

**NOBLES SOIL AND WATER
CONSERVATION DISTRICT
AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2012**

NOBLES SOIL AND WATER CONSERVATION DISTRICT

TABLE OF CONTENTS

DECEMBER 31, 2012

	Page
Schedule of Board Members and Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 9
<u>Basic Financial Statements:</u>	
Statement of Net Position and Governmental Fund Balance Sheet	10
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Notes to the Financial Statements	14 - 22
<u>Required Supplementary Information:</u>	
Budgetary Comparison Statement - General Fund	23
Notes to Required Supplementary Information	24
<u>Additional Reports:</u>	
Independent Auditors' Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26
Schedule of Findings and Responses	27
Independent Auditor's Report on Legal Compliance	28

NOBLES SOIL AND WATER CONSERVATION DISTRICT

SCHEDULE OF BOARD MEMBERS AND OFFICIALS

DECEMBER 31, 2012

		<u>Term Expires</u>
Ken Wolf	Chairman	12-31-16
Jim Knips	Vice Chairman	12-31-16
Paul Langseth	Secretary	12-31-14
Rick Nelsen	Treasurer	12-31-14
Lynn Darling	Public Relations	12-31-16
Jane Steffl	Financial/Contacting Officer	Indefinite
Ed Lenz	District Manager	Indefinite
John Shea	District Technician	Indefinite
Chessa Frahm	MOB Watershed Coord	Indefinite

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INDEPENDENT AUDITORS' REPORT

Nobles Soil & Water Conservation District
1567 McMillan Street Suite 3
Worthington, MN 56187

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Nobles Soil and Water Conservation District, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 Legal Compliance Task Force pursuant to Minnesota Statute 6.65. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 major fund, the general fund, of the Nobles Soil and Water Conservation District, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 thru 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 2013 on our consideration of the Nobles Soil and Water Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the 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.


Richard W. Holmberg, Ltd.
Certified Public Accountant

August 21, 2013

NOBLES SOIL AND WATER CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nobles Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on 2012 activities, resulting changes, and currently known facts, it should be read in conjunction with the Nobles SWCD's financial statements beginning on page 10.

FINANCIAL HIGHLIGHTS

- The Nobles Soil and Water Conservation District's total net assets from governmental activities increased 12% from 2011 to 2012.
- The District increased its fund balance in 2012. This surplus in unrestricted governmental net assets increased primarily because the District had not budgeted for the technical and assistance revenue from a couple of the BWSR grants that were completed in 2012.
- The total revenues increased significantly from 2011 due to the District receiving several new grants in 2012. The intergovernmental-state revenue was over twice as much as was initially budgeted because of the state grant revenue. The increase in Project Expenditures-District & State, also reflect this additional grant revenue.
- The deferred revenue on the Statement of Net Assets and Governmental Fund Balance Sheet had significantly decreased in 2012 due to completion of many of the landowner's contracts.

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 12) provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements start on page 10. 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 Nobles SWCD has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

Our analysis of the Nobles SWCD as a whole begins on page 4. One of the most important questions asked about the SWCD's finances is, "Is the Nobles 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. One 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. One would need to consider other nonfinancial factors, however, to assess the overall health of the Nobles SWCD.

In the Statement of Net Assets and 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.

Reporting the Nobles SWCD General Fund

Fund Financial Statements

Our analysis of the SWCD's general fund begins on page 6. The fund financial statements begin on page 10 and 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 those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the 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 the Statement of Activities), and the governmental funds in reconciliations included with the financial statements on pages 11 and 13.

THE NOBLES SWCD AS A WHOLE

The SWCD's combined net assets were increased from \$234,981 in 2011 to \$264,220 in 2012. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Nobles SWCD governmental activities.

Table 1
Net Assets

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 335,523	\$ 559,301
Capital assets	<u>33,293</u>	<u>47,633</u>
Total assets	<u>\$ 368,816</u>	<u>\$ 606,934</u>
Long-term Liabilities	\$14,364	\$15,987
Other liabilities	<u>90,232</u>	<u>355,966</u>
Total liabilities	<u>\$ 104,596</u>	<u>\$ 371,953</u>
Net assets		
Invested in Capital Assets	33,293	47,633
Unrestricted	<u>230,927</u>	<u>187,348</u>
Total net assets	<u>\$ 264,220</u>	<u>\$ 234,981</u>

Net assets of the SWCD's governmental activities increased by 12 percent (\$234,981 compared to \$264,220). 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 a \$187,348 surplus at December 31, 2011, to a \$230,927 surplus at the end of this year.

