

**EAST OTTER TAIL SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

December 31, 2010

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EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT

2010 Management's Discussion and Analysis

Management's Discussion and Analysis of Results of Operations and Financial Condition

The East Otter Tail 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, 2010. Since this information is designed to focus on the current years activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

Overview

The East Otter Tail Soil and Water Conservation District is a political sub-division of state government and operates under Minnesota Statutes 103.331 C. When legislation was established to form Soil and Water Conservation Districts there was no taxing authority or stable funding mechanism established to support them. As a result, Districts have had to piece together funds to support their programs. The East Otter Tail Soil and Water Conservation District earns money to support its operation by selling, planting, and weed matting trees for conservation projects, renting out no-till equipment, selling native grass and forbs seed, renting seeding equipment, and through the acquisition of funds from other local units of governments and from grants.

Since organizing in 1958, The East Otter Tail Soil and Water Conservation District provides local leadership in the conservation of soil, water, and related natural resources through programs with individuals, businesses, organizations and government. The Districts conservation programs and services vary from year to year and are influenced by the needs of our customers and their ability to provide funding for the District's programs and services.

The District's combined net assets from the previous year were virtually unchanged. Our analysis focuses on the net assets and changes in net assets of the District's governmental activities.

Conservation District as Whole

Net Assets

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Current Assets	\$572,694	\$601,338
Capital Assets, net of depreciation	<u>360,560</u>	<u>396,241</u>
Total Assets	\$933,254	\$997,579
Current Liabilities	190,466	218,554
Long term liabilities		
Compensated Absences	26,900	22,280
Building Loan	<u>184,692</u>	<u>196,876</u>
Total Liabilities	<u>\$402,058</u>	<u>\$437,710</u>
Total Net Assets	<u>\$531,196</u>	<u>\$559,869</u>

Net assets of the District governmental activities decreased, by \$28,673. 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 \$163,628 at December 31, 2009 to \$170,636 at the end of this year.

The following is a summary of all revenues, by category.

	<u>2010</u>	<u>2009</u>
County Revenue	\$121,176	\$117,751
State Revenue	105,059	100,474
Federal Revenue	0	18,506
Charges for Services	211,281	232,091
Miscellaneous, Other Income	<u>89,785</u>	<u>78,046</u>
Total Revenue	<u>\$ 527,301</u>	<u>\$ 546,868</u>
Conservation Expense	<u>\$ 555,974</u>	<u>\$ 529,817</u>

The East Otter Tail Soil and Water Conservation District provided 60% of the total revenue with the State of Minnesota providing 19% and Otter Tail County supplied 21%.

In 2010, there was an increased need for technical assistance and fee for services from individuals participating in local, state and federal programs, and an increase in technical assistance funds from government partners for promoting and marketing conservation programs.

Analysis of 2010 Revenues

There was no change in the East Otter Tail Soil and Water Conservation District's original and final budget for the year 2010. There were however significant increases and decreases in certain revenues and expenditures. The following summarizes each line item with significant variances.

Revenues

State Grants

For the past few years the East Otter Tail Soil and Water Conservation District has participated with a number of state partners to promote conservation programs. This year as in the past, the East Otter Tail Soil and Water Conservation District was awarded the Farmbill Assistance Grant.

County

The county has partially funded a Shoreland Specialist position to work with erosion and storm water issues such as site analysis, site design, lake management plans and educational workshops. This position also works with the Water Plan cost share program to implement water quality improvement practices such as lakescaping, rain gardens, and bio swales. Through this concern over water quality in our lakes throughout Otter Tail County the district does presentations to lake associations and makes site visits.

Charges for Services

In 2010 the East Otter Tail Soil and Water Conservation District had a significant positive variance in its fee for service programs. This increase corresponds directly to an increase in individual participation in local, state and federal programs. Significant increases in services were seen in the District's tree sales, tree fabric installation, and native seed programs.

District Expenses

In 2010 the District had a negative variance in District expenses. These expenses were the result of the increased customer purchases of conservation materials, (trees, tree fabric and native seed). It is important to emphasize that this negative variance was not the result of an increase in material cost, rather a result of increased demand for the District's services by its customers.

State

In 2010 the District had a positive variance in the State Project category. This variance was the result of increased participation in the District's State Cost-Share program. This increased participation essentially resulted in the District spending approximately two years of State Cost-Share funds in one year.

Overall Analysis

Without a stable funding mechanism in place it is difficult for the District to develop, with great accuracy, an annual budget.

