,603.71</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$ 421.06</td>
<td></td>
<td>$ 421.06</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>$ 59,715.23</td>
<td></td>
<td>$ 59,715.23</td>
</tr>
<tr>
<td>Other current assets (Easement endowments)</td>
<td>$ 38,800.04</td>
<td></td>
<td>$ 38,800.04</td>
</tr>
<tr>
<td>Prepaid items</td>
<td>$ 18,045.10</td>
<td></td>
<td>$ 18,045.10</td>
</tr>
<tr>
<td>Undeposited Funds</td>
<td>$ 254.00</td>
<td></td>
<td>$ 254.00</td>
</tr>
<tr>
<td>Capital assets not being depreciated</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Land</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>McKay</td>
<td>$ 150,000.00</td>
<td></td>
<td>$ 150,000.00</td>
</tr>
<tr>
<td>Beach</td>
<td>$ 153,000.00</td>
<td></td>
<td>$ 153,000.00</td>
</tr>
<tr>
<td>Capital assets net of accumulated depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McKay</td>
<td>$ 272,221.46</td>
<td></td>
<td>$ 272,221.46</td>
</tr>
<tr>
<td>Equipment</td>
<td>$ 11,615.81</td>
<td></td>
<td>$ 11,615.81</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 356,839.14</td>
<td></td>
<td>$ 386,837.27</td>
</tr>
<tr>
<td></td>
<td>$ 943,676.41</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Liabilities                                 |                    |                       |                        |
| Current liabilities:                        |                    |                       |                        |
| Accounts payable                            | $ 7,459.98         |                       | $ 7,459.98             |
| Salaries payable                            | $                 |                       | $                     |
| Deposits on sales                           | $ 3,459.34         |                       | $ 3,459.34             |
| Easement Escrows                            | $ 38,800.04        |                       | $ 38,800.04             |
| Wellness Fund                               | $ 253.02           |                       | $ 253.02                |
| Sales Tax Payable                           | $ 0.19             |                       | $ 0.19                 |
| Deferred revenue                            | $ 241,854.64       |                       | $ 241,854.64            |
| Short-term liabilities:                     |                    |                       |                        |
| McKay Mortgage Principal                    | $ 5,066.68         |                       | $ 5,066.68             |
| Long-term liabilities: (due after one year) | $                 |                       | $                     |
| McKay Mortgage Principal                    | $ (5,712.56)       |                       | $ 366,552.34            |
| Compensated absences                        | $ 32,925.33        |                       | $ 32,925.33             |
| Total Liabilities                           | $ 286,114.63       |                       | $ 410,256.93            |
|                                              | $ 696,371.56       |                       |                        |

| Fund Balance/Net Assets                     |                    |                       |                        |
| Fund Balance/Net Assets                     |                    |                       |                        |
| Reserved for prepaid items                  | $ 18,045.10        | $(18,045.10)          | $                     |
| Unreserved                                  | $                 |                       | $                     |
| Designated for future projects              | $ 23,080.37        | $(23,080.37)          | $                     |
| Undesignated                                | $ 31,743.70        | $(31,743.70)          | $                     |
| Total Fund Balance                          | $ 72,869.17        | $(72,869.17)          | $                     |

| Net Assets                                  |                    |                       |                        |
| Invested in capital assets                  | $ 209,505.67       |                       | $ 209,505.67            |
| Unrestricted                                | $ 37,799.18        |                       | $ 37,799.18             |
| Total Net Assets                            | $ 247,304.85       |                       | $ 247,304.85            |

See Notes to Financial Statements
ANOKA CONSERVATION DISTRICT
HAM LAKE, MINNESOTA