The surplus in unrestricted governmental net assets increased primarily because the District had not budgeted for the technical and assistance funding from a couple of the BWSR grants that were completed in 2012. Also, not all the contracts were completed so Project Expenditures-State were well under budget as was the capital outlay account because no major purchases of equipment were purchased.

Table 2
Changes in Net Assets

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for services	44,005	42,394
Intergovernmental Revenue	798,042	491,030
Misc. Rev.-Interest	798	1,461
Misc. Rev.-Other	<u>8,507</u>	<u>12,926</u>
Total Revenues	\$ 851,352	\$ 547,811
Program Expenses		
Personal Services	204,255	178,488
Other Services & Charges	48,345	32,916
Supplies	2,793	705
Depreciation	14,340	14,414
Loss on Disposal of Assets	0	3,188
Project Exp-District	74,864	80,956
Project Exp-State, Co., SWCD	<u>477,516</u>	<u>220,077</u>
Total Expenses	<u>822,113</u>	<u>530,744</u>
Increase (Decrease) in net assets	<u>\$29,239</u>	<u>\$17,067</u>

The SWCD's total revenues, excluding special items, increased \$303,541, of which was almost completely due to the increase in state grants. The total cost of all programs and services increased significantly, \$291,369, again primarily due to additional contract payments being made to landowners from the grants received. Our analysis below separately considers the operations of governmental activities.

Governmental Activities

Revenues for the Nobles SWCD's governmental activities increased significantly, again due to several state grants received, which in turn, the total expenses increased similarly. This compares to a similar increase in net assets in 2011.

The cost of all governmental activities this year was \$822,113 compared to \$530,744 last year. However, as shown in the Statement of Activities on page 12, the amount that our taxpayers ultimately financed for these activities through County, State and Local allocations was only \$113,818, because some of the cost was paid by those who directly benefitted from the programs, \$44,005, or by other governments and organizations that subsidized certain programs with grants and contributions, \$684,224. Overall, the Nobles

SWCD's governmental program revenues, including intergovernmental aid and fees for services increased in 2012, from \$491,030 to \$798,042, principally based on increases in State Grant, namely the Clean Water Legacy Funding. The Nobles SWCD paid for the remaining "public benefit" portion of governmental activities with other revenues, such as interest.

Table 3 presents the cost of each of the Nobles SWCD's four largest programs which are grouped under the Conservation category: tree program, cost-share program, grass seed program and education program. The net cost (total cost less revenues generated by the activities) shows \$0.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Conservation	74,864	80,956	0	0
Other	<u>48,345</u>	<u>32,916</u>	<u>0</u>	<u>0</u>
Totals	<u>\$123,209</u>	<u>\$113,872</u>	<u>0</u>	<u>0</u>

THE FUNDS

As the SWCD completed the year, its general fund, as presented in the balance sheet on page 10, reported a combined fund balance of \$245,291, which is significantly above last year's total of \$203,335. The primary reasons for the General Fund's increase mirror the governmental activities analysis highlighted on pages 6 and 7.

General Fund Budgetary Highlights

The SWCD made revisions to their budget in July. In the Nobles SWCD 2012 budget, the actual charges to appropriations (expenditures) were \$91,433 under the budgeted amount, almost entirely due to the fact that some of the contracts written with grant funding were not completed (funds were not spent) in 2012 and the grants were deferred to 2013. Also, the actual State grant was revised to include additional funding for a Feedlot Grant that was deferred to 2013.

Other than the State Grants, the most significant positive variance occurred in the Nobles SWCD's Charges for Services, tree matting and tree sales \$4,505.

Due to the technical and administration dollars from several of the state grants that were completed in 2012; the 2012 Intergovernmental Revenue-State program was significantly higher than the 2011 Intergovernmental Rev.-State funding which affected grant resources available from appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the SWCD had \$33,293 invested in a broad range of capital assets, including building improvements, vehicles and equipment. (See Table 4 below). This amount represents a net decrease (including additions and deductions) of just under \$14,340, or 30% under last year.

