

**NORTH FORK CROW RIVER
WATERSHED DISTRICT
Brooten, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

NORTH FORK CROW RIVER WATERSHED DISTRICT

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NORTH FORK CROW RIVER WATERSHED DISTRICT

**BOARD OF MANAGERS
December 31, 2011**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
James Wuertz	President	May 9, 2013
Robert Brauchler	Vice President	May 5, 2013
Joseph Borgerding	Secretary	May 9, 2012
James Barchenger	Treasurer	June 1, 2012
Gary Berndt	Manager	May 9, 2014



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INDEPENDENT AUDITOR'S REPORT

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of December 31, 2011, and the respective changes in financial position, thereof, and the respective budgetary comparison for the Administrative Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2012, on our consideration of the District's internal control over financial reporting and 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.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 1, 2012

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NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

As management of North Fork Crow River Watershed District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$ 998,086 (net assets). Of this amount, \$ 318,359 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the District's fund designations and fiscal policies.
- The District's total net assets decreased by \$ 12,595.
- As of the close of the current year, the District's governmental funds reported combined ending fund balance of \$ 983,717 compared to \$ 1,019,613 in the previous year.
- At the end of the current year the survey and data acquisition fund balance was \$ 23,945, of which all was restricted.
- The District had debt outstanding of \$ 730,984 at the end of the current year, compared to \$ 767,533 the previous year.
- Septic Certification Project: A Septic Inspector was hired by Stearns County through a joint powers agreement with the District. Joint powers agreements were agreed to by Kandiyohi, Meeker and Pope Counties for the same inspector to inspect the septic systems in those counties. Individual Counties were responsible for enforcement of non-compliant systems. This Project was funded by a five year \$ 50,000 ad valorem levy. The District paid Stearns County \$ 50,000 per year for the service of the Septic Inspector. The Project was completed in 2011. The Project results were: 1,529 inspections completed with 74.1% being compliant systems and 25.9% being non-compliant systems.
- State Revolving Funds (SRF): SRF loans of \$ 81,008 were received in 2011 and \$ 121,066 of SRF loans were paid off.
- Rice Lake Total Maximum Daily Load (TMDL) Grant: The District received a \$ 138,871 grant from Minnesota Pollution Control Agency (MPCA) to do a TMDL study on Rice Lake. Rice Lake has been declared an impaired lake. The District hired Wenck Engineering to lead the TMDL study. The study started in 2009 and ended in 2011. In 2011, \$ 29,795 of the grant money was used.
- BWSR JD1 Culvert Study Grant: The District received a 2010 Clean Water Fund Conservation Drainage Grant for \$ 33,000 from the Minnesota Board of Water and Soil Resources (BWSR) to support the preparation of a flood damage reduction master plan for the Judicial Ditch #1 watershed. The District requested the services of Houston Engineering, Inc. to carry out a study to find solutions which would reduce flooding problems in the Judicial Ditch #1 watershed, as well as downstream along the North Fork Crow River. In 2011, \$ 9,452 of grant funds, \$ 3,977 of in-kind cash and \$ 1,776 of in-kind labor was used. The project will be completed in 2012.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

FINANCIAL HIGHLIGHTS

- **BWSR Lake Protection Water Plan Challenge Grant:** A 2011 Challenge Grant was awarded to the District to gather data, assess the water quality trends and identify loading sources for Lake Koronis. RMB Environmental Laboratories, Inc. was contracted to perform the work and produce a report summarizing the results. In 2011, \$ 250 of grant funds and \$ 250 of District in-kind funds were used.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the District's near-term financial decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual major governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the Administrative Fund, Survey and Data Acquisition Fund and the Special Projects Fund, which are considered to be major funds.

The District adopts an annual appropriated budget for its Administrative Fund.

A budgetary comparison statement has been provided for this Fund to demonstrate compliance with this budget.

Notes to the Financial Statements

The Notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 998,086 at the close of the most recent year.

A portion of the District's net assets, \$ 39,323, reflects its investment in capital assets (building and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. There is no debt related to these assets.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets (Continued)

Following is a comparison of current and previous year net assets.

