

**REDWOOD SOIL AND WATER
CONSERVATION DISTRICT**

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Financial Statements

December 31, 2009

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

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THOMAS W. STOTESBERY, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

705 S. MILL ST., P.O. BOX 247

REDWOOD FALLS, MN 56283

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(507) 637-5682

FAX (507) 637-8067

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, Redwood Falls, Minnesota as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

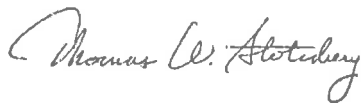
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Redwood Soil and Water Conservation District, Redwood Falls, Minnesota as of December 31, 2009, 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 28, 2010 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.



THOMAS W. STOTESBERY, LTD.
Certified Public Accountant

October 28, 2010
Redwood Falls, Minnesota

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
DECEMBER 31, 2009
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, 2009. 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 financial 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, 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 – Fund Financial Statements

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 for the current and the previous year are presented below. Our analysis focuses on the net assets and changes in net assets of the District's Governmental activities.

Net Assets

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
<u>Assets:</u>		
Current Assets	\$ 451,526.31	\$ 596,394.24
Capital Assets: Net of Depreciation	<u>10,721.67</u>	<u>19,667.50</u>
Total Assets	462,247.98	616,061.74
<u>Liabilities:</u>		
Liabilities and Deferred Revenue	134,962.13	309,842.15
Long-Term Liabilities	<u>9,335.19</u>	<u>9,065.56</u>
Total Liabilities	<u>144,297.32</u>	<u>318,907.71</u>
<u>Net Assets:</u>	<u>\$ 317,950.66</u>	<u>\$ 297,154.03</u>

Net assets of the District's governmental activities increased \$ 20,796.63. 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 \$ 277,486.53 at December 31, 2008 to \$ 307,228.99 at the end of this year.

Changes in Net Assets

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
<u>Revenues:</u>		
Intergovernmental	\$ 539,452.88	\$ 403,530.83
Charges for Services	52,710.04	25,045.08
Investment Earnings	10,756.10	13,619.34
Other	<u>18,572.14</u>	<u>8,259.43</u>
Total Revenues	621,491.16	450,454.68
<u>Expenses:</u>		
Conservation	<u>600,694.53</u>	<u>448,734.21</u>
Increase (Decrease) In Net Assets	<u>\$ 20,796.63</u>	<u>\$ 1,720.47</u>

The District's total revenues increased \$ 171,036.48. The total cost of all programs and services increased \$ 151,960.32. The revenue increase was mainly due to unanticipated state grants that were received as a result of participation in more cost share projects.

THE DISTRICT'S FUNDS

As the District completed the year, its general fund reported combined net assets of \$ 316,564.18, which is above last year's total of \$ 286,552.09. Included in this year's total change in net assets, is a surplus of \$ 30,012.09 in the District's General Fund.

General Fund Budgetary Highlights

In fiscal year 2009, the District did not make a budget revision during the year. The most significant negative variance was \$ 315,050.02 in the State Project Expenditures which was due to participation in more cost share projects. Total resources available for appropriations were \$ 337,062.16 above the final budgeted amount for the year 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had \$ 10,721.67 invested in capital assets, net of accumulated depreciation, including a building, vehicles, and field equipment. This amount represents a net decrease of \$ 8,945.83 over last year, due to depreciation.

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 2009 the District has \$ 9,335.19 in accrued compensated absences as compared to \$ 9,065.56 at the end of 2008. 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 2009 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 ACTIVITIES AND GOVERNMENTAL
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2009**

	General Fund	<u>Adjustments</u>	Statement of <u>Activities</u>
Revenues			
Intergovernmental	\$ 539,452.88		\$ 539,452.88
Charges for Services	52,710.04		52,710.04
Investment Earnings	10,756.10		10,756.10
Miscellaneous	<u>18,572.14</u>		<u>18,572.14</u>
 Total Revenues	 621,491.16		 621,491.16
Expenditures/Expenses			
Conservation			
Current	<u>591,479.07</u>	<u>\$ 9,215.46</u>	<u>600,694.53</u>
 Total Expenditures	 <u>591,479.07</u>	 <u>9,215.46</u>	 <u>600,694.53</u>
 Excess of Revenues Over (Under) Expenditures	 30,012.09	 (9,215.46)	 20,796.63
 Fund Balance/Net Assets January 1	 <u>286,552.09</u>	 <u>10,601.94</u>	 <u>297,154.03</u>
 Fund Balance/Net Assets December 31	 <u>\$ 316,564.18</u>	 <u>\$ 1,386.48</u>	 <u>\$ 317,950.66</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, 2009

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Neg)
Revenues			
Intergovernmental			
Local	\$ 21,507.00	\$	\$ (21,507.00)
County	149,209.00	145,874.60	(3,334.40)
State	91,613.00	393,162.28	301,549.28
Federal		416.00	416.00
Total Intergovernmental	<u>262,329.00</u>	<u>539,452.88</u>	<u>277,123.88</u>
Charges for Services	13,300.00	52,710.04	39,410.04
Miscellaneous			
Interest earnings	7,800.00	10,756.10	2,956.10
Other	1,000.00	18,572.14	17,572.14
Total Miscellaneous	<u>8,800.00</u>	<u>29,328.24</u>	<u>20,528.24</u>
Total Revenues	<u>284,429.00</u>	<u>621,491.16</u>	<u>337,062.16</u>
Expenditures			
District Operations			
Personal services	194,636.00	182,631.38	12,004.62
Other services & charges	49,000.00	53,802.79	(4,802.79)
Supplies	1,000.00	722.02	277.98
Capital outlay	2,000.00		2,000.00
Total District Operations	<u>246,636.00</u>	<u>237,156.19</u>	<u>9,479.81</u>
Project Expenditures			
District	18,375.00	19,854.86	(1,479.86)
State	19,418.00	334,468.02	(315,050.02)
Total Project Expenditures	<u>37,793.00</u>	<u>354,322.88</u>	<u>(316,529.88)</u>
Total Expenditures	<u>284,429.00</u>	<u>591,479.07</u>	<u>(307,050.07)</u>
Excess of Revenues Over(Under) Expenditures		30,012.09	30,012.09
Fund Balance-January 1	<u>286,552.09</u>	<u>286,552.09</u>	
Fund Balance-December 31	<u>\$ 286,552.09</u>	<u>\$ 316,564.18</u>	<u>\$ 30,012.09</u>