STATEMENT OF ACTIVITIES AND FUND GOVERNMENTAL REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2011

<table>
<thead>
<tr>
<th>Revenues</th>
<th>General Fund</th>
<th>Adjustments See Notes</th>
<th>Statement of Net Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intergovernmental</td>
<td>$1,186,728.60</td>
<td>$1,186,728.60</td>
<td>$1,186,728.60</td>
</tr>
<tr>
<td>Charges for services</td>
<td>$233,086.36</td>
<td>$233,086.36</td>
<td>$233,086.36</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>$402.83</td>
<td>$402.83</td>
<td>$402.83</td>
</tr>
<tr>
<td>Rents</td>
<td>$53,320.00</td>
<td>$53,320.00</td>
<td>$53,320.00</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$1,473,537.79</strong></td>
<td><strong>-</strong></td>
<td><strong>$1,473,537.79</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures/Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Operation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$36,095.81</td>
<td>$36,095.81</td>
<td>$36,095.81</td>
</tr>
<tr>
<td>Principle payment</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Conservation</td>
<td>$1,421,804.48</td>
<td>$1,421,804.48</td>
<td>$1,421,804.48</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>$1,134.45</td>
<td>$1,134.45</td>
<td>$1,134.45</td>
</tr>
<tr>
<td><strong>Total Expenditures/Expenses</strong></td>
<td><strong>$1,459,034.74</strong></td>
<td><strong>$8,555.59</strong></td>
<td><strong>$1,467,590.33</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Excess of Revenues Over (Under)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures/Expenses</td>
<td>$14,503.05</td>
<td>$5,947.46</td>
<td>$14,503.05</td>
</tr>
<tr>
<td>Fund Balance/Net Assets January 1</td>
<td>$58,177.28</td>
<td>$241,357.39</td>
<td>$58,177.28</td>
</tr>
<tr>
<td>Fund Balance/Net Assets December 31</td>
<td>$72,680.33</td>
<td>$247,304.85</td>
<td>$72,680.33</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements
## ANOKA CONSERVATION DISTRICT
### HAM LAKE, MINNESOTA

### BUDGETARY COMPARISON SCHEDULE
#### BUDGET AND ACTUAL
##### GENERAL FUND
##### YEAR ENDED DECEMBER 31, 2011

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Original/Final Budget</th>
<th>Actual</th>
<th>Variance with Final Budget Positive (Eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intergovernmental</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County</td>
<td>$ 186,075.46</td>
<td>$ 179,563.65</td>
<td>$(6,511.81)</td>
</tr>
<tr>
<td>Regional</td>
<td>$ 159,044.00</td>
<td>$ 163,409.77</td>
<td>$ 4,365.77</td>
</tr>
<tr>
<td>Other governments</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State grant</td>
<td>$ 195,516.00</td>
<td>$ 843,755.18</td>
<td>$ 648,239.18</td>
</tr>
<tr>
<td><strong>Total intergovernmental</strong></td>
<td>$ 540,635.46</td>
<td>$ 1,186,728.60</td>
<td>$ 646,093.14</td>
</tr>
<tr>
<td><strong>Charges for services</strong></td>
<td>$ 234,360.00</td>
<td>$ 233,086.36</td>
<td>$(1,273.64)</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rents</td>
<td>$ 53,620.00</td>
<td>$ 53,320.00</td>
<td>$(300.00)</td>
</tr>
<tr>
<td>Interest earnings</td>
<td>$ 500.00</td>
<td>$ 402.83</td>
<td>$(97.17)</td>
</tr>
<tr>
<td>Other</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total miscellaneous</strong></td>
<td>$ 54,120.00</td>
<td>$ 53,722.83</td>
<td>$(397.17)</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$ 829,115.46</strong></td>
<td><strong>$ 1,473,537.79</strong></td>
<td><strong>$ 644,422.33</strong></td>
</tr>
</tbody>
</table>

### Expenditures

#### Land operations
- Debt service - McKay Interest: $22,800.00, $20,827.82, $1,972.18
- McKay Property Taxes: $2,877.00, $2,876.56, $0.44
- McKay Expenses: $22,627.00, $12,391.43, $10,235.57
- McKay Capital Outlay: $0, $0, $0
- **Total land operations**: $48,304.00, $36,095.81, $(12,208.19)

