

**REDWOOD SOIL AND WATER
CONSERVATION DISTRICT**

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Financial Statements

December 31, 2007

Thomas W. Stotesbery, Ltd.
Certified Public Accountants
Redwood Falls, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To The Board of Supervisors
Redwood Soil and Water Conservation District
1241 East Bridge Street - Suite C
Redwood Falls, Minnesota 56283

We have audited the accompanying financial statements of the governmental activities and the general fund of the Redwood Soil and Water Conservation District as of and for the year ended December 31, 2007, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. 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 *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.

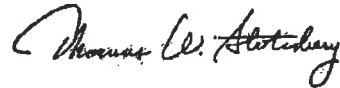
In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Redwood Soil and Water Conservation District as of December 31, 2007, and the results of operations and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2008 on our consideration of the District's internal control over financial reporting and on our tests of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 30, 2008

A handwritten signature in cursive script, appearing to read "Thomas W. Atkinson".

**REDWOOD SOIL AND WATER CONSERVATION DISTRICT
DECEMBER 31, 2007
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Redwood 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, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three main parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the 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 governments they are generally able to combine the government-wide and fund financial statements into single presentations. The District has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

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

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

Reporting the District's General Fund

Our analysis of the District's general fund is part of this report. The fund financial statements provide detailed information about the general fund, not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government

operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

The District's combined net assets increased from the prior year. Our analysis focuses on the net assets and changes in net assets of the District's Governmental activities.

Net Assets

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
<u>Assets:</u>		
Current Assets	\$ 386,775.55	\$ 279,829.44
Capital Assets: Net of Depreciation	<u>16,480.32</u>	<u>20,600.75</u>
Total Assets	403,255.87	300,430.19
<u>Liabilities:</u>		
Liabilities and Deferred Revenue	98,610.14	31,527.92
Long-Term Liabilities	<u>9,212.17</u>	<u>8,143.36</u>
Total Liabilities	<u>107,822.31</u>	<u>39,671.28</u>
<u>Net Assets:</u>		
Invested in Capital Assets	16,480.32	20,600.75
Unrestricted	<u>278,953.24</u>	<u>240,158.16</u>
Net Assets	<u>\$ 295,433.56</u>	<u>\$ 260,758.91</u>

Net assets of the District's governmental activities increased \$ 34,674.65. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$ 240,158.16 at December 31, 2006 to \$ 278,953.24 at the end of this year.

Changes in Net Assets

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 42,935.70	\$ 19,804.90
County	141,811.52	139,107.23
State	182,054.45	84,783.79
Federal	16,354.55	31,801.73
General revenues:		
Interest earnings	16,979.30	12,566.36
Other	<u>18,624.43</u>	<u>18,300.37</u>
Total Revenues	418,759.95	306,364.38
<u>Program Expenses:</u>		
General government	222,432.67	230,064.26
Conservation	<u>156,463.39</u>	<u>52,003.77</u>
Total Expenses	<u>378,896.06</u>	<u>282,068.03</u>

Excess (Deficiency) Before Transfers	39,863.89	24,296.35
Transfers	(5,189.24)	(20,417.34)
Increase (Decrease) In Net Assets	<u>\$ 34,674.65</u>	<u>\$ 3,879.01</u>

The District's total revenues increased \$ 112,395.57 and the total cost of all program expenses increased \$ 96,828.03 mainly because of participation in more cost share projects.

THE DISTRICT'S FUNDS

As the District completed the year, its general fund reported a combined fund balance of \$ 288,165.41, which is above last year's total of \$ 248,301.52. Included in this year's total change in fund balance, is a surplus of \$ 39,863.89 in the District's General Fund.

General Fund Budgetary Highlights

In fiscal year 2007, the District did not make a budget revision during the year. The most significant negative variance was \$ 87,349.36 in the State Project Expenditures. Total resources available for appropriations were \$ 154,220.95 above the final budgeted amount for the year 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had \$ 16,480.32 invested in capital assets, net of accumulated depreciation, including a building, vehicles, and field equipment. This amount represents a net decrease of \$ 4,120.43 over last year, due to depreciation.

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Capital Assets, at cost:		
Building	\$ 10,600.00	\$ 10,600.00
Vehicles	42,682.25	42,682.25
Field Equipment	<u>9,995.00</u>	<u>9,995.00</u>
	63,277.25	63,277.25
Accumulated Depreciation	(46,796.93)	(42,676.50)
Net Capital Assets	<u>\$ 16,480.32</u>	<u>\$ 20,600.75</u>

Long-Term Liabilities

Long-term liabilities include accrued vacation pay for employees paid upon termination from the District by retirement, illness, or death. At the end of 2007 the District has \$ 9,212.17 in accrued compensated absences as compared to \$ 8,143.36 in 2006. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected officials considered many factors when setting the fiscal year 2007 budget. Some of

the economic factors taken into account include: sale of trees and tree matting, state funding, and the county allocation. Expense factors include foreseeable building expenses and employee salary increases.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, creditors, and investors 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 Redwood Soil and Water Conservation District, 1241 E. Bridge Street-Suite C, Redwood Falls, MN 56283 or call 507-637-2427, Ext. 3.