Table 4
Capital Assets at Year-end

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Vehicles	18,901	26,995
Equipment	<u>14,392</u>	<u>20,638</u>
	<u>\$33,293</u>	<u>\$47,633</u>

There were no major additions to the Capital Assets in 2012 and none of the capital outlay funds, that had been budgeted, were used.

Long-Term Liabilities

The Nobles SWCD has obligations that include accrued vacation pay, but currently has no outstanding notes. More detailed information about the SWCD's long-term liabilities is presented in Note II C to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Nobles SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and fees that will be charged for the business-type activities. Some economic factors taken into account for the 2013 budget when considering our revenues included: sales of trees and tree matting, state funding, federal funding and the County allocation. Expense factors included project expenses and employee salary increases.

CONTACTING THE NOBLES SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the SWCD's finances 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 Nobles Soil and Water Conservation District, 1567 McMillan St., Suite 3, Worthington, MN 56187 at 507-376-9150, extension #3.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
Statement of Net Position and Governmental Fund Balance Sheet
December 31, 2012

	<u>General Fund</u>	<u>Adjustments See Reconciliation</u>	<u>Statement of Net Position</u>
Assets			
Cash			
Checking Accounts	\$ 133,964		\$ 133,964
Treasury Savings Account	78,287		78,287
Certificates of Deposit	75,000		75,000
Petty Cash	25		25
Total Cash	<u>287,276</u>		<u>287,276</u>
Accounts Receivable	300		300
Interest Receivable	300		300
Other Receivable	348		348
Due from Other Governments	47,299		47,299
Capital Assets, Net of Accumulated Depreciation	-	33,293	33,293
Total Assets	<u>\$ 335,523</u>	<u>\$ 33,293</u>	<u>\$ 368,816</u>
Liabilities			
Unearned Revenue	\$ -	\$ 88,446	\$ 88,446
Due to Other Governments	1,786	-	1,786
Compensated Absences	-	14,364	14,364
Total Liabilities	<u>1,786</u>	<u>102,810</u>	<u>104,596</u>
Deferred Inflows from Future Resources			
Deferred Inflows from Future Revenues	88,446	(88,446)	-
Total Deferred Inflows from Future Resources	<u>88,446</u>	<u>(88,446)</u>	<u>-</u>
Fund Balance			
Committed	14,364	(14,364)	-
Assigned	85,000	(85,000)	-
Unassigned	145,927	(145,927)	-
Total Fund Balances	<u>245,291</u>	<u>(245,291)</u>	<u>\$ -</u>
Net Position			
Invested in Capital Assets		33,293	33,293
Unrestricted		230,927	230,927
Total Net Position		<u>\$ 264,220</u>	<u>\$ 264,220</u>

See the notes to the financial statements.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2012

Total Fund Balance - Total Governmental Funds	\$ 245,291
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds' balance sheet.	33,293
Compensated absences are not due and payable in the current period and are not reported in the general funds.	<u>(14,364)</u>
Net Position of Governmental Funds	<u>\$ 264,220</u>

See the notes to the financial statements.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
Statement of Activities and Governmental Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2012

	General Fund	Adjustments See Reconciliation	Statement of Activities
Revenues			
Intergovernmental			
County	\$ 78,818	\$ -	\$ 78,818
State Grant	667,844	-	667,844
Federal Grant	16,380	-	16,380
Local	35,000	-	35,000
Total Intergovernmental Revenues	<u>798,042</u>	<u>-</u>	<u>798,042</u>
Charges for Services	<u>44,005</u>	<u>-</u>	<u>44,005</u>
Miscellaneous			
Interest	798	-	798
Other	8,507	-	8,507
Total Miscellaneous	<u>9,305</u>	<u>-</u>	<u>9,305</u>
Total Revenues	<u>851,352</u>	<u>-</u>	<u>851,352</u>
Expenditures\Expenses			
District Operations			
Personal Services	205,878	(1,623)	204,255
Other Services and Charges	48,345	-	48,345
Supplies	2,793	-	2,793
Depreciation	-	14,340	14,340
Total District Operations	<u>257,016</u>	<u>12,717</u>	<u>269,733</u>
Project Expenditures\Expenses			
District	74,864	-	74,864
State	477,516	-	477,516
Total Project Expenditures\Expenses	<u>552,380</u>	<u>-</u>	<u>552,380</u>
Total Expenditures\Expenses	<u>809,396</u>	<u>12,717</u>	<u>822,113</u>
Excess of Revenues Over(Under) Expenditures\Expenses	<u>41,956</u>	<u>(12,717)</u>	<u>29,239</u>
Fund Balance\Net Position - January 1	<u>203,335</u>	<u>31,646</u>	<u>234,981</u>
Fund Balance\Net Position - December 31	<u>\$ 245,291</u>	<u>\$ 18,929</u>	<u>\$ 264,220</u>

See the notes to the financial statements.