#### District operations
- Personal services: $522,279.00, $555,445.41, $(33,166.41)
- Other services and charges: $58,476.00, $56,211.05, $2,264.95
- Supplies: $800.00, $676.61, $123.39
- Capital outlay: $1,134.00, $1,134.45, $(0.45)
- **Total district operations**: $582,689.00, $613,467.52, $(30,778.52)

#### Project expenditures
- District: $123,296.00, $95,190.85, $28,105.15
- State: $53,168.00, $714,280.56, $(661,112.56)
- **Total project expenditures**: $176,464.00, $809,471.41, $(633,007.41)
- **Total Expenditures**: $807,457.00, $1,459,034.74, $(651,577.74)

### Excess of Revenues Over (Under)
- Expenditures: $21,658.46, $14,503.05, $(7,155.41)
- Fund Balance - January 1: $58,177.28, $58,177.28, $0
- Fund Balance - December 31: $79,835.74, $72,680.33, $(7,155.41)

See Notes to Financial Statements
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Anoka Conservation District (District) conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Statement 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. 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 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 Anoka 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 that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District’s objectives.

The District is not considered a part of Anoka 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.

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.

B. Basis of Presentation – Fund Accounting

The accounts of the Anoka Conservation District are organized on a basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

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

2. **General Fixed Assets Account Group**
   This account group is used to record the District's general fixed assets, which include furniture, equipment, land and buildings.

3. **General Long-Term Account Group**
   This account group records earned but unpaid leave that has vested or is expected to vest.

C. **Government-Wide Financial Statements**

   Government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the non-fiduciary activities of the district. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

D. **Fund Financial Statements**

   The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

   The District's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

   Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues is recognized when the corresponding expenditures are incurred. The District also receives an annual appropriation from the County, which is recognized as revenue when received.

   Investment earnings are recognized when earned. Revenues and expenditures from tree sales are recognized during the year that the trees are distributed to the customer.

   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.

E. **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.

F. **Assets, Liabilities, and Equity Accounts**

1. **Assets**

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

   Fixed assets (capital assets) are reported on a net (depreciated) basis. Fixed assets are valued at historical or estimated historical cost. The value of raw land assets is not depreciated, whereas structures are.

2. **Liabilities**

   Long-term liabilities, such as compensated absences, are accounted for as an Adjustment.

3. **Equity**

   Investment in general fixed assets represents the District's equity in general fixed assets.

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

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

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

G. **Explanation of Adjustments Column in Statements**

1. **Capital Assets**
In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made for the District's capital assets. This adjustment equals the net book balance of capitalized assets as of the report dates, and reconciles the amount reported in Note IV.

2. Short-Term Liabilities
   In the Statement of Net Assets and Government Fund Balance Sheet, principal payments on the district headquarters mortgage due within one year are reported as short-term liabilities.

3. Long-Term Liabilities
   In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absences liability the district has as of the report date. See Note I-H and Note VI below. Principal payments on the district headquarters mortgage due after one year are also reported as long term liabilities.

4. Expenditures/Expenses: Land Operation
   In the Statement of Activities and Fund Governmental Revenues, Expenditures/Expenses and Changes in Fund Balance the principal payment toward the mortgage is reflected as an adjustment. Because it is essentially a conversion from a cash asset to a real property asset and so does not alter net assets, an adjustment is necessary to negate it as an expense.

5. Depreciation and Change in Compensated Absences for the Year
   In the Statement of Activities and Government Fund Revenues, Expenditures/Expenses and Changes in Fund Balance, the adjustment for Current Conservation equals asset subtractions, plus the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and Note VI below.

6. Fund Balance/Net Assets January 1
   In the Statement of Activities and Government Fund Revenues, Expenditures/Expenses and Changes in Fund Balance the January 1 Fund Balance adjustment equals the capital beginning net book value, less both the value of the mortgage corresponding to the depreciation schedule of the McKay property as an asset and the value of beginning compensated absences.

