

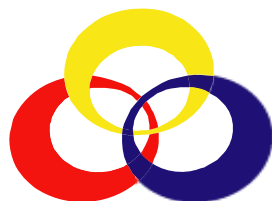
FINANCIAL AUDIT REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009



*Pipestone Soil and Water  
Conservation District*

119 2<sup>nd</sup> Street SW – Suite 13  
Pipestone, MN 56164

*The mission of the Pipestone Soil and Water Conservation District is to promote conservation of natural resources through Education, Technical Assistance, and Stewardship.*



Kinner & Company  
Ltd

Certified Public Accountants

Taxes, QuickBooks & Investments

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**CONTENTS**  
**DECEMBER 31, 2010 AND 2009**

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Board of Supervisors	1
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	2 – 3
Management's Discussion and Analysis (unaudited)	4-8
Basic Financial Statements:	
<i>Government-Wide Financial Statement:</i>	
Statements of Net Assets	9
Statements of Activities	10
<i>Fund Financial Statement:</i>	
Balance Sheet-Governmental Funds	11
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in	
Fund Balance-Governmental Funds	13
Reconciliation of the Statement of Revenue, Expenditures,	
And Changes in Fund Balance of Governmental Funds	
To the Statement of Activities	14
Budgetary Comparison Statements	15
Notes to Basic Financial Statements	16 - 26
Independent Auditors' Report on Compliance and Other Matters and On Internal Controls over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	27-28

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
BOARD OF SUPERVISORS  
DECEMBER 31, 2010 AND 2009**

<u>Board of Supervisors</u>	<u>Position</u>
LeRoy Stensgaard	Chairperson
Ian Cunningham	Vice-Chairperson
Ed Loll	Secretary/Treasurer
Cal Spronk	Programs
Anna Mae Fritz	Public Relations & Information

District Manager

Kyle Krier

# KINNER & COMPANY LTD

## Certified Public Accountants

112 N Hiawatha, PO Box 14  
Pipestone, MN 56164

Nathan Kinner, CPA, MBT  
Nicole Larson, CPA

205 Elk Street  
Elkton, SD 57026

---

(507)825-5274  
1-866-470-0759  
Fax (507) 825-2147

Jennifer Nordmeyer  
Mary Lebert  
Dianne Foster  
Diane Anderson

### unlicensed support staff

Darci Anderson  
Cindy Foerster  
Donna Geringer  
Ashley Koehne  
Charity Kuehl

Tracey Zmuda  
Diana Kocourek  
Carla VanDeWiele  
Carley Osland

---

(605) 542-2711  
1-877-542-2711  
Fax (605) 542-2361

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Pipestone Soil and Water Conservation District  
Pipestone, MN 56164

We have audited the accompanying financial statements of the governmental activities and the General Fund of Pipestone Soil and Water Conservation District as of and for the year ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pipestone Soil and Water Conservation District's management. Our responsibility is to express opinions on these basic 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 Pipestone Soil and Water Conservation District as of December 31, 2010 and 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 years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2011, on our consideration of the Pipestone 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 4-8 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 are presented for purposes of additional analysis and are 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  
Certified Public Accountants  
Pipestone, Minnesota

August 11, 2011

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010 AND 2009**

The Pipestone Soil and Water Conservation District's discussion and analysis provides an overview of the SWCD's financial activities for the fiscal years ended December 31, 2010 and 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 Pipestone 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 Pipestone 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 Pipestone Soil and Water Conservation 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 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.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010 AND 2009**

**Reporting the Pipestone 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 PIPESTONE SOIL AND WATER CONSERVATION DISTRICT AS A WHOLE**

The Pipestone Soil and Water Conservation District's combined net assets were higher increasing from \$359,773 to \$567,107. In 2010 undesignated net assets increased by \$191,188. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Pipestone Soil and Water Conservation District's governmental activities.