NOBLES SOIL AND WATER CONSERVATION DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2012

Net Change in Fund Balance - Total Governmental Funds	\$ 41,956
Depreciation expense on capital assets is reported in the government-wide statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(14,340)
Changes in compensated absences are also reflected in the government-wide statement of activities.	<u>1,623</u>
Changes in Net Position of Governmental Activities	<u>\$ 29,239</u>

See the notes to the financial statements.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nobles Soil and Water Conservation District was organized under provisions of Minnesota Stat. Ch. 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 damage to wetlands and wildlife habitats.

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

Each fiscal year the District develops a work plan, 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 financial reporting policies of the District conform to generally accepted accounting principles.

A. Financial Reporting Entity

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

The District is not considered a part of Nobles 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.

B. Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all governmental activities, which normally are supported by taxes and intergovernmental revenues.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements included reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classify as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the corporation.

Net Position should be reported as restricted when constraints placed on net asset use are either externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

The fund financial statements of the District include only one fund, the General Fund. The General Fund is accounted for by a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Budget

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.

E. Cash Equivalents

Nobles Soil and Water Conservation District recognizes as cash currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposit, which do not have penalties or terms with them that effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Nobles Soil and Water Conservation District recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

G. Assets, Liabilities, and Equity Accounts

1. Assets

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

Due from Other Governments includes amounts for shared projects and grants.

Capital assets are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. Capital assets are still valued at historical or estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	5 – 10 years
Furniture and Fixtures	7 – 10 years
Buildings and Improvements	15 – 30 years
Vehicles	5 years

The Nobles Soil and Water Conservation District has set the capitalization threshold at \$500.

2. Liabilities

Current liabilities include Accounts Payable, Accrued Payroll and Related Taxes, Sales Tax Payable, Deposits on Sale, Compensated Absences, and Unearned Revenue.

3. Equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position – Consists of Net Position with constraints placed on the use either by (1) external groups such as grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other Net Position that do not meet the definition of "restricted" or "invested in capital assets."

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified in accordance with GASB 54. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The classifications are defined by GASB as the following:

- a. Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes but not limited to: prepaid expenses, accrued interest receivable, taxes receivable, inventory, fixed assets.
- b. Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- c. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes internally imposed by formal action of the Board of Directors. It requires formal action by the Board of Directors to remove or change the constraints placed on these resources. Including but not limited to: unemployment compensation and sinking fund.
- d. Assigned – Amounts in the assigned fund balance classification are intended to be used by the Board of Directors for specific purposes but do not meet the criteria to be classified as restricted or committed.
- e. Unassigned – Unassigned fund balance is the residual classification of the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

H. Revenues and Expenses

1. Revenues

a. Intergovernmental

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

Non-exchange transactions, in which the District receives value without directly giving value in return, include grants and donations. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

b. Other Revenue

Investment income (reported as Miscellaneous Revenue) and revenue from the sale of trees (reported as Charges for Services) are recognized when earned, since they are measurable and available. Other revenues generally are recognized when they are received in cash because they usually are not measurable until then.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

2. Expenses

a. Project Expenses

Project expenses represent costs that are funded from Federal, State, or district revenues. State project expenses consist of grants to participants for the Cost-Share Program other state-authorized projects. District project expenses are costs of materials and supplies in the sale of trees, tree planting, and other District projects.

b. 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 16 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 192 hours and the limit on sick leave is 500 hours. Upon termination from the District, employees are paid accrued vacation leave.

II. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Changes in Capital Assets:

	<u>Buildings</u>	<u>Machinery & Equipment</u>	<u>Vehicles</u>	<u>Totals</u>
Primary Government				
Balance, December 31, 2011	\$ 12,975	\$ 45,926	\$ 76,202	\$ 135,103
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, December 31, 2012	<u>12,975</u>	<u>45,926</u>	<u>76,202</u>	<u>135,103</u>
Accumulated Depreciation				
Balance, December 31, 2011	12,975	25,288	49,207	87,470
Increases	-	6,246	8,094	14,340
Decreases	-	-	-	-
Balance, December 31, 2012	<u>12,975</u>	<u>31,534</u>	<u>57,301</u>	<u>101,810</u>
Capital Assets, Net	<u>\$ -</u>	<u>\$ 14,392</u>	<u>\$ 18,901</u>	<u>\$ 33,293</u>

B. Unearned Revenue

Unearned revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Nobles County for various programs. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2012, consists of the following:

Regular/Special State Cost-Share	<u>\$ 88,446</u>
Total	<u><u>\$ 88,446</u></u>

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

C. Compensated Absences

Changes in long-term debt for the period ended December 31, 2012, are:

Balance - January 1, 2012	\$ 15,987
Net change in compensated absences	<u>(1,623)</u>
Balance - December 31, 2012	<u><u>\$ 14,364</u></u>

There were no compensated absences payable to terminated employees as of December 31, 2012. Therefore, the balance at the end of the year is considered to be long-term in nature and no disclosure for a current portion is required.

D. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be covered 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 institutions banking day, not covered by insurance or bonds. All deposits are in category 1, low risk type investment.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better, irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department at a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

As of December 31, 2012, the carrying amount of the District's deposits with financial institutions was \$287,251, and the bank balance was \$301,794. The bank balance is categorized as follows:

Insured by FDIC Insurance	\$ 301,794
Covered by Collateral	0
Uninsured/Uncollateralized	<u>0</u>
Total	<u><u>\$ 301,794</u></u>

Investments

The board may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Agency rated "A" or better; bankers' acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

branch, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The board does not have any investments policies that would further limit investment choices.

The Board does not carry any investments on its financial statements as of December 31, 2012.

III. PENSION PLANS

Plan Description

All full-time and certain part-time employees of the Nobles Soil and Water Conservation District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which is a cost sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate 2.7 percent of average salary for Basis Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statutes. PERF Coordinated Plan members are required to contribute 6.25% of their annual covered salary in 2012. The Nobles Soil and Water Conservation District is required to contribute the following percentages of annual covered payroll: 7.25% for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$11,035, \$9,608, and \$7,667, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

Defined Contribution Plan: All of the District Supervisors are covered by the Public employees Defined Contribution Plan, (DCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association (PERA). The DCP 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. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary, which is matched by the District.

Total contributions made by the SWCD during fiscal year 2012 were:

Amount		Percentage of Covered Payroll		Required
Employees	Employer	Employees	Employer	Rates
\$396	\$396	5.00%	5.00%	5.00%

IV. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, employee health, and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities, errors and omissions and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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 increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

V. OPERATING LEASE

The District leases office space on a yearly basis. Under the current agreement, total costs for 2012 were \$11,764. The terms of the lease state that either party can terminate the agreement with written notice. The lease payment would be pro-rated based on the number of days the space was used. Therefore, no minimum lease requirement can be determined.

