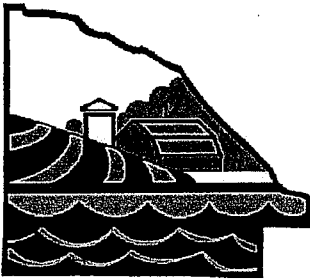


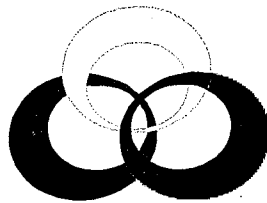
FINANCIAL AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2009



Lac qui Parle Soil and Water Conservation District

122 8th Avenue S.
Madison MN 56256
320-598-7321 Ext. 3
FAX 320-598-3432

The mission of the Lac qui Parle Soil and Water Conservation District is to take available technical, financial and educational resources, whatever their source, and focus or coordinate them so that they meet the needs of the local land user to help him/her protect Lac qui Parle's natural resources.



Kinner & Company Ltd

Certified Public Accountants

Taxes, QuickBooks & Investments

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
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**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2009**

<u>Board of Supervisors</u>	<u>Position</u>
John Rebehn	Chairperson
Ed Radermacher	Vice-Chairperson
LeRoy Schuelke	Secretary
Bob Ludvigson	Treasurer
Jeff Johnson	Reporter

District Manager

Terry Wittnebel

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Jennifer Nordmeyer
Mary Lebert
Dianne Foster

unlicensed support staff

Darci Anderson
Cindy Foerster
Donna Geringer
Diane Anderson

Tracey Zmuda
Diana Kocourek
Carla VanDeWiele

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Fax (507) 342-2376

INDEPENDENT AUDITOR'S REPORT

Governing Board
Lac Qui Parle Soil and Water Conservation District
Madison, MN 56256

We have audited the accompanying financial statements of the governmental activities and the General Fund of Lac Qui Parle Soil and Water Conservation District 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 Lac Qui Parle Soil and Water Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65. 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Lac Qui Parle Soil and Water Conservation District as of December 31, 2009, and the respective changes in financial position, where applicable, of those activities and funds and the budgetary comparison statement 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 May 3, 2010, on our consideration of the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4-9 are not a required part of the basic financial statements but are 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Kinner & Company Ltd.
Kinner & Company Ltd
Certified Public Accountants
Tracy, Minnesota

May 3, 2010

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

The Lac qui Parle Soil and Water Conservation District's discussion and analysis provides an overview of the SWCD'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 know facts, it should be read in conjunction with the Lac qui Parle Soil and Water Conservation District's Financial Statements and Notes to the Financial Statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Lac qui Parle Soil and Water Conservation District as a whole and present a longer-term view of the SWCD'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 SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. The Lac Qui Parle SWCD 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 SWCD's finances is, "Is the SWCD 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 SWCD 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 SWCD's net assets and changes in them. You can think of the SWCD's net assets – the difference between assets and liabilities – as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the SWCD's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the SWCD.

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

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

Reporting the Lac qui Parle Soil and Water Conservation District's General Fund

Fund Financial Statements

The fund financial statements provide detailed information about the general fund-not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD's basic services are reported in the general fund, which focuses on how money flows into and out of that fund and the balance left at year-end that is available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the SWCD'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 SWCD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT AS A WHOLE

The Lac qui Parle Soil and Water Conservation District's combined net assets were higher increasing from \$83,553 to \$110,209. Last year net assets decreased by \$14,372. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Lac qui Parle Soil and Water Conservation District's governmental activities.

**Table 1
Net Assets**

	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2009</u>	<u>2008</u>
Current and other assets	218,473	243,981
Capital assets	<u>16,651</u>	<u>22,812</u>
Total Assets	<u>235,124</u>	<u>266,793</u>
Long-term debt outstanding	6,456	5,718
Other liabilities	<u>118,460</u>	<u>177,522</u>
Total liabilities	124,916	183,240
Net assets		
Invested in capital assets, net of debit	16,650	22,812
Unrestricted	<u>93,559</u>	<u>60,741</u>
Total net assets	<u>110,209</u>	<u>83,553</u>