The accompanying notes are an integral part of this statement.

REDWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 fund 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 within 60 days 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and 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 Equity Accounts

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposits, 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. General fixed assets are recorded at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for as adjustments to Net Assets.

Equity

Reserved fund balance indicates the portion of fund equity that has been legally segregated for

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

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

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 14 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 800 hours. Upon termination from the district by retirement, employees are paid accrued vacation leave and up to 400 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 0 hours of accrued sick leave.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Budget

During 2009, actual expenditures, \$591,479.07, exceeded budgeted expenditures, \$ 284,429.00 by \$ 307,050.07.

Uncollateralized Deposits

During 2009 the District's deposits with Minnwest Bank did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Deposits

Minn. Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 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

At December 31, 2009, the District's deposits totaled \$ 451,526.31, of which \$192,504.54 were cash deposits and \$ 259,021.77 was invested in bank certificates of deposit. 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, 2009 the District's deposits were not exposed to custodial credit risk.

IV. CHANGES IN CAPITAL ASSETS

Changes in Capital Assets: building, vehicles, and equipment:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Capital assets, at cost	\$ 72,411.76	-	\$ (9,995.00)	\$ 62,416.76
Accumulated Depreciation	<u>52,744.26</u>	<u>\$(8,945.83)</u>	<u>9,995.00</u>	<u>(51,695.09)</u>
Net Capital Assets	<u>\$ 19,667.50</u>	<u>\$(8,945.83)</u>	<u>-</u>	<u>\$ 10,721.67</u>

The cost of building, vehicles, and equipment is depreciated over the estimate useful lives of the related assets. Depreciation is computed on the straight-line method. The useful lives for the purpose of computing depreciation is 18 years for the building, 5 years for the vehicles, and 10 years for the equipment.

The District uses a threshold of \$5,000.00 for capitalizing assets purchased. Those physical assets Under \$5,000.00 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Redwood County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue at December 31, 2009 totaled \$132,327.38.

VI. LONG-TERM LIABILITIES: COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2009 are:

Balance January 1, 2009	\$ 9,065.56
Net Change in Compensated Absences	<u>269.63</u>
Balance December 31, 2009	<u>\$ 9,335.19</u>

VII. RISK MANAGMENT

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

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

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

VIII. PENSION PLAN

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. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-1855.

Funding Policy

Minnesota Statute Chapter 353 sets the rates for employer and employee contributions. These statues 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0% respectively, of their annual covered salary in

2009. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7.0% effective January 1, 2010. The District's employer share of contributions to PERA for the years ending December 31, 2009, 2008, and 2007 were \$9,645.32, \$8,466.81, and \$7,920.82 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

IX. OPERATING LEASE

The District leases office space on a yearly basis. Under the current agreement, total costs for 2009 were \$13,325.02.

X. AGRICULTURAL BEST MANAGEMENT LOAN PROGRAM

The District has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source pollution. The District is not liable for the repayment of the loans is presented to comply with the agreement:

Amounts borrowed during 2009	\$ 88,763.00
Number of loans made during 2009	2
Principal payments made on loans during 2009	\$ 93,964.97
Loans outstanding at December 31, 2008	\$ 345,635.88
Loans outstanding at December 31, 2009	\$ 340,433.91

THOMAS W. STOTESBERY, LTD.

CERTIFIED PUBLIC ACCOUNTANT

705 S. MILL ST., P.O. BOX 247

REDWOOD FALLS, MN 56283

-

(507) 637-5682

FAX (507) 637-8067

REPORT ON LEGAL COMPLIANCE

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

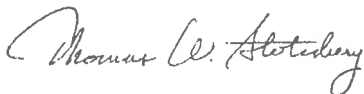
We have audited the accompanying financial statements of the governmental activities and the general fund of the Redwood Soil and Water Conservation District, Redwood Falls, State of Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. Sec. 6.65. Accordingly, the audit included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except public indebtedness since the District is not allowed to issue debt.

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

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



THOMAS W. STOTESBERY, LTD.
Certified Public Accountant

October 28, 2010
Redwood Falls, Minnesota

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CERTIFIED PUBLIC ACCOUNTANT

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(507) 637-5682

FAX (507) 637-8067

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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 Redwood Soil and Water Conservation District, Redwood Falls, State of Minnesota, as of and for the year ended December 31, 2009, and have issued our report thereon dated October 28, 2010. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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.

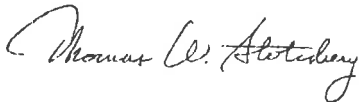
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 District's financial statements are free of

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*.

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



THOMAS W. STOTESBERY, LTD.
Certified Public Accountant

October 28, 2010
Redwood Falls, Minnesota