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash			
Checking Accounts	\$ 181,432.92		\$ 181,432.92
Investments	205,342.63		205,342.63
Capital Assets:			
Building, Vehicles and Equipment Net of Accumulated Depreciation	_____	\$ 16,480.32	16,480.32
Total Assets	<u>\$ 386,775.55</u>	<u>\$ 16,480.32</u>	<u>\$ 403,255.87</u>
Liabilities			
Current liabilities:			
Due to Other Governments	\$ 1,787.04		\$ 1,787.04
Accrued Salaries Payable	925.91		925.91
Deferred Revenue	95,897.19		95,897.19
Long-term liabilities:			
Due after one year	_____	\$ 9,212.17	9,212.17
Total Liabilities	<u>\$ 98,610.14</u>	<u>\$ 9,212.17</u>	<u>\$ 107,822.31</u>
Fund Balance/Net Assets			
Fund Balance/Net Assets			
Unreserved			
Designated	\$ 6,775.32	\$(6,775.32)	\$ _____
Undesignated	<u>281,390.09</u>	<u>(281,390.09)</u>	_____
Total Fund Balance	<u>\$ 288,165.41</u>	<u>(288,165.41)</u>	_____
Net Assets			
Invested in capital assets		16,480.32	\$ 16,480.32
Unrestricted		<u>278,953.24</u>	<u>278,953.24</u>
Total Net Assets		<u>\$ 295,433.56</u>	<u>\$ 295,433.56</u>

The accompanying notes are an integral part of this statement.

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 340,220.52		\$ 340,220.52
Charges for Services	42,935.70		42,935.70
Investment Earnings	16,979.30		16,979.30
Miscellaneous	<u>18,624.43</u>		<u>18,624.43</u>
 Total Revenues	 418,759.95		 418,759.95
Expenditures/Expenses			
Conservation			
Current	<u>378,896.06</u>	<u>\$ 5,189.24</u>	<u>384,085.30</u>
 Total Expenditures	 <u>378,896.06</u>	 <u>5,189.24</u>	 <u>384,085.30</u>
 Excess of Revenues Over (Under) Expenditures	 39,863.89	 (5,189.24)	 34,674.65
 Fund Balance/Net Assets January 1	 <u>248,301.52</u>	 <u>12,457.39</u>	 <u>260,758.91</u>
 Fund Balance/Net Assets December 31	 <u>\$ 288,165.41</u>	 <u>\$ 7,268.15</u>	 <u>\$ 295,433.56</u>

The accompanying notes are an integral part of this statement.

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
 BUDGETARY COMPARISON STATEMENT
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2007

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive (Neg)</u>
Revenues			
Intergovernmental			
Local	\$ 8,739.00	\$ 0.00	\$(8,739.00)
County	147,734.00	141,811.52	(5,922.48)
State	80,666.00	182,054.45	101,388.45
Federal	<u>6,000.00</u>	<u>16,354.55</u>	<u>10,354.55</u>
Total Intergovernmental	243,139.00	340,220.52	97,081.52
Charges for Services	14,300.00	42,935.70	28,635.70
Miscellaneous			
Interest earnings	6,000.00	16,979.30	10,979.30
Other	<u>1,100.00</u>	<u>18,624.43</u>	<u>17,524.43</u>
Total Miscellaneous	<u>7,100.00</u>	<u>35,603.73</u>	<u>28,503.73</u>
Total Revenues	264,539.00	418,759.95	154,220.95
Expenditures			
District Operations			
Personal services	181,221.00	183,106.11	(1,885.11)
Other services & charges	36,000.00	34,545.95	1,454.05
Supplies	<u>2,000.00</u>	<u>4,780.61</u>	<u>(2,780.61)</u>
Total District Operations	219,221.00	222,432.67	(3,211.67)
Project Expenditures			
District	27,900.00	51,696.03	(23,796.03)
State	<u>17,418.00</u>	<u>104,767.36</u>	<u>(87,349.36)</u>
Total Project Expenditures	<u>45,318.00</u>	<u>156,463.39</u>	<u>(111,145.39)</u>
Total Expenditures	<u>264,539.00</u>	<u>378,896.06</u>	<u>(114,357.06)</u>
Excess of Revenues Over(Under) Expenditures		39,863.89	39,863.89
Fund Balance-January 1	<u>248,301.52</u>	<u>248,301.52</u>	<u> </u>
Fund Balance-December 31	<u>\$248,301.52</u>	<u>288,165.41</u>	<u>39,863.89</u>

The accompanying notes are an integral part of this statement.

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

The Redwood 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 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 part of Redwood 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.

In conformance with standards established by the Government Accounting Standards Board, the district includes all funds and account groups that are controlled by or dependent on the District. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of 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 revenue. Direct expense are those that are clearly identifiable with a specific function.

The adjustments column in the Statement of Net Assets and Governmental Fund Balance Sheet reconciles the differences between total fund balance and net assets of governmental funds. The differences are due to capital assets, net of accumulated depreciation that are not financial resources and compensated absences that are not due and payable in the current period and are not reported in the funds.

The adjustments column in the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance reconciles the differences between the net change in fund balances and the net assets of governmental funds. The differences are due to the excess of depreciation of capital outlays (reported in the governmental funds as expenditures, however, for the statement of activities and for the calculation of net assets the cost is allocated over their estimated useful lives and reported as depreciation expense) over the amount of capital outlay in the current period and change in accrued liabilities for compensated absences.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

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

The District's financial statements 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 corresponding liabilities are incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditure is incurred. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings and revenue from sales 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 Non-exchange Transactions*, revenues for non-exchange 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 accounts.