H. Vacation and Sick Leave
   Under the District's personnel policies, employees are granted Flexible Time Off (FTO) in varying amounts based on their length of service. FTO may be used for vacation, illness or other personal matters. FTO accrual varies from twenty-four to thirty-three days per
year for full time employees. An additional Extended Medical benefit (EMB) is accrued at a rate of eight days per year. The limit on the carry over of accumulated FTO from one year to the next is 240 hours and EMB is 720 hours. Upon separation from the District in good standing, employees are paid accrued FTO up to 240 hours. EMB is not paid out upon separation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Balance

There was no deficit of the General Fund at December 31, 2011. The District’s General Fund had a positive fund balance of $72,680.33.

B. Expenditures compared to Budget

During 2011, actual expenditures, $1,459,034.74, exceeded budgeted expenditures, $807,457.00, by $651,577.74.

C. Collateral for Deposits

During 2011, the District’s deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2011, the District’s deposits totaled $278,303.75, of which $110,527.22 was in checking and $118,971.12 was in savings as cash deposits and $48,805.41 was invested in the Wells Fargo Advantage Funds Government Money Market Funds ($10,005.37 in the general investment account, $18,791.40 in the Kern Property Management account, $10,003.83 in the Kern Easement Admin account, and $10,004.81 in the Rum River Easement Admin account) meeting all state guidelines. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2011, all the District’s deposits were covered by insurance or collateralized with securities held by the District or its agent in the District’s name.

IV. CHANGES IN CAPITAL ASSETS

Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance January 1, 2011</td>
<td>$599,404.82</td>
</tr>
<tr>
<td>Additions</td>
<td>$1,134.45</td>
</tr>
<tr>
<td>Deletions (disposal of equipment)</td>
<td>$0.00</td>
</tr>
<tr>
<td>Deletions (2011 depreciation)</td>
<td>$(13,702.00)</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements
Balance December 31, 2011 $586,837.27

2011 capital additions include a Dell computer server, which falls under the category of Equipment and is depreciated.

The District uses a threshold of $500 for capitalizing assets purchased. Those physical assets under $500 are expensed directly.

The value of the mortgage against the McKay property asset is considered as noted in I G 6 above.

V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources, the Metropolitan Council, local partners, and Anoka County for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on “Deferred Revenue Breakdown” is $241,854.64

VI. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2011 are:

Balance January 1, 2011 $31,224.71

Net Changes in Compensated Absences $1,700.62
Balance December 31, 2011 $32,925.33

VII. ADJUSTMENTS

See note I-G.

VIII. 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, Anoka County, on behalf of the District, has purchased commercial insurance. Property and casualty liabilities, workers’ compensation, and errors and omissions are insured through the League of MN Cities Insurance Trust.

The League of Minnesota Cities 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.

IX. PENSION PLAN
A. Plan Description

The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. PERA administers the Public Employees Retirement Fund (PERF). The plan and its benefits are established and administered in accordance with Minnesota Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, MN, 55103-1855.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. All District employees are Coordinated Plan members were required to contribute 6.00% of their annual covered salary in 2009. The District was required to contribute 7.25% of annual covered payroll. The District’s employer share of contributions to PERA for the years ending December 31, 2011, 2010, and 2009 were $29,952.16, $26,861.74, and $21,198.69 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

X. OPERATING LEASES

The District purchased office space in 2010 and secured a mortgage for 90% of the principal, providing a 10% down payment. The property has four rentable suites in addition to the occupied space. To facilitate the segregation of expenses, ACD pays itself monthly rent to cover the occupied space at a rate of $2,065/month gross ($24,780 in 2012). Additionally, ACD has a lease agreement with a tenant for $850/month gross that expires July 31, 2012 ($5,950 secured contract for 2012), a six month lease agreement with a tenant for $300/month gross that expires February 28, 2012 ($600 secured contract for 2012) and a three year lease with a tenant that will provide $18,794 in rents for 2012. The 6.00% interest rate mortgage is held by TruStone Credit Union with a 12/31/2012 principal balance of $377,331.60 ($5,066.68 due in 2012 and $372,264.92 due after 2012). Interest payable under this mortgage is $81,185.12 ($22,627.64 due in 2012 and $58,557.48 due after 2012).
BREAKDOWN OF COUNTY REVENUE
2011