There are many uncontrollable factors that come into play each year, which may have an impact on the District's budget. Some of these factors include:

- The changing needs of our customers,
- The changing emphasis from agriculture to water quality concerns,
- The availability of programs,
- The financial state of the state and county,
- Climatic variability, and
- Available grant opportunities.

In summary 2010 brought about an increased need for technical assistance and fee for services from individuals participating in local, state and federal programs, and an increase in technical assistance funds from government partners for promoting and marketing conservation programs. The cumulative effect resulted in a positive increase in the District's fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the East Otter Tail Soil and Water Conservation District, 801 Jenny Ave SW, Perham, MN 56573. Phone # is (218)346-4260.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
PERHAM, MINNESOTA**

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2010**

	General Fund	Building Fund	Total Funds	Adjustments	Statement of Net Assets
<u>Assets</u>					
Cash and investments	\$ 501,292	\$ 15,699	\$ 516,991	\$ -	\$ 516,991
Accrued Interest Receivable	1,877	-	1,877	-	1,877
Accounts Receivable	11,651	-	11,651	-	11,651
Prepaid items, inventory	42,175	-	42,175	-	42,175
Capital Assets:					
Equipment (net of accum. dep.)	-	-	-	360,560	360,560
Total Assets	<u>\$ 556,995</u>	<u>\$ 15,699</u>	<u>\$ 572,694</u>	<u>\$ 360,560</u>	<u>\$ 933,254</u>
<u>Liabilities</u>					
Current liabilities:					
Accounts Payable	\$ 3,210	\$ -	\$ 3,210	\$ -	\$ 3,210
Accrued Payroll	3,891	-	3,891	-	3,891
Deferred Revenue	169,133	-	169,133	-	169,133
Deposits on Sales	14,232	-	14,232	-	14,232
Long-term liabilities:					
Due within one year	-	-	-	5,046	5,046
Due after one year	-	-	-	21,854	21,854
Note, Mortgage Payable	-	-	-	184,692	184,692
Total Liabilities	<u>\$ 190,466</u>	<u>\$ -</u>	<u>\$ 190,466</u>	<u>\$ 211,592</u>	<u>\$ 402,058</u>
<u>Fund Balance/Net Assets</u>					
Fund Balance/Net Assets					
Unreserved					
Undesignated	\$ 366,529	\$ 15,699	\$ 382,228	\$ 148,968	\$ 531,196
Total Fund Balance	<u>\$ 366,529</u>	<u>\$ 15,699</u>	<u>\$ 382,228</u>	<u>\$ 148,968</u>	<u>\$ 531,196</u>
Net Assets					
Invested in capital assets				\$ 360,560	\$ 360,560
Unrestricted				170,636	170,636
Total Net Assets				<u>\$ 531,196</u>	<u>\$ 531,196</u>

Notes are an integral part of the basic financial statements.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
PERHAM, MINNESOTA**

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year-Ended December 31, 2010**

	General Fund	Building Fund	Total Funds	Adjustments	Statement of Activities
Revenues					
Intergovernmental	\$ 226,235	\$ -	\$ 226,235	\$ -	\$ 226,235
Charges for services	211,281	-	211,281	-	211,281
Investment earnings	7,385	-	7,385	-	7,385
Miscellaneous	37,052	45,348	82,400	-	82,400
Total Revenues	\$ 481,953	\$ 45,348	\$ 527,301	\$ -	\$ 527,301
Expenditures/Expenses					
Conservation					
Current	\$ 475,862	\$ 29,798	\$ 505,660	\$ 40,301	\$ 545,961
Debt Service, Principal	-	12,184	12,184	(12,184)	-
Debt Service, Interest	-	10,013	10,013	-	10,013
Transfer in, (Out)	10,000	(10,000)	-	-	-
Total Expenditures/Expenses	\$ 485,862	\$ 41,995	\$ 527,857	\$ 28,117	\$ 555,974
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (3,909)	\$ 3,353	\$ (556)	\$ (28,117)	\$ (28,673)
Fund Balance/Net Assets January 1	\$ 370,438	\$ 12,346	\$ 382,784	\$ 177,085	\$ 559,869
Fund Balance/Net Assets December 31	\$ 366,529	\$ 15,699	\$ 382,228	\$ 148,968	\$ 531,196
Adjustments					
Depreciation Expense				35,681	
Compensated Absences Change Adjustment				4,620	
				40,301	

Notes are an integral part of the basic financial statements.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
PERHAM, MINNESOTA
GOVERNMENTAL FUNDS - COMBINING
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2010**