Net assets of the Lac qui Parle Soil and Water Conservation District governmental activities increased by 31.9% (\$83,553 compared to \$110,209). 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 \$60,741 at December 31, 2008 to \$93,559 at the end of this year.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenues		
Intergovernmental-State	\$ 96,153	\$ 77,202
Intergovernmental-County	125,844	122,359
Charges for services	70,093	49,430
Investment earnings	4,239	5,044
Miscellaneous	5,125	5,225
Total Revenues	<u>\$ 301,454</u>	<u>\$ 259,260</u>
Expenditures		
Conservation		
Current	\$ 265,021	\$ 297,132
Capital outlay	0	0
Total Expenditures	<u>\$ 265,021</u>	<u>\$ 297,132</u>
Increase (decrease) in net assets	<u>\$36,433</u>	<u>\$(38,872)</u>

The SWCD's total revenues increased by a little more than 16 percent (\$42,194). The total cost of all programs and services decreased by \$32,111, or just over 10 percent. Our analysis below separately considers the operations of governmental activities.

Revenues:

The District saw an increase in Charges for Services, due in part to tree and fabric sales. There was a windstorm that came through Lac Qui Parle County on July 31, 2008, which resulted in the demise of established groves and windbreaks. Producers turned to the Lac Qui Parle SWCD for guidance and assistance to re-establish trees and install new groves and windbreaks. It is anticipated that in 2010 the need will be about the same. The Charges for Services Revenue also reflects revenue for administration services for various programs. Time spent on the administration of the numerous programs changes from year to year, depending on staff time and reporting requirements.

Expenditures:

The District saw a decrease in General Government Conservation Expenses. Personal Services, including Supervisor Compensation and Employee wages were less in 2009 than in 2008 (due to a retirement), and majority of the other expenses. There were no new Capital Outlay purchases in 2009 as there were in 2008, when the District purchased a used pick-up.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

Governmental Activities

Revenues for the District Governmental Activities increased a little more than 16 percent (\$42,194), while total expenses decreased just under 10 percent (\$32,111).

**Table 3
Governmental
Activities**

	Total Cost of Services	
	2009	2008
Conservation	<u>\$ 265,021</u>	<u>\$ 297,132</u>
Totals	<u>\$ 265,021</u>	<u>\$ 297,132</u>

THE SWCD'S FUNDS

As the SWCD completed the year, its general fund (as presented in the balance sheet) reported a combined fund balance of \$100,013, which is above last year's total of \$66,459. Included in this year's total change in fund balance, however, is an increase of \$33,554 in the SWCD's General Fund.

General Fund Budgetary Highlights

Over the course of the year, the SWCD Board of Supervisors did a limited revision to the budget. The original budget did not include the County Water Plan Revenues or Expenditures. The revised budget included those figures, and still remained a balanced budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had \$16,651 invested in a broad range of capital assets, including land, a building and equipment. (See Table 4 below). This amount represents a net decrease (including additions and deductions) of \$6,161.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

**Table 4
Capital Assets at Year-
end
(Net of Depreciation)**

	Governmental Activities	
	2009	2008
Land	\$ 1,000	\$ 1,000
Buildings and Improvements	0	0
Equipment	<u>15,651</u>	<u>21,812</u>
TOTALS	<u>\$16,651</u>	<u>\$22,812</u>

One of the two District computers malfunctioned, and was discarded. The replacement computer was a refurbished one issued to the District at no charge. The District anticipates the need to replace the “replacement computer” in 2010.

The SWCD’s fiscal year 2010 capital budget calls for it to spend another \$5,000 for capital projects, principally for the purchase of a new or gently used printer/copier and a computer. The District would also like to replace the District van in 2010, but due to financial constraints that upgrade may be not feasible and it was not included as a budget item for 2010.

Long-Term Liabilities

Other obligations include accrued vacation pay and sick leave. More detailed information about the SWCD’s long-term liabilities is presented in Note VI. COMPENSATED ABSENCES PAYABLE in Notes to the Financial Statement.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The SWCD’s elected and appointed officials considered many factors when setting the fiscal-year 2010 budget and fees that will be charged for the business type activities. Due to the difficult financial times and stress, the State of Minnesota, under Governor Pawlenty, declared an “unallotment” of County Payments in 2009. The Lac Qui Parle County Commissioners graciously did not reduce the funding that they had originally promised to the District for 2009, even though their revenue from the State was substantially depressed. In 2010 it is highly anticipated that funding from the State to Lac qui Parle County will again be reduced. The County Commissioners of LQP County agreed to fund the District the same in 2010, as they did in 2009. For that, the District is grateful. The District anticipates no major personnel changes. The District currently has 3 full time employees, and one retired employee (less than 60 hours annually). The District anticipates the need for a Summer Assistant, to help with the Tree Program planting workload. Due to a wind storm in July 2008, that destroyed many farmstead windbreaks, a large number of tree plantings will be installed in 2010.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the SWCD at 122 8th Avenue South, Suite 1, Madison MN, 56256, or by phone 320-598-7321, Extension 3.