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION $153,600.00
WATER PLAN MONEY $0.00
WETLAND MONEY $0.00
FEEDLOT MONEY $0.00
ABANDONED WELL $0.00
DNR SHORELAND $0.00
OTHER (Ag. Preserves) $25,963.65

TOTAL $179,563.65

NOTE: The total should agree with amount reported as County Revenue in the "Budgetary Comparison Schedule."

List other "non-cash" county support (i.e. rent, health insurance, etc.) that does not show up anywhere on your annual report.

- Processing payroll, insurance and unemployment
- Legal and administrative services and support, and
- Liability, automobile and workers compensation insurance
DEFERRED REVENUE BREAKDOWN
2011

Balance of BWSR Service Grants: $ 0.00

Balance of unencumbered BWSR Cost-Share Grants Total: $ 10,755.00
  State Cost Share 2011 $ 10,755.00

Balance of encumbered BWSR Cost-Share Grant (list each contract separately):

<table>
<thead>
<tr>
<th>FY</th>
<th>Contract No.</th>
<th>Remaining Contract Amount</th>
<th>TA Encumbered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>NBCS FY08-10-01</td>
<td>309.42</td>
<td>266.19</td>
</tr>
<tr>
<td>2008</td>
<td>NBCS FY08-10-02</td>
<td>2,431.25</td>
<td>607.81</td>
</tr>
</tbody>
</table>

Total of all Cost-Share Encumbrances $ 874.00

Balance of 2010 WCA Enforcement Funds $ 3237.50
Balance of 2011 WCA Enforcement Funds $ 9,500.00
Balance of 2011 MPCA Feedlot – Karpe $ 39,946.00
Balance of 2012 BWSR SSTS Block Grant $ 17,441.00
Balance of 2012 MPCA SSTS Block Grant $ 1,500.00
Balance of 2012 WCA Block Grant $ 63,192.00
Balance of 2012 Shoreland Block Grant $ 2,615.00
Balance of 2012 Local Water Plan Block Grant $ 8,094.00

Anoka Directed Clean Water Fund Installation $ 33,374.48

Balance of other funds being deferred (list if any):

Ag. Preserves – Backyard Cons. Design $ 5,912.56
Ag. Preserves – Water Quality Improvement CS $ 599.25
LRRWMO Cost Share $ 1,028.12
SRWMO Cost Share $ 8,178.17
URRWMO Cost Share $ 2,029.48
Met Council WOMP $ 15,198.41
Security Deposit $ 1,200.00

Subtotal of other funds: $ 34,170.99

TOTAL OF ALL DEFERRED REVENUE: $ 241,854.64
INDEPENDENT AUDITOR'S REPORT

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 Commissioners
Anoka Conservation District
Ham Lake, Minnesota

We have audited the financial statements of Anoka Conservation District as
of and for the year ended December 31, 2011, and have issued our report thereon dated August 2, 2012.
We conducted our audit in accordance with generally accepted auditing standards and the standards
applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the
Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Anoka Conservation District
as of and for the year ended December 31, 2011 in accordance with auditing standards generally accepted
in the United States of America, we considered the Anoka Conservation District’s
internal control over financial reporting as a basis for designing our auditing procedures for the purpose
of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion
on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express
an opinion on the effectiveness of the Authority’s internal control over financial reporting.

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 combination of significant deficiencies,
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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first
paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting
that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in
internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of
material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,
contracts and grants, 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.

This communication is intended solely for the information and use of the management and Board of the
Anoka Conservation District, management and others within the PHA,
and Federal awarding agencies and is not intended to be and should not be used by anyone other than these
specified parties.

Babcock, Langbein and Company
August 2, 2012