**Table 1  
Net Assets**

	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	684,897	463,610
Capital assets	<u>32,900</u>	<u>16,754</u>
Total Assets	717,797	480,364
Long-term debt outstanding	8,347	7,544
Other liabilities	<u>142,343</u>	<u>113,047</u>
Total liabilities	150,690	120,591
Net assets		
Invested in capital assets, net of debit	32,900	16,754
Undesignated	<u>534,207</u>	<u>343,019</u>
Total net assets	<u>567,107</u>	<u>359,773</u>

Net assets of the Pipestone Soil and Water Conservation district governmental activities increased by 58% (\$359,773 compared to \$567,107). 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 \$113,047 at December 31, 2009 to \$142,343 at the end of 2010. In 2009, the governing board designated a portion of the net assets for a reserve for operating and a reserve for equipment.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010 AND 2009**

**Table 2  
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
Intergovernmental-State	\$ 158,314	\$ 24,808
Intergovernmental-County	237,043	184,550
Charges for services	58,904	78,837
Federal Grants	0	5,000
Miscellaneous	13,828	7,118
<b>Total Revenues</b>	<b>\$ 468,089</b>	<b>\$ 300,313</b>
<b>Expenditures</b>		
Conservation		
Current	\$ 250,254	\$ 220,826
Capital outlay	25,844	3,050
<b>Total Expenditures</b>	<b>\$ 276,098</b>	<b>\$ 223,876</b>
 <b>Increase (decrease) in net assets</b>	 <b>191,991</b>	 <b>76,437</b>

The SWCD's total revenues increased by 55.8 percent (\$167,776). The total cost of all programs and services increased by \$52,222, or just over 23 percent. Our analysis below separately considers the operations of governmental activities.

**Revenues:**

The District saw a decrease in Charges for Services, as payment from those who directly benefitted from programs of 25% (\$19,933). Overall, the SWCD's governmental program revenues, including intergovernmental aid and fees for services increased in 2010 and 2009 from \$300,313 to \$468,089, principally based on increases in intergovernmental aid.

**Expenditures:**

The District saw an increase in General Government Conservation Expenses of 13%. Personal expenses increased by \$29,428, while project expenditures increased by \$22,794.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010 AND 2009**

**Governmental Activities**

Revenues for the District Governmental Activities increased by 16 percent (\$167,777), while total expenses increased 23 percent (\$52,222).

**Table 3  
Governmental  
Activities**

	Total Cost of Services	
	2010	2009
<b>Conservation Totals</b>	<u>\$ 276,098</u>	<u>\$ 213,883</u>
	<u>\$ 276,098</u>	<u>\$ 213,883</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 \$542,554, which is above last year's total of \$350,563.

**General Fund Budgetary Highlights**

Over the course of the year, the SWCD Board of Supervisors did not revise the budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2010 and 2009, the District had \$32,900 and \$16,754 invested in equipment, (See Table 4 below). This amount represents a net increase (including additions and deductions) of \$16,146.

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

	Governmental Activities	
	2010	2009
<b>Land</b>	\$ 0	\$ 0
<b>Buildings and Improvements</b>	0	0
<b>Equipment</b>	<u>32,900</u>	<u>16,754</u>
<b>TOTALS</b>	<b>\$ 32,900</b>	<b>\$ 16,754</b>

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010 AND 2009**

**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.

**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 119 Second Avenue SW, Suite 13, Pipestone, MN 56164, or by phone 507-825-5765.