**LAC QUI PARLE SOIL AND
WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

ASSETS	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ 207,964.59
Due from other Governments	2,165.61
Inventory	8,120.00
Interest Receivable	223.22
Capital Assets:	
Non-depreciable	1,000.00
Depreciable, net	15,651.00
TOTAL ASSETS	<u><u>\$ 235,124.42</u></u>

LIABILITIES & FUND EQUITY

Liabilities:	
Deposit on Sales	\$ 478.43
Deferred Revenue	117,981.65
Accrued Compensated Absences	6,455.60
Total Liabilities	<u>124,915.68</u>
Net Assets:	
Invested in capital assets	16,651.00
Net Assets - Unrestricted	93,557.74
Total Net Assets	<u>110,208.74</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 235,124.42</u></u>

See notes to basic financial statements

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Revenues			Capital	Total
Program Activities	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Grants and Contributions	Governmental Activities
Conservation	\$ 265,020.52	\$ 70,092.91	\$ 221,997.33		\$ 27,069.72
Total Governmental Activities	265,020.52	70,092.91	221,997.33	-	27,069.72
Total Primary Government	265,020.52	70,092.91	221,997.33	-	27,069.72
General Revenues					
Unrestricted Investment Earnings					4,238.75
Miscellaneous					5,124.85
Total General Revenues and Transfers					9,363.60
Change in Net Assets					36,433.32
Net Assets - Beginning of Year, As Adjusted					73,775.42
Net Assets - End of Year					\$ 110,208.74

**LAC QUI PARLE SOIL AND
WATER CONSERVATION DISTRICT
BALANCE SHEET - GENERAL FUND
DECEMBER 31, 2009**

	<u>General Fund</u>
ASSETS	
Cash:	
Cash in Checking	\$ 2,324.92
Cash in Savings	150,639.67
Certificates of Deposit	55,000.00
Due from other Governments	2,165.61
Inventory	8,120.00
Interest Receivable	223.22
Total Assets	<u><u>\$ 218,473.42</u></u>
LIABILITIES AND FUND EQUITY	
Liabilities	
Deposit on Sales	\$ 478.43
Deferred Revenue	117,981.65
Total Liabilities	<u>118,460.08</u>
Fund Equity:	
Fund Balance - Unreserved:	
Undesignated	100,013.34
Total Fund Equity	<u>100,013.34</u>
Total Liabilities and Fund Equity	<u><u>\$ 218,473.42</u></u>

See the notes to the financial statements.

**LAC QUI PARLE SOIL AND
WATER CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Total fund balance - total governmental funds \$ 100,013.34

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets (net of depreciation) used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet. 16,651.00

Accrued absences do not require current financial resources. Therefore they are not reported as a liability in governmental funds balance sheet. (6,455.60)

Net assets of governmental activities \$ 110,208.74

See notes to basic financial statements.

**LAC QUI PARLE SOIL AND WATER
CONSERVATION DISTRICT**
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Actual
Revenues:	
Intergovernmental Revenue:	
County	\$ 125,844.05
State	96,153.28
Federal	0.00
Total Intergovernmental Revenue	221,997.33
Charges for Services	70,092.91
Miscellaneous Revenue:	
Interest	4,238.75
Miscellaneous	5,124.85
Total Miscellaneous Revenues	9,363.60
Total Revenues	301,453.84
Expenditures:	
District Operations:	
Personal Services	151,191.22
Other Services and Charges	40,829.13
Supplies	866.39
Capital Outlay	0.00
Total District Operations	192,886.74
Project Expenditures:	
District	24,794.57
State/Water Plan	50,217.16
Total Project Expenditures	75,011.73
Total Expenditures	267,898.47
Excess of Revenues Over (Under) Expenditures	33,555.37
Fund Balance January 1, 2009	66,457.97
Fund Balance December 31, 2009	\$100,013.34

See the notes to the financial statements.