	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 1,747,948	\$1,752,470
Capital Assets	<u>39,323</u>	<u>49,933</u>
Total Assets	<u>\$ 1,787,271</u>	<u>\$ 1,802,403</u>
Long-Term Liabilities	\$ 607,484	\$ 646,467
Other Liabilities	<u>181,701</u>	<u>145,255</u>
Total Liabilities	<u>\$ 789,185</u>	<u>\$ 791,722</u>
NET ASSETS:		
Invested in Capital Assets	\$ 39,323	\$ 49,933
Restricted	640,404	675,024
Unrestricted	<u>318,359</u>	<u>285,724</u>
Total Net Assets	<u>\$ 998,086</u>	<u>\$ 1,010,681</u>

At the end of the current year, the District is able to report positive balances in net assets.

Changes in Net Assets

Governmental activities resulted in a decrease of the District's net assets by \$ 12,595. The details of the decrease are as listed on the following page.

NORTH FORK CROW RIVER WATERSHED DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in Net Assets (Continued)

	<u>2011</u>	<u>2010</u>
REVENUES:		
Program Revenues:		
Charges for Services	\$ 226,697	\$ 490,634
Operating Grants and Contributions	39,830	59,322
Capital Grants and Contributions	-	-
General Revenues:		
Property Taxes	291,164	261,172
State Aids	23,176	-
Investments Earnings	13,484	14,550
Miscellaneous Other	2,663	3,057
Gain on Sale of Capital Assets	3,625	-
Total Revenues	<u>600,639</u>	<u>828,735</u>
EXPENSES:		
General	271,877	296,651
Projects	323,179	289,530
Interest on Long-Term Debt	18,178	16,883
Total Expenses	<u>613,234</u>	<u>603,064</u>
Changes in Net Assets	<u>(12,595)</u>	<u>225,671</u>
Net Assets, Beginning	<u>1,010,681</u>	<u>785,010</u>
Net Assets, Ending	<u>\$ 998,086</u>	<u>\$ 1,010,681</u>

GOVERNMENTAL FUND FINANCIAL ANALYSIS

The focus of the District's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unrestricted fund balance may serve as useful measure of a government's net resources available for spending at the end of the year.

The Administrative Fund balance increased by \$ 33,884 in 2011.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

BUDGETARY HIGHLIGHTS

Administrative Fund

The Administrative Fund revenues of \$ 288,349 exceeded budgeted revenues of \$ 273,900 due to additional market value credits received, which were not budgeted for.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2011 amounts to \$ 125,131. This investment in capital assets is in building and equipment. Accumulated depreciation was \$ 85,808 with current depreciation charges of \$ 17,295. Additional information on the District's capital assets can be found in Note 4 of the financial statements.

**The District's Capital Assets
(Net of Depreciation)**

December 31, 2011

Building and equipment

\$ 39,323

Long-Term Debt

At the end of the current year, the District had long-term debt outstanding of \$ 730,984, a decrease of \$ 36,549 from 2010. Of this debt, \$ 123,500 is payable within one year and all of it is from state revolving funds. Additional information on the District's long-term debt can be found in Note 6 of the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

North Fork Crow River Watershed District
P.O. Box 40
Brooten, Minnesota 56316

BASIC FINANCIAL STATEMENTS

NORTH FORK CROW RIVER WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 995,195
Property Taxes Receivable	17,300
Special Assessments Receivable	715,522
Due from Other Governments	11,785
Inventories	1,115
Prepaid Items	7,031
Capital Assets:	
Buildings	44,746
Equipment	73,524
Vehicles	6,861
Less Accumulated Depreciation	<u>(85,808)</u>
 Total Assets	 <u><u>\$ 1,787,271</u></u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts Payable	\$ 28,786
Accrued Wages Payable	2,802
Interest Payable	455
Unearned Revenue	20,448
Loans Payable:	
Payable Within One Year	123,500
Payable After One Year	607,484
Compensated Absences Payable:	
Payable Within One Year	<u>5,710</u>
Total Liabilities	<u>789,185</u>
Net Assets	
Invested in Capital Assets	39,323
Restricted for Special Projects	640,404
Unrestricted	<u>318,359</u>
Total Net Assets	<u>998,086</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,787,271</u></u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
General Government	\$ 271,877	\$ -	\$ 10,035	\$ -	\$ (261,842)
Special Projects	323,179	226,697	29,795	-	(66,687)
Interest on Long-Term Debt	18,178	-	-	-	(18,178)
Total Governmental Activities	\$ 613,234	\$ 226,697	\$ 39,830	\$ -	(346,707)
General Revenues					
					291,164
					23,176
					2,663
					13,484
					3,625
					334,112
					(12,595)
					1,010,681
					\$ 998,086