**PIPESTONE SOIL AND WATER  
CONSRVATION DISTRICT  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

<b>ASSETS</b>	<u>Governmental Activities</u>
Cash and Cash Equivalentents	\$ 682,470.82
Accounts Receivables	1,336.35
Due from other Governments	-
Inventory	1,090.16
Capital Assets:	-
Depreciable, net	32,899.54
Undeposited Funds	-
<b>TOTAL ASSETS</b>	<b><u><u>\$ 717,796.87</u></u></b>

**LIABILITIES & FUND EQUITY**

Liabilities:	
Sales Tax Payable	\$ 998.00
Payroll Liabilities	1,203.58
Deferred Revenue	140,141.31
Accrued Compensated Absences	8,347.19
Total Liabilities	<u>150,690.08</u>
Net Assets:	
Invested in capital assets	32,899.54
Net Assets - Unrestricted	534,207.25
Total Net Assets	<u>567,106.79</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u><u>\$ 717,796.87</u></u></b>

See notes to basic financial statements

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES  
GOVERNMENTAL REVEUES, EXPENDITURES, AND CHANGEDS IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets Primary Government
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Program Activities					
Conservation	\$ 252,965.81	\$ 58,904.13	\$ 395,357.23		\$ 201,295.55
Total Governmental Activities	252,965.81	58,904.13	395,357.23	-	201,295.55
Total Primary Government	252,965.81	58,904.13	395,357.23	-	201,295.55
General Revenues					
Unrestricted Investment Earnings					2,637.47
Sale of Asset					11,000.00
Miscellaneous					190.68
Total General Revenues and Transfers					13,828.15
Change in Net Assets					215,123.70
Net Assets - Beginning of Year, As Adjusted					351,983.09
<b>Net Assets - End of Year</b>					<b>\$ 567,106.79</b>

**PIPESTONE SOIL AND WATER  
CONSERVATION DISTRICT  
BALANCE SHEETS - GENERAL FUND  
DECEMBER 31, 2010 AND 2009**

	2010 General Fund	2009 General Fund
<b>ASSETS</b>		
Cash and Investments	\$ 682,470.82	\$ 461,477.36
Accounts Receivable	1,336.35	-
Inventory	1,090.16	2,132.66
<b>Total Assets</b>	<b>\$ 684,897.33</b>	<b>\$ 463,610.02</b>
<b>LIABILITIES AND FUND BALANCE/NET ASSETS</b>		
Liabilities		
Current Liabilities:		
Sales Tax Payable	\$ 998.00	\$ 1,119.91
Payroll Liabilities	1,203.58	2,635.48
Deferred Revenue	140,141.31	109,291.31
<b>Total Liabilities</b>	142,342.89	113,046.70
Fund Balance/Net Assets		
Unreserved		
Undesignated	542,554.44	350,563.32
<b>Total Fund Equity</b>	542,554.44	350,563.32
<b>Total Liabilities and Fund Equity</b>	<b>\$ 684,897.33</b>	<b>\$ 463,610.02</b>

See the notes to basic financial statements.

**PIPESTONE SOIL AND WATER  
CONSERVATION DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

Total fund balance - total governmental funds \$ 542,554.44

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. 32,899.54

Accrued absences do not require current financial resources. Therefore they are not reported as a liability in governmental funds balance sheet. (8,347.19)

**Net assets of governmental activities \$ 567,106.79**

See notes to basic financial statements.

**PIPESTONE SOIL AND WATER  
CONSERVATION DISTRICT**  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Actual
<b>Revenues:</b>	
Intergovernmental Revenue:	
County	\$ 237,043.00
State	158,314.23
Federal	-
Total Intergovernmental Revenue	395,357.23
Charges for Services	58,904.13
Miscellaneous Revenue:	
Interest	2,637.47
Sale of Asset	11,000.00
Miscellaneous	190.68
Total Miscellaneous Revenues	13,828.15
Total Revenues	468,089.51
<b>Expenditures:</b>	
District Operations:	
Personal Services	106,816.80
Other Services and Charges	33,856.15
Supplies	25,131.90
Capital Outlay	25,843.85
Total District Operations	191,648.70
Project Expenditures:	
District	63,814.17
State/Water Plan	20,635.52
Federal	-
Total Project Expenditures	84,449.69
Total Expenditures	276,098.39
Excess of Revenues Over (Under) Expenditures	191,991.12
Fund Balance January 1, 2010	350,563.32
<b>Fund Balance December 31, 2010</b>	<b>\$ 542,554.44</b>

See the notes to basic financial statements.