NOBLES SOIL AND WATER CONSERVATION DISTRICT

Budgetary Comparison Schedule - General Fund

For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
County	\$ 61,980	\$ 79,109	\$ 78,818	\$ (291)
State Grant	305,519	731,116	667,844	(63,272)
Federal Grant	18,500	18,500	16,380	(2,120)
Local	35,000	35,000	35,000	-
Total Intergovernmental Revenues	<u>420,999</u>	<u>863,725</u>	<u>798,042</u>	<u>(65,683)</u>
Charges for Services	<u>31,500</u>	<u>39,500</u>	<u>44,005</u>	<u>4,505</u>
Miscellaneous				
Interest	1,500	1,500	798	(702)
Other	8,175	1,500	8,507	7,007
Total Miscellaneous	<u>9,675</u>	<u>3,000</u>	<u>9,305</u>	<u>6,305</u>
Total Revenues	<u>462,174</u>	<u>906,225</u>	<u>851,352</u>	<u>(54,873)</u>
Expenditures				
District Operations				
Personal Services	195,281	197,925	205,878	(7,953)
Other Services and Charges	43,315	44,165	48,345	(4,180)
Supplies	1,000	2,000	2,793	(793)
Capital Outlay	2,000	3,000	-	3,000
Total District Operations	<u>241,596</u>	<u>247,090</u>	<u>257,016</u>	<u>(9,926)</u>
Project Expenditures				
District	38,500	70,771	74,864	(4,093)
State	182,078	573,052	477,516	95,536
Total Project Expenditures	<u>220,578</u>	<u>643,823</u>	<u>552,380</u>	<u>91,443</u>
Total Expenditures	<u>462,174</u>	<u>890,913</u>	<u>809,396</u>	<u>81,517</u>
Excess of Revenues Over(Under) Expenditures	<u>-</u>	<u>15,312</u>	<u>41,956</u>	<u>26,644</u>
Fund Balance - January 1	<u>203,335</u>	<u>203,335</u>	<u>203,335</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 203,335</u>	<u>\$ 218,647</u>	<u>\$ 245,291</u>	<u>\$ 26,644</u>

See the notes to the financial statements.

**NOBLES SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012**

Basis of Presentation

The budgetary comparison schedule has been prepared on the modified accrual basis of accounting.

Budgetary Legal Requirements

Budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is used during the fiscal year as a tool to monitor actual revenues and expenditures.

The budget is adopted through the passage of a resolution by the board of trustees. Any revision that alters the total expenditures of any fund must be approved by the board of trustees. Appropriations lapse at the end of each year.

RICHARD W. HOLMBERG, LTD

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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*

Nobles Soil and Water Conservation District
1567 McMillan Street Suite 3
Worthington, MN 56187

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Nobles Soil and Water Conservation District, as of and for the year ended December 31, 2012, which collectively comprise the District's financial statements and have issued our report dated August 21, 2013. 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 Nobles Soil and Water Conservation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nobles Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nobles Soil and Water Conservation District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questionable costs that we consider to be a significant deficiency in internal control over financial reporting; 2012-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

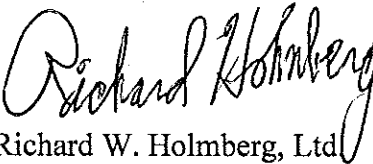
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nobles 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 management of the District in a separate letter dated August 21, 2013.

Nobles SWCD's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the management, others within the organization, 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.


Richard W. Holmberg, Ltd
Certified Public Accountant

August 21, 2013

**NOBLES SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Prior Audit:

2011-1. Finding – Segregation of Duties.

Repeated as Finding 2012-1.

2011-2. Finding – Financial Statement Disclosures.

Deficiency has been corrected.

Current Audit:

Internal Controls:

Significant Deficiency – Not a Material Weakness

2012-1. FINDING – Segregation of Duties

Condition – Although we recognize that the District is not large enough to permit adequate segregation of duties in all respects, it is important that you are aware of this significant deficiency. This comment should not reflect negatively on the staff and is based solely on staff size.

Criteria – A good internal control contemplates adequate segregation of duties so that no one individual handles transactions from inception to completion. Internal controls should be in place to ensure that all financial transactions are reviewed and approved.

Effect – Without the proper segregation of duties, errors, fraud, or even theft in amounts material to the financial statements could occur and not be detected within a timely period.

Response/Corrective Plan of Action – Every effort will be made to ensure that all transactions are reviewed by other staff members or a member of the board. Training will be made available when deemed necessary.

Compliance:

There were no findings regarding compliance.

RICHARD W. HOLMBERG, LTD

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Nobles Soil and Water Conservation District
1567 McMillan Street Suite 3
Worthington, MN 56187

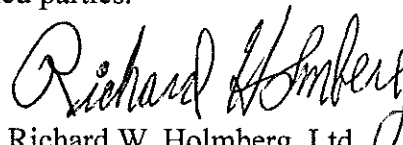
We have audited the accompanying financial statements of the Nobles Soil and Water Conservation District, as of and for the year ended December 31, 2012 and have issued our report thereon dated August 21, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statutes §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 except public indebtedness which does not apply to the District.

The results of our tests indicate that for the items tested, the Nobles Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the Nobles Soil and Water Conservation District had not complied with such legal provisions.

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


Richard W. Holmberg, Ltd.
Certified Public Accountant

August 21, 2013