☞ The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011**

	Administrative (100)	Special Revenue Survey and Data Acquisition (200)	Capital Projects Special Projects	Total Governmental Funds
ASSETS				
Cash	\$ 443,269	\$ 12,307	\$ 539,619	\$ 995,195
Taxes Receivable:				
Current	7,534	-	1,471	9,005
Delinquent	6,862	-	1,433	8,295
Special Assessments Receivable:				
Current	-	-	11,622	11,622
Delinquent	-	-	12,032	12,032
Deferred	-	-	691,868	691,868
Due From Other Governments	-	-	11,785	11,785
Due From Other Funds	296,863	11,638	102,595	411,096
Prepaid Items	1,115	-	-	1,115
Inventory	7,031	-	-	7,031
	<u>\$ 762,674</u>	<u>\$ 23,945</u>	<u>\$ 1,372,425</u>	<u>\$ 2,159,044</u>
Total Assets				
	<u>\$ 762,674</u>	<u>\$ 23,945</u>	<u>\$ 1,372,425</u>	<u>\$ 2,159,044</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 6,189	\$ -	\$ 22,597	\$ 28,786
Accrued Wages Payable	2,802	-	-	2,802
Due to Other Funds	114,233	-	296,863	411,096
Deferred Revenue	27,310	-	705,333	732,643
Total Liabilities	<u>150,534</u>	<u>-</u>	<u>1,024,793</u>	<u>1,175,327</u>
Fund Balances				
Nonspendable	8,146	-	-	8,146
Restricted	-	23,945	642,565	666,510
Unassigned	603,994	-	(294,933)	309,061
Total Fund Balances	<u>612,140</u>	<u>23,945</u>	<u>347,632</u>	<u>983,717</u>
Total Liabilities and Fund Balances	<u>\$ 762,674</u>	<u>\$ 23,945</u>	<u>\$ 1,372,425</u>	<u>\$ 2,159,044</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2011

Total Fund Balances - Governmental Funds	\$ 983,717
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	125,131
Less Accumulated Depreciation	(85,808)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Loans Payable	(730,984)
Compensated Absences Payable	(5,710)
Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.	
Property Taxes	8,295
Special Assessments	703,900
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.	(455)
Total Net Assets - Governmental Activities	\$ 998,086

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011**

	Administrative (100)	Special Revenue Survey and Data Acquisition (200)	Capital Projects Special Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 245,477	\$ -	\$ 47,486	\$ 292,963
Special Assessments	-	-	224,990	224,990
Intergovernmental	32,878	-	29,795	62,673
Miscellaneous:				
Investment Income	7,510	162	5,812	13,484
Other	2,484	-	512	2,996
Total Revenues	<u>288,349</u>	<u>162</u>	<u>308,595</u>	<u>597,106</u>
EXPENDITURES				
Current				
General Government	258,090	-	-	258,090
Projects	-	6,751	316,428	323,179
Debt Service				
Principal	-	-	121,066	121,066
Interest and Fiscal Charges	-	-	15,300	15,300
Total Expenditures	<u>258,090</u>	<u>6,751</u>	<u>452,794</u>	<u>717,635</u>
Excess of Revenues Over (Under) Expenditures	30,259	(6,589)	(144,199)	(120,529)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	3,625	-	-	3,625
Loan Proceeds	-	-	81,008	81,008
Transfers In	-	-	200	200
Transfers Out	-	-	(200)	(200)
Total Other Financing Sources (Uses)	<u>3,625</u>	<u>-</u>	<u>81,008</u>	<u>84,633</u>
Net Change in Fund Balances	33,884	(6,589)	(63,191)	(35,896)
FUND BALANCES				
Beginning of Year	<u>578,256</u>	<u>30,534</u>	<u>410,823</u>	<u>1,019,613</u>
End of Year	<u>\$ 612,140</u>	<u>\$ 23,945</u>	<u>\$ 347,632</u>	<u>\$ 983,717</u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (35,896)

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

Capital outlays are reported in governmental funds as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over the estimated
useful lives as depreciation expense.