**PIPESTONE SOIL AND WATER  
CONSERVATION DISTRICT  
RECONCILIATION OF THE STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net changes in fund balances-total government funds	\$ 191,991.12
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.	25,843.85
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.	5,635.92
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.	<u>(8,347.19)</u>
Change in net assets of governmental activities	<u><u>\$ 215,123.70</u></u>

See notes to basic financial statements

**PIPESTONE SOIL AND WATER  
CONSERVATION DISTRICT**  
BUDGETARY COMPARISON STATEMENT-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	General Actual	Variance Over (Under)	2009 Totals
<b>Revenues:</b>					
Intergovernmental Revenue:					
County	\$ 250,991.96	\$ 250,991.96	\$ 237,043.00	\$ (13,948.96)	\$ 184,550.00
State	141,991.96	141,991.96	158,314.23	16,322.27	24,808.31
Federal	-	-	-	-	5,000.00
Total Intergovernmental Revenue	392,983.92	392,983.92	395,357.23	2,373.31	214,358.31
Charges for Services	56,220.00	56,220.00	58,904.13	2,684.13	78,836.91
Miscellaneous Revenue:					
Interest	4,000.00	4,000.00	2,637.47	(1,362.53)	4,236.50
Sale of Asset	-	-	11,000.00	11,000.00	-
Miscellaneous	-	-	190.68	190.68	2,881.00
Total Miscellaneous Revenues	4,000.00	4,000.00	13,828.15	9,828.15	7,117.50
Total Revenues	453,203.92	453,203.92	468,089.51	14,885.59	300,312.72
<b>Expenditures:</b>					
District Operations:					
Personal Services	106,569.36	106,569.36	106,816.80	247.44	105,452.97
Other Services and Charges	45,122.28	45,122.28	33,856.15	(11,266.13)	47,564.47
Supplies	30,000.00	30,000.00	25,131.90	(4,868.10)	27,484.87
Capital Outlay	-	-	25,843.85	25,843.85	3,050.00
Total District Operations	181,691.64	181,691.64	191,648.70	9,957.06	183,552.31
Project Expenditures:					
District	48,000.00	48,000.00	63,814.17	15,814.17	8,152.06
State/Water Plan	-	-	20,635.52	20,635.52	27,171.47
Federal	-	-	-	-	5,000.00
Total Project Expenditures	48,000.00	48,000.00	84,449.69	36,449.69	40,323.53
Total Expenditures	229,691.64	229,691.64	276,098.39	46,406.75	223,875.84
Excess of Revenues Over (Under) Expenditures	\$ 223,512.28	\$ 223,512.28	191,991.12	\$ 31,521.16	76,436.88
Fund Balance January 1, 2010			350,563.32		274,126.44
<b>Fund Balance December 31, 2010</b>			<b>\$ 542,554.44</b>		<b>\$ 350,563.32</b>

See the notes to basic financial statements.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial reporting policies of the Pipestone 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.

**Financial Reporting Entity**

The Pipestone 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 Pipestone Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service (formerly 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 Pipestone 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.

Accounting principles generally accepted in the United States of America 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.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as 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 good 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.

**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.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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.

**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.

Revenues susceptible to accrual are intergovernmental revenues, charges and interest on investments. Intergovernmental revenues are reported 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.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**Measurement Focus/Basis of Accounting - continued**

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 accounting

**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.

**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 \$2,500 for capitalizing assets purchased. Those physical assets under \$2,500 are expensed directly and not capitalized.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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 general capital assets represents 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.

**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 14 hours per month. Sick leave accrual is 6 to 12 days per year. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 240 hours. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 120 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 120 hours of accrued sick leave

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Excess of Expenditures and Revenues over Budget**

The variance between the actual revenues and expenditures to the budget is immaterial.