**LAC QUI PARLE SOIL AND
WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net changes in fund balances-total government funds	\$ 33,555.37
<p>Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>	
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in government funds.</p>	3,616.00
<p>Accrued leave is reported in the government-wide statement of activities and changes in net assets, but does not required the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.</p>	<u>(738.05)</u>
Change in net assets of governmental activities	<u><u>\$ 36,433.32</u></u>

See notes to basic financial statements

**LAC QUI PARLE SOIL AND WATER
CONSERVATION DISTRICT**
BUDGETARY COMPARISON STATEMENT-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	General Actual	Variance Over (Under)
Revenues:				
Intergovernmental Revenue:				
County	\$ 104,087.00	\$ 126,634.00	\$ 125,844.05	\$ (789.95)
State	89,107.00	89,107.00	96,153.28	7,046.28
Federal	2,000.00	2,000.00	0.00	(2,000.00)
Total Intergovernmental Revenue	<u>195,194.00</u>	<u>217,741.00</u>	<u>221,997.33</u>	<u>4,256.33</u>
Charges for Services	<u>56,410.00</u>	<u>56,410.00</u>	<u>70,092.91</u>	<u>13,682.91</u>
Miscellaneous Revenue:				
Interest	4,500.00	4,500.00	4,238.75	(261.25)
Miscellaneous	<u>12,589.00</u>	<u>12,589.00</u>	<u>5,124.85</u>	<u>(7,464.15)</u>
Total Miscellaneous Revenues	<u>17,089.00</u>	<u>17,089.00</u>	<u>9,363.60</u>	<u>(7,725.40)</u>
Total Revenues	<u>268,693.00</u>	<u>291,240.00</u>	<u>301,453.84</u>	<u>10,213.84</u>
Expenditures:				
District Operations:				
Personal Services	150,871.00	150,871.00	151,191.22	(320.22)
Other Services and Charges	46,200.00	46,200.00	40,829.13	5,370.87
Supplies	750.00	750.00	866.39	(116.39)
Capital Outlay	<u>5,000.00</u>	<u>5,000.00</u>	<u>0.00</u>	<u>5,000.00</u>
Total District Operations	<u>202,821.00</u>	<u>202,821.00</u>	<u>192,886.74</u>	<u>9,934.26</u>
Project Expenditures:				
District	30,200.00	30,200.00	24,794.57	5,405.43
State/Water Plan	<u>35,672.00</u>	<u>58,219.00</u>	<u>50,217.16</u>	<u>8,001.84</u>
Total Project Expenditures	<u>65,872.00</u>	<u>88,419.00</u>	<u>75,011.73</u>	<u>13,407.27</u>
Total Expenditures	<u>268,693.00</u>	<u>291,240.00</u>	<u>267,898.47</u>	<u>23,341.53</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	33,555.37	<u>\$ 33,555.37</u>
Fund Balance January 1, 2009			<u>66,457.97</u>	
Fund Balance December 31, 2009			<u>\$100,013.34</u>	

See the notes to the financial statements.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Lac Qui Parle Soil and Water Conservation 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 Lac Qui Parle Soil and Water Conservation District was organized under provisions of *Minnesota Statutes* Chapter 103C. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

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

The Lac Qui Parle Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service (former Soil Conservation Service) and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

Each fiscal year, the District develops a work plan, which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Lac Qui Parle 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.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

B. Basis of Presentation

On June 10, 1999, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 34 – *Basis Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB No. 34 amended accounting principles generally accepted in the United States of America by establishing a new reporting model for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. For the District, GASB No. 34 implementation is first required for the calendar year ending December 31, 2004. The new reporting model significantly changed the focus of the required financial statements from a focus on fund types to a focus on major funds and on government-wide information.

Government-wide Financial Statements:

The government-wide financial statements (the Statements of Net Assets and the Statement of Activities) report information of all the nonfiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 soon as all eligibility requirements imposed by the provider have been met. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The District has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

B. Basis of Presentation - continued

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Governmental Funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

Fund Financial Statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**LAC QUI PARLE SOIL AND WATER
CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

C. Measurement Focus/Basis of Accounting - continued

Revenues susceptible to accrual are intergovernmental revenues, charges and interest on investments. Intergovernmental revenues are ported in conformity with the legal and contractual requirements of the individual programs. Generally, intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. The District also received 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.