Capital Outlays	8,056
Depreciation Expense	(17,295)
Loss on Disposal of Capital Assets	(1,371)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (3,177)

Principal payments on long-term debt are recognized as expenditures in the
governmental funds but as an increase in the net assets in the Statement of Activities. 117,557

Interest on long-term debt in the Statement of Activities differs from the amount
reported in the governmental funds because interest is recognized as an expenditure
in the funds when it is due and thus requires use of current financial resources. In
the Statement of Activities, however, interest expense is recognized as the interest
accrues, regardless of when it is due. 631

Proceeds and other additions to long-term debt are recognized as revenue in the
governmental funds but as a decrease in net assets in the Statement of Activities.
Loan Proceeds (81,008)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds.
Taxes and Special Assessments Deferred and Delinquent (92)

Change in Net Assets - Governmental Activities \$ (12,595)

NORTH FORK CROW RIVER WATERSHED DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - ADMINISTRATIVE FUND
For the Year Ended December 31, 2011**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Property Taxes	\$ 258,900	\$ 245,477	\$ (13,423)
Intergovernmental	-	32,878	32,878
Miscellaneous:			
Investment Income	15,000	7,510	(7,490)
Other	-	2,484	2,484
Total Revenues	<u>273,900</u>	<u>288,349</u>	<u>14,449</u>
EXPENDITURES			
Current			
General Government:			
Employee Expenses	168,020	153,953	(14,067)
Managers and Administrative	15,900	10,009	(5,891)
Maintenance and Repair	-	6,272	6,272
Mileage and Expenses	-	5,561	5,561
Professional Fees	34,900	32,250	(2,650)
Office Expenses	24,500	16,951	(7,549)
Public and Professional Education	6,000	8,173	2,173
Other	6,800	24,921	18,121
Capital Outlay			
General Government:			
Office Expenses	1,500	-	(1,500)
Total Expenditures	<u>257,620</u>	<u>258,090</u>	<u>470</u>
Excess of Revenues Over Expenditures	16,280	30,259	13,979
OTHER FINANCING SOURCE			
Proceeds from Sale of Capital Assets	-	3,625	3,625
Net Change in Fund Balances	<u>\$ 16,280</u>	33,884	<u>\$ 17,604</u>
FUND BALANCES			
Beginning of Year		<u>578,256</u>	
End of Year		<u>\$ 612,140</u>	

The Notes to the Financial Statements are an integral part of this statement.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Fork Crow River Watershed District (the “District”) is a watershed district created under the provisions of *Minnesota Statutes*. The District is governed by five managers appointed by Stearns, Kandiyohi, Meeker and Pope Counties’ Boards of Commissioners for three year terms. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The financial statements present the District and its component units. The District includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

Blended Component Units – Reported as if they were part of the District.

Joint Ventures and Jointly Governed Organizations – The relationship of the District with the entity is disclosed.

Related Organization – The relationship of the District with the entity is disclosed.

As a result of applying the component unit definition criteria above, we have not identified any organizations that are considered to be component units of the District.

B. Government-Wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements (Continued)

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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 revenues to be available if they are collected within 60 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.

Property taxes, intergovernmental revenues and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Description of Funds:

Major Governmental Funds:

Administrative Fund – This Fund is the District’s primary operating fund. It accounts for all financial resources of the general District, except those required to be accounted for in another fund.

Survey and Data Acquisition Special Revenue Fund – This Fund accounts for costs of performing surveys and acquiring data. The Fund is financed by an ad valorem levy, which can be levied once every five years.

Special Projects Capital Projects Fund – This Fund accounts for the maintenance and repair of any water course or water body lying wholly or partially within the District.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported in the various functions.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The District's cash and investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, and repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

The District did not have formal policies in place as of December 31, 2011 to address custodial credit risk for deposits. The District also did not have policies in place to address credit risk, concentration of credit risk, interest rate risk and custodial credit risk for investments.

At December 31, 2011, cash and investments were comprised of deposits, including savings accounts at a commercial bank.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to those in the top two ratings issued by nationally recognized statistical rating organizations.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer.