**General Fund Deficit**

At December 31, 2010 and 2009, the District's General Fund did not have a deficit fund balance.

**Uncollaterized deposits**

During 2010 and 2009, the District's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**DEPOSITS AND INVESTMENTS**

DEPOSITS

In accordance with Minnesota Statutes, the Pipestone Soil and Water Conservation District maintains deposits at depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all government deposits be insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Minnesota Statutes 118A.02 and 118A.04 authorizes the SWCD to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2010 and 2009, the SWCD's deposits totaled \$682,471 and \$461,477 of which \$259,284 and \$105,929 was cash deposits, \$198,839 and \$198,346 was in savings accounts and \$224,348 and \$157,202 was invested in certificates of deposit and considered investments. Minnesota statutes require that all SWCD deposits be covered by insurance, surety bond or collateral. At December 31, 2010 and 2009, all the SWCD's 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.

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, 2010 and 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.

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.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

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, 2010 and 2009, 100% of the District's investments are in Certificates of Deposits.

Summary of the District's deposits as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Checking	\$ 263,488	\$ 259,284	\$ 122,194	\$ 105,928
Savings	198,839	198,839	198,346	198,346
Certificates of Deposit	<u>224,348</u>	<u>224,348</u>	<u>157,203</u>	<u>157,203</u>
Total Deposits	<u>\$ 686,675</u>	<u>\$ 682,471</u>	<u>\$ 477,743</u>	<u>\$ 461,477</u>

Summary of cash, deposits and investments as of:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Deposits	\$ 682,471	\$ 461,477
Investments	<u>0</u>	<u>0</u>
Total	<u>\$ 682,471</u>	<u>\$ 461,477</u>

**CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2010 and 2009 is as follows:

	<u>Balance 1-1-10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-10</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$0	\$0	\$0	\$0
Total Capital Assets Not Being Depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital Assets Being Depreciated:				
Buildings	0	0	0	0
Machinery and Equipment	<u>94,554</u>	<u>28,454</u>	<u>22,240</u>	<u>100,768</u>
Total Capital Assets Being Depreciated	<u>94,554</u>	<u>28,454</u>	<u>22,240</u>	<u>100,768</u>
Less Accumulated Depreciation for:				
Buildings	0	0	0	0
Machinery and Equipment	<u>77,800</u>	<u>5,636</u>	<u>15,568</u>	<u>67,868</u>
Total Accumulated Depreciation	<u>77,800</u>	<u>5,636</u>	<u>15,568</u>	<u>67,868</u>
Total Capital Assets Being Depreciated, Net				
Governmental Activity Capital Assets, Net	<u>\$16,754</u>			<u>\$32,900</u>

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**CHANGES IN CAPITAL ASSETS (continued)**

	Balance <u>1-1-09</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-09</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$0	\$0	\$0	\$0
Total Capital Assets Not Being Depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital Assets Being Depreciated:				
Buildings	0	0	0	0
Machinery and Equipment	<u>99,820</u>	<u>3,050</u>	<u>8,316</u>	<u>94,554</u>
Total Capital Assets Being Depreciated	<u>99,820</u>	<u>3,050</u>	<u>8,316</u>	<u>94,554</u>
Less Accumulated Depreciation for:				
Buildings	0	0	0	0
Machinery and Equipment	<u>77,658</u>	<u>8,458</u>	<u>8,316</u>	<u>77,800</u>
Total Accumulated Depreciation	<u>77,658</u>	<u>8,458</u>	<u>8,316</u>	<u>77,800</u>
Total Capital Assets Being Depreciated, Net				
Governmental Activity Capital Assets, Net	<u>\$22,162</u>			<u>\$16,754</u>

**DEFERRED REVENUE**

Deferred revenue represents the unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and Pipestone County for various programs. Revenues will be recognized when the related program expenditures are recognized. Deferred revenue for the year ended December 31, 2010 and 2009 consists of:

2010 BWSR Cost-Share Programs	<u>\$140,141</u>
Total Deferred Revenue	<u>\$140,141</u>
2009 BWSR Cost-Share Programs	<u>\$109,291</u>
Total Deferred Revenue	<u>\$109,291</u>

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**COMPENSATED ABSENCES PAYABLE**

Changes in compensated absences for the year ended December 31, 2010 and 2009 are:

Balance January 1, 2010	\$7,544
Net Changes in Compensated Absences	<u>803</u>
Balance December 31, 2010	<u>\$8,347</u>
Balance January 1, 2009	\$6,029
Net Changes in Compensated Absences	<u>1,515</u>
Balance December 31, 2009	<u>\$7,544</u>

**INVENTORY**

Inventory is valued at lower of cost or market using the first-in, first-out method. The cost of inventories is 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, 2010 and 2009, inventory is \$1,090 and \$2,133.

**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.

# PIPESTONE SOIL AND WATER CONSERVATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

### DEFINED BENEFIT PENSION PLANS - STATEWIDE

#### Plan Description

The District contributes to 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.

#### Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Plan members are required to contribute 9.1% and 6%, respectively, of their covered salary and the District is required to contribute 11.78% for Basic Plan PERA member and 6.75% for Coordinated Plan PERA members. 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, 2010, 2009, and 2008 were \$4,775, \$4,942, and \$5,131 respectively, equal to the contractually required contributions for each year as set by Minnesota state statute.

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.

### LEASE AGREEMENTS

The District leases office space on a yearly basis. Under the current agreement, total costs for 2010 and 2009 were \$8,084 and \$8,986.

### SUBSEQUENT EVENTS

Subsequent events were evaluated through August 11, 2011, which is the date the financial statements were available to be issued. No significant, unusual or infrequent events or transactions have occurred after the financial statement date but before the issuance of the financial statements.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**10. INCOME TAXES**

The Organization is a not-for-profit organization, which is exempt from federal income taxes under Section 501(C)(3) of the Internal Revenue Code and is exempt from income taxes pursuant to Section 501(a) of the Code.

Effective January 1, 2009, the Organization adopted new accounting guidance related to uncertainty in income taxes. This guidance clarifies the recognition threshold and measurement requirements for income tax positions taken or expected to be taken in income tax returns. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. Under the new standards, the Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities. Prior to January 1, 2009, the Organization accrued liabilities for uncertain positions if losses were probable and could be reasonably estimated. The Organization has identified no significant income tax uncertainties. The Organization is open to examination for tax years 2010 and 2009.

**KINNER & COMPANY LTD**  
**Certified Public Accountants**

112 N Hiawatha, PO Box 14  
Pipestone, MN 56164

Nathan Kinner, CPA, MBT  
Nicole Larson, CPA

205 Elk Street  
Elkton, SD 57026

---

(507)825-5274 1-866-470-0759 Fax (507) 825-2147	<b>Jennifer Nordmeyer</b> Mary Lebert Dianne Foster Diane Anderson	<b><u>unlicensed support staff</u></b> Darci Anderson Cindy Foerster Donna Geringer Ashley Koehne Charity Kuehl	Tracey Zmuda Diana Kocourek Carla VanDeWiele Carley Osland	(605) 542-2711 1-877-542-2711 Fax (605) 542-2361
---	---	--	---	--

**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  
Pipestone Soil and Water Conservation District  
Pipestone, MN 56164

We have audited the financial statements of the governmental activities and general fund information of Pipestone Soil and Water Conservation District as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 11, 2011. 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 Pipestone 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 Pipestone Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pipestone 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.

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 Pipestone 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 Pipestone Soil and Water Conservation District, Minnesota's financial statements that is more than inconsequential will not be prevented or detected by the Pipestone Soil and Water Conservation District's internal control.

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 Pipestone 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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pipestone 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*.

### 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, Pipestone 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  
Certified Public Accountants  
Pipestone, Minnesota

August 11, 2011