Interest on invested funds and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received 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.

D. 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.

E. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

F. Assets, Liabilities, and Fund Equity Accounts

Assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets.

The District uses a threshold of \$1,000 for capitalizing assets purchased. Those physical assets under \$1,000 are expensed directly and not capitalized.

Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

Liabilities

Long term liabilities, such as compensated absences, are accounted for in the Government-wide Statement of Net Assets.

Equity

Investment in capital assets represent the District's equity in capital assets.

Reserved fund balance indicates the portion of fund equity, which has been legally segregated for specific purposes or is not appropriable for spending

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, which is available for budgeting and spending in future periods.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

G. 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 8 to 17 hours per month. Sick leave accrual is 13 days per year. The limit on the accumulation of annual leave is 240 hours and there is no limit on sick leave hours. When an employee accumulates over 800 hours of sick leave, at the end of the year they are compensated at current salary for one-fourth of those hours over 800. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to one-fourth hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to one-fourth hours of accrued sick leave

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures and Revenues over Budget

N/A

B. General Fund Deficit

At December 31, 2009, the District's General Fund did not have a deficit fund balance.

C. Uncollateralized deposits

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

3. DEPOSITS AND INVESTMENTS

DEPOSITS

Minnesota Statutes 118A.02 and 118A.04 authorize the SWCD to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. 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. At December 31, 2009, the SWCD's deposits totaled \$207,964.59 of which \$2,324.92 was cash deposits, \$150,639.67 in savings and \$55,000.00 was certificates of deposit. At December 31, 2009, all these deposits were covered by insurance or collateralized with securities held by the SWCD or its agent in the SWCD's name; or collateralized by the pledging financial institution's trust department or agent in the SWCD's name.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

3. DEPOSITS AND INVESTMENTS (Continued)

According to Minnesota Statutes, the aggregate of a municipality's savings accounts, NOW accounts, and time deposits (CD's) with the same depository are insured up to a total of \$250,000. The aggregate of a municipality's non-interest bearing checking accounts are insured up to a total of \$250,000 and are insured separately from the municipality's other deposits. This separate \$250,000 coverage from checking accounts only applies if the depository is in the same state as the municipality.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2009, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging institution's trust department or agent and in the District's name.

As of December 31, 2009, the District did not have any investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the District limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the District's investments in a single issuer. The District places no limit on the amount that may be invested in any one issuer. As of December 31, 2009, the District's did not have any investments.

As of December 31, 2009, the District had deposits as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Checking	\$10,437	\$2,325
Savings	150,640	150,640
Certificates of Deposit	<u>55,000</u>	<u>55,000</u>
Total Deposits	<u>\$216,077</u>	<u>\$207,965</u>

Summary of cash, deposits and investments as of December 31, 2009:

Deposits	\$207,965
Investments	<u>0</u>
Total	<u>\$207,965</u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

Cash, deposits and investments are presented in the December 31, 2009 Statement of Net Assets as follows:

Cash & Cash Equivalents	\$207,965
Investments	<u>0</u>
Total	<u>\$207,965</u>

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2009 is as follows:

	Balance 1-1-09	Additions	Deletions	Balance 12-31-09
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	<u>\$1,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,000</u>
Total Capital Assets Not Being Depreciated	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
Capital Assets Being Depreciated:				
Buildings	10,179	0	0	10,179
Machinery and Equipment	<u>79,542</u>	<u>0</u>	<u>1,632</u>	<u>77,910</u>
Total Capital Assets Being Depreciated	<u>89,721</u>	<u>0</u>	<u>1,632</u>	<u>88,089</u>
Less Accumulated Depreciation for:				
Buildings	10,179	0	0	10,179
Machinery and Equipment	<u>60,275</u>	<u>3,616</u>	<u>1,632</u>	<u>62,259</u>
Total Accumulated Depreciation	<u>70,454</u>	<u>3,616</u>	<u>1,632</u>	<u>72,438</u>
Total Capital Assets Being Depreciated, Net				
Governmental Activity Capital Assets, Net	<u>\$20,267</u>			<u>\$16,651</u>

5. DEFERRED REVENUE

Deferred revenue represents the unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and Lac Qui Parle County for various programs. Revenues will be recognized when the related program expenditures are recognized. Deferred revenue for the year ended December 31, 2009, consists of:

BWSR Cost-Share Programs	\$88,070.75
Wetland Conservation Act (WCA)	4,910.90
Native Buffer	<u>25,000.00</u>
Total Deferred Revenue	<u>\$117,981.65</u>

6. COMPENSATED ABSENCES PAYABLE

Changes in compensated absences for the year ended December 31, 2009 are:

Balance January 1, 2009	\$5,717.55
Net Changes in Compensated Absences	<u>738.05</u>
Balance December 31, 2009	<u>\$6,455.60</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

7. INVENTORY

Inventory is valued at lower of cost or market using the first-in, first-out method. The costs of inventories are recorded as expenditures when used (consumption method). The cost of other consumable materials and supplies on hand are material to the financial statements and the District has therefore chosen to report these items as inventory this year. As of December 31, 2009, inventory is \$8,120.00.

8. 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 dental coverage; worker's compensation claims, and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Insurance Trust. The District is covered for errors and omissions through Minnesota Counties Insurance Trust. The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three fiscal years.

9. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

The District contributes to a cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, MN 55103-2088. You can reach them at 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Plan members are required to contribute 6.00 percent of their covered salary and the District is required to contribute 6.75 percent. Employer contribution rates for the Coordinated Plan will increase to 7.00% effective January 1, 2010. The District's employer share of contribution to PERA for the years ending December 31, 2009, 2008, and 2007 were \$6,933.72, \$6,496.06 and \$6,454.95 respectively, equal to the contractually required contributions for each year as set by Minnesota state statute.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

C. Funding Policy(Continued)

Defined Contribution Plan: No District Supervisors choose to be enrolled into the Public Employees Defined Contribution Plan, (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

9. LEASE AGREEMENTS

The District leases office space on a yearly basis. Under the current agreement, total costs for 2009 were \$17,468. On September 30, 2009 the lease agreement was changed, resulting in the District making direct payments to the Lessor. For that reason, in 2009 there were three additional months of rent added paid by the District. The total for the year was therefore increased by \$1,390.91 for October 2009, November 2009 and December 2009, bringing the total lease cost to \$21,640.43.

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

Governing Board
Lac Qui Parle Soil and Water Conservation District
Madison, MN 56256

We have audited the financial statements of the governmental activities and general fund of Lac Qui Parle Soil and Water Conservation District 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 May 3, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lac Qui Parle Soil and Water Conservation District's, ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lac Qui Parle Soil and Water Conservation District, Minnesota's financial statements that is more than inconsequential will not be prevented or detected by the Lac Qui Parle Soil and Water Conservation District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting 2009-1 and 2009-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lac Qui Parle Soil and Water Conservation District's internal control.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider that 2009-1 and 2009-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lac Qui Parle Soil and Water Conservation 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to District supervisors in a separate letter dated May 3, 2010.

Lac Qui Parle Soil and Water Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Lac Qui Parle Soil and Water Conservation District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the council, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Lac Qui Parle Soil and Water Conservation District, did comply with the material terms and conditions of all applicable legal provisions.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Kinner & Company Ltd
Kinner & Company Ltd
Certified Public Accountants
Tracy, Minnesota

May 3, 2010

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS ON COMPLIANCE
AND INTERNAL CONTROL
DECEMBER 31, 2009

2009-1 Finding: Segregation of Duties

Statement of Condition: The District has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Effect of Condition: As a result of lack of segregation personnel are performing duties which, for internal control purposes, should be performed by a separate individual.

Recommendation: This is not unusual in District's of this size. The District's board should be aware of this condition and monitor duties of District personnel.

Response: We concur with the recommendation. The District's board will monitor duties.

2009-2: Misstatements Requiring Adjustments

Statement of Condition: The financial information required adjustments to correct misstatements.

Criteria: Internal controls should be in place to provide for the correction of any misstatements prior to the audit of the financial statements.

Effect of Condition: As a result, the auditor proposed adjustments to the financial information that were then approved by the District and its board.

Recommendation: This is not unusual in District's of this size. The District's board must continue to improve its policies and procedures to ensure that misstatements are identified prior to the audit of the financial statements.

Response: We concur with the recommendation. The District's board will work to ensure that policies and procedures are developed and put into place to prevent misstatements, and if misstatements occur to adjust them prior to the audit of the financial statements.