Interest Rate Risk: This is the risk that market values of a security in a portfolio would decrease due to changes in market interest rates.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

2. Property Tax Collection Calendar

The District levies its property tax for the subsequent year during the month of August. December 28 is the last day the District can certify a tax levy to the County Auditors for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. The property tax is recorded as revenue when it becomes measurable and available. Stearns, Kandiyohi, Meeker and Pope Counties are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditors prepare the tax list for all taxable property in the District, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the District.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

3. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of projects in accordance with *Minnesota Statutes*. These assessments are collectible by the District over a term of years usually consistent with the term of the related note payable. Collection of annual installments (including interest) is handled by the County Auditors in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

3. Special Assessment Revenue Recognition (Continued)

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the Board of Managers or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are allocated first to the County's costs of administering all tax forfeit properties. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

a. Government-Wide Financial Statements

The District recognizes special assessment revenue in the period the assessment roll was adopted by the Board of Managers. Uncollectible special assessments are not material and have not been reported.

b. Governmental Fund Financial Statements

Revenue from special assessments is recognized by the District when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the District are recognized as revenue for the current year. Special assessments that are collected by the Counties by December 31 and remitted to the District within 60 days of December 31 are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues.

4. Inventories and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories of materials and supplies are maintained for District use and occasional sale at cost to other governmental units. Inventories are valued at cost which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

5. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-40
Other Improvements and Infrastructure	20-40
Vehicles, Machinery and Equipment	7-12

6. Compensated Absences

Full-time permanent employees earn paid time off (PTO) at a rate based on their years of service. The District compensates employees who resign or retire for unused PTO.

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities fund type Statement of Net Assets.

In the fund financial statements, governmental fund types recognize issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

8. Fund Equity (Continued)

a. Classification (Continued)

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision making authority, which is the Board of Managers, and that remain binding unless removed by subsequent formal action of the Board of Managers.
- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the Administrative Fund, that are not classified as nonspendable, restricted or committed. Assignments are made by the District's Administrator based on the Board of Manager's direction.
- Unassigned Fund Balance – These are residual amounts in the Administrative Fund not reported in any other classification. The Administrative Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources and use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; committed, assigned and unassigned.

b. Minimum Fund Balance

At December 31, 2011, the District did not have a formally approved target fund balance.

9. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

10. Use of Estimates

The preparation of financial statements in conformity with U.S. 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

11. State Revolving Funds

State revolving funds is money received through clean water partnership as a loan to individuals participating in land and septic improvements that affect water quality. Landowners whose applications are approved by the Board of Managers are eligible for loans not to exceed the actual cost of the project. Loans are repaid through special assessments.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, the District submits to the Board of Managers, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. A budget for the Administrative Fund is adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are not adopted for Special Revenue Funds. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
4. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without Board of Manager's approval. The Board of Managers may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
5. Budgeted amounts are as originally adopted or as amended by the Board of Managers. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Disbursements in Excess of Appropriations

	<u>Disbursements</u>	<u>Appropriations</u>	<u>Excess</u>
Administrative	\$ 258,090	\$ 257,620	\$ 470

C. Deficit Fund Balances

The Funds listed below had negative fund balances at December 31, 2011.

Special Projects Funds:

Judicial Ditch No. 1	\$ 29,926
Judicial Ditch No. 2	18,956
County Ditch No. 5	95,569
County Ditch No. 21	22,914
County Ditch No. 36	1,731
County Ditch No. 37	70,399
County Ditch No. 38	4,038
Meeker County Ditch No. 4	44,750
Meeker County Ditch No. 40	4,094
Meeker County Ditch No. 43	2,049
Grove Lake	507

The District has implemented plans to eliminate these deficits by future grants, loans and special assessments.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk: As of December 31, 2011, 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 financial institution's trust department or agent and in the District's name.

Total deposits at December 31, 2011 were as follows:

Checking	\$ 13,878
Savings	<u>981,317</u>
Total Deposits	<u><u>\$ 995,195</u></u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

Deposits are presented in the December 31, 2011 basic financial statements as follows:

Statement of Net Assets	<u><u>\$ 995,195</u></u>
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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the period ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets being Depreciated:				
Buildings	\$ 44,746	\$ -	\$ -	\$ 44,746
Equipment	65,468	8,056	-	73,524
Vehicles	11,920	-	5,059	6,861
Total Capital Assets being Depreciated	122,134	8,056	5,059	125,131
Less Accumulated Depreciation for:				
Buildings	15,276	1,118	-	16,394
Equipment	46,798	15,755	-	62,553
Vehicles	10,127	422	3,688	6,861
Total Accumulated Depreciation	72,201	17,295	3,688	85,808
Governmental Activities, Capital Assets, Net	<u>\$ 49,933</u>	<u>\$ (9,239)</u>	<u>\$ 1,371</u>	<u>\$ 39,323</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
General Government	<u><u>\$ 17,295</u></u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Due to/from Other Funds