	General Fund	Building Fund	Total Governmental Funds
Revenues			
Intergovernmental			
County	\$ 121,176	\$ -	\$ 121,176
State Grant	105,059	-	105,059
Total intergovernmental	<u>\$ 226,235</u>	<u>\$ -</u>	<u>\$ 226,235</u>
Charges for services	<u>\$ 211,281</u>	<u>\$ -</u>	<u>\$ 211,281</u>
Miscellaneous			
Interest earnings	\$ 7,385	\$ -	\$ 7,385
Rental Income	-	45,348	45,348
Other	37,052	-	37,052
Total miscellaneous	<u>\$ 44,437</u>	<u>\$ 45,348</u>	<u>\$ 89,785</u>
Total Revenues	<u>\$ 481,953</u>	<u>\$ 45,348</u>	<u>\$ 527,301</u>
Expenditures			
District operations			
Personnel services	\$ 233,910	\$ -	\$ 233,910
Other services and charges	18,552	29,798	48,350
Supplies	9,204	-	9,204
Debt Service, Principal	-	12,184	12,184
Debt Service, Interest	-	10,013	10,013
Total district operations	<u>\$ 261,666</u>	<u>\$ 51,995</u>	<u>\$ 313,661</u>
Project expenditures			
District	\$ 148,188	\$ -	\$ 148,188
State	66,008	-	66,008
Total project expenditures	<u>\$ 214,196</u>	<u>\$ -</u>	<u>\$ 214,196</u>
Total Expenditures	<u>\$ 475,862</u>	<u>\$ 51,995</u>	<u>\$ 527,857</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ 6,091</u>	<u>\$ (6,647)</u>	<u>\$ (556)</u>
Other Financing Sources (Uses)			
Transfer IN, (Out)	(10,000)	10,000	-
Total Other Financing Sources (Uses)	<u>\$ (10,000)</u>	<u>\$ 10,000</u>	<u>\$ -</u>
Fund Balance - January 1	<u>\$ 370,438</u>	<u>\$ 12,346</u>	<u>\$ 382,784</u>
Fund Balance - December 31	<u><u>\$ 366,529</u></u>	<u><u>\$ 15,699</u></u>	<u><u>\$ 382,228</u></u>

Notes are an integral part of the basic financial statements.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
PERHAM, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
Revenues			
Intergovernmental			
County	\$ 124,390	\$ 121,176	\$ (3,214)
State Grant	90,515	105,059	14,544
Federal Grant	10,000	-	(10,000)
Total intergovernmental	<u>\$ 224,905</u>	<u>\$ 226,235</u>	<u>\$ 1,330</u>
Charges for services	<u>\$ 173,600</u>	<u>\$ 211,281</u>	<u>\$ 37,681</u>
Miscellaneous			
Interest earnings	\$ 9,000	\$ 7,385	\$ (1,615)
Other	14,500	37,052	22,552
Total miscellaneous	<u>\$ 23,500</u>	<u>\$ 44,437</u>	<u>\$ 20,937</u>
Total Revenues	<u>\$ 422,005</u>	<u>\$ 481,953</u>	<u>\$ 59,948</u>
Expenditures			
District operations			
Personnel services	\$ 233,522	\$ 233,910	\$ (388)
Other services and charges	49,550	18,552	30,998
Supplies	3,250	9,204	(5,954)
Capital outlay	6,000	-	6,000
Total district operations	<u>\$ 292,322</u>	<u>\$ 261,666</u>	<u>\$ 30,656</u>
Project expenditures			
District	\$ 93,100	\$ 148,188	\$ (55,088)
State	37,155	66,008	(28,853)
Total project expenditures	<u>\$ 130,255</u>	<u>\$ 214,196</u>	<u>\$ (83,941)</u>
Total Expenditures	<u>\$ 422,577</u>	<u>\$ 475,862</u>	<u>\$ (53,285)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (572)</u>	<u>\$ 6,091</u>	<u>\$ 6,663</u>
Other Financing Sources (Uses)			
Transfer IN, (Out)	<u>(10,000)</u>	<u>(10,000)</u>	<u>\$ -</u>
Total Other Financing Sources (Uses)	<u>\$ (10,000)</u>	<u>\$ (10,000)</u>	<u>\$ -</u>
Fund Balance - January 1	<u>\$ 370,438</u>	<u>\$ 370,438</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 359,866</u></u>	<u><u>\$ 366,529</u></u>	<u><u>\$ 6,663</u></u>