The composition of interfund balances as of December 31, 2011 was as follows:

	Amounts Due to Other Funds		Total
	Administrative	Special Projects	
Amounts Due from Other Funds:			
Administrative	\$ -	\$ 296,863	\$ 296,863
Survey and Data Acquisition	11,638	-	11,638
Special Projects	102,595	-	102,595
Total	\$ 114,233	\$ 296,863	\$ 411,096

The amounts due to the Administrative Fund, Survey and Data Acquisition Fund and Special Projects Fund represent accruals to account for short-term borrowing for cash flow purposes.

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2011 was as follows:

	Transfers In
	Special Projects
Transfers Out:	
Special Projects	\$ 200

The above transfers were made to establish new funds.

NOTE 6 – LONG-TERM DEBT

A. Loans Payable

The District enters into loan agreements with the State of Minnesota to provide financing for tax increment projects and improvements. Debt service is covered respectively by special assessments against benefited properties with any shortfalls being paid from general taxes.

These loans generally are issued with a 10 to 15 year term with equal debt service payments each year.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities						
State of Minnesota Project						
Loans Payable:						
SRF0139 - Water Quality Improvement Continuation	12/28/04	2%	\$ 431,283	12/15/18	\$ 310,784	\$ 41,792
SRF170-05 - Rice Lake and Koronis Lake Restoration Continuation	05/15/00	2%	500,000	12/15/13	106,972	52,954
SRF0044 - Water Quality Improvement Project	03/31/01	2%	276,777	06/15/15	103,195	28,754
SRF0218 - North Fork Crow Septic System/ Feedlot Upgrades	03/19/10	2%	750,000	*	<u>210,033</u>	<u>-</u>
Total State of Minnesota Project Loans Payable:					730,984	123,500
Compensated Absences					<u>5,710</u>	<u>5,710</u>
Total all Long-Term Liabilities					<u>\$ 736,694</u>	<u>\$ 129,210</u>

* The District is still currently drawing down on the balance of this loan. Final payment schedules indicating the final maturity of the loan will not be available until the loan is fully drawn and the State finalizes the loan documentation. The balance of this loan is excluded from the debt service requirements to maturity schedules on the following page.

C. Minimum Debt Payments

Annual debt service requirements to maturity for all outstanding debt are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>State of Minnesota Project Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 123,500	\$ 9,805	\$ 133,305
2013	125,982	7,322	133,304
2014	73,411	5,064	78,475
2015	59,548	3,588	63,136
2016	45,254	2,545	47,799
2017-2018	<u>93,256</u>	<u>2,343</u>	<u>95,599</u>
Total	<u>\$ 520,951</u>	<u>\$ 30,667</u>	<u>\$ 551,618</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 – LONG-TERM DEBT

D. Changes in Long-Term Liabilities

Long-term liability activity for the period ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
State of Minnesota Project					
Loans Payable	\$ 767,533	\$ 84,517	\$ 121,066	\$ 730,984	\$ 123,500
Compensated Absences	2,533	10,020	6,843	5,710	5,710
Total Governmental Activites	<u>\$ 770,066</u>	<u>\$ 94,537</u>	<u>\$ 127,909</u>	<u>\$ 736,694</u>	<u>\$ 129,210</u>

The Administrative Fund typically liquidates the liability related to compensated absences.

NOTE 7 – FUND BALANCE/NET ASSETS

A. Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	<u>Administrative</u>	<u>Survey and Data Acquisition</u>	<u>Special Projects</u>	<u>Total</u>
Nonspendable:				
Prepaid Items	\$ 1,115	\$ -	\$ -	\$ 1,115
Inventory	7,031	-	-	7,031
Restricted:				
Survey and Data Acquisition	-	23,945	-	23,945
Projects	-	-	642,565	642,565
Unassigned	<u>603,994</u>	<u>-</u>	<u>(294,933)</u>	<u>309,061</u>
Total	<u>\$ 612,140</u>	<u>\$ 23,945</u>	<u>\$ 347,632</u>	<u>\$ 983,717</u>

B. Net Assets

Restricted net assets are comprised of the total restricted fund balance in the governmental funds plus the effect of the conversion to the government-wide net assets.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these risks of loss, the District purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state, which is a public entity risk pool currently operating as a common risk management and insurance program. The District pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining, through commercial companies, for excess claims. The District is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The District's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2011 is estimated to be immaterial based on workers' compensation rates and salaries for the period.