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
PERHAM, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
BUILDING FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
Revenues			
Rental Income	\$ 45,348	\$ 45,348	\$ -
Other	-	-	-
Total Revenues	45,348	45,348	-
Expenditures			
Other Services and Charges			
Insurance	900	886	14
Maintenance	16,451	12,808	3,643
Supplies	700	671	29
Office Supplies	100	106	(6)
Utilities	15,000	15,327	(327)
Debt Service, Principal Paid	12,184	12,184	-
Debt Service, Interest Paid	10,013	10,013	-
Total Expenditures	55,348	51,995	3,353
Other Financing Sources (Uses)			
Transfer IN, General Fund	10,000	10,000	
Total Other Financing Sources	10,000	10,000	-
Excess of Revenues Over (Under) Expenditures	-	3,353	(3,353)
Fund Balance - January 1	12,346	12,346	-
Fund Balance - December 31	\$ 12,346	\$ 15,699	\$ (3,353)

Notes are an integral part of the basic financial statements.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010**

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The East Otter Tail Soil and Water Conservation District is organized under the 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 damage to wetlands and wildlife habitats.

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

Each fiscal year the District develops a work plan 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 East Otter Tail County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the district.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Financial Statements

The government-wide financial statements (ie., the Statement of Net Assets and The Statement of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

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

Fund Financial Statements

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

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 District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues 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 its applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the Cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange 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

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 reported amounts of revenues and expenditures during the reporting period. 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 deposits, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Capital assets are reported on a net (depreciated) basis. General capital assets are still valued at historical or estimated historical cost.

Liabilities

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

Equity

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

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010**

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 3.33 to 13.33 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 160 hours and the limit on sick leave is 160 hours. Upon termination of employment from the district, employees are paid accumulated annual leave.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Insurance Trust. The District retains risk for the deductible portion 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. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 2 – Detailed Notes

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	Beginning	Addition	Deletion	Ending
Building	\$375,893	\$ 0	\$ 0	\$375,893
Equipment	221,217	0	0	221,217
Less: Accumulated Depreciation	<u>200,869</u>	35,681	0	<u>236,550</u>
Net Capital Assets	<u>\$396,241</u>			<u>\$360,560</u>

The cost of the building property plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. The useful life of the building is 30 years and the lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years. Current year depreciation is \$35,681.

Deferred Revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. See attached schedule.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2010 are:

Balance January 1, 2010	\$22,280
Net Change in Compensated Absences	<u>4,620</u>
Balance December 31, 2010	<u>\$26,900</u>

Long-Term Liabilities – Building Loan

The original amount of the building loan was \$231,000. The loan is secured by a mortgage of the District's Office Building. The loan is for 15 years at 5.1%. Annual principal and interest payments are \$22,197. Final payment on the loan will be made in 2022.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010**

Required payments on the building long-term debt are as follows:

Due in Year Ending <u>December 31</u>	Total <u>Principal</u>
2011	12,796
2012	13,464
2013	14,167
2014	14,906
2015	15,685
Thereafter	<u>113,674</u>
Total	<u>\$184,692</u>

Deposits

Minn. Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk Deposits

At December 31, 2010, the District's deposits totaled \$516,991 of which \$121,588 were cash deposits and \$395,403 was invested in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2010, the District's deposits were not exposed to custodial credit risk.

Note 3 - Defined Benefit Pension Plans – Statewide

Plan Description - Public Employees Retirement Association

The district contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

Funding Policy

Minnesota 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 plans equal to the amount required by state statutes. Coordinated Plan members were required to contribute 6.0% of their annual covered salary. The District is required to contribute 7.0% of annual covered payroll. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$11,801, \$11,448, and \$10,363 respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**EAST OTTER TAIL SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010**

Note 4 – Office Building

The District owns its office building, which is accounted for in the general fund. In 2010, \$10,000 was transferred from the general fund to the building fund to cover the district's share of operating expenses and debt service requirements.

Note 5 - Stewardship, Compliance, and Accountability

Excess of expenditures over budget - The general fund had expenditures in excess of budget for the year as follows: Expenditures \$475,862; Budget \$422,577; Excess \$53,285.

Note 6– Reconciliation of Fund Balance to Net Assets

Governmental Fund Balance, January 1	\$382,784
Plus: Excess of Revenue Over Expenditures	<u>(556)</u>
Governmental Fund Balance, December 31	<u>\$382,228</u>
Adjustments from Fund Balance to Net Assets:	
Add: Capital Assets, net of depreciation	\$360,560
Less: Long Term Liabilities	<u>211,592</u>
Net Assets	<u>\$531,196</u>

Note 7 – Reconciliation of Change in Fund Balance to Change in Net Assets

Change in fund balance	(\$ 556)
The cost of capital assets are allocated over the capital asset's useful lives at the government-wide level.	(35,681)
Principal payment on building loan	12,184
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.	<u>(4,620)</u>
Net change in net assets	<u>(\$28,673)</u>