At December 31, 2011, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

GERF members belong to either the Coordinated or 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.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

Two methods are used to compute benefits for PERA'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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF 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 Plan 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.

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 yet receiving them 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 GERF. 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 (800) 652-9026.

B. 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. The District was required to contribute the following percentages of annual covered payroll for 2011: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the periods ending December 31, 2011, 2010 and 2009 were \$ 8,191, \$ 10,472 and \$ 6,694, respectively. The District's contributions were equal to the contractually required contributions for each period as set by state statute.

NORTH FORK CROW RIVER WATERSHED DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 1, 2012, the date which the financial statements were available to be issued.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This action resulted in a reclassification of fund balances on the governmental fund statements to correspond with the new fund naming structure required by this Statement.

SUPPLEMENTARY INFORMATION

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2011**

	<u>Judicial Ditch No. 1 (301)</u>	<u>Judicial Ditch No. 2 (302)</u>	<u>County Ditch No. 5 (303)</u>	<u>County Ditch No. 7 (304)</u>
ASSETS				
Cash	\$ 100	\$ 100	\$ 100	\$ 82,353
Property Taxes Receivable:				
Current	-	-	-	-
Delinquent	-	-	-	-
Special Assessments Receivable:				
Current	1,086	789	202	-
Delinquent	697	-	-	-
Deferred	72,771	6,261	42,150	-
Due From Other Governments	-	-	-	-
Due from Other Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 74,654</u>	<u>\$ 7,150</u>	<u>\$ 42,452</u>	<u>\$ 82,353</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ 470	\$ 540	\$ -
Due to Other Funds	31,112	19,375	95,331	122
Deferred Revenue	73,468	6,261	42,150	-
Total Liabilities	<u>104,580</u>	<u>26,106</u>	<u>138,021</u>	<u>122</u>
Fund Balances				
Restricted	-	-	-	82,231
Unassigned	(29,926)	(18,956)	(95,569)	-
Total Fund Balances	<u>(29,926)</u>	<u>(18,956)</u>	<u>(95,569)</u>	<u>82,231</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 74,654</u>	<u>\$ 7,150</u>	<u>\$ 42,452</u>	<u>\$ 82,353</u>

<u>County Ditch No. 21 (305)</u>	<u>County Ditch No. 29 (306)</u>	<u>County Ditch No. 32 (307)</u>	<u>County Ditch No. 36 (308)</u>	<u>County Ditch No. 37 (309)</u>	<u>County Ditch No. 38 (310)</u>	<u>Meeker County Ditch No. 4 (311)</u>
\$ 100	\$ 2,889	\$ 14,281	\$ 100	\$ 100	\$ 100	\$ 100
-	-	-	-	-	-	-
-	-	-	-	-	-	-
47	-	-	-	-	128	8,880
15	63	-	-	-	-	60
19,627	-	-	4,567	49,907	2,566	28,804
-	-	-	-	-	-	-
-	14	-	-	-	-	-
<u>\$ 19,789</u>	<u>\$ 2,966</u>	<u>\$ 14,281</u>	<u>\$ 4,667</u>	<u>\$ 50,007</u>	<u>\$ 2,794</u>	<u>\$ 37,844</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,802
23,061	-	-	1,831	70,499	4,266	43,928
19,642	63	-	4,567	49,907	2,566	28,864
<u>42,703</u>	<u>63</u>	<u>-</u>	<u>6,398</u>	<u>120,406</u>	<u>6,832</u>	<u>82,594</u>
-	2,903	14,281	-	-	-	-
(22,914)	-	-	(1,731)	(70,399)	(4,038)	(44,750)
<u>(22,914)</u>	<u>2,903</u>	<u>14,281</u>	<u>(1,731)</u>	<u>(70,399)</u>	<u>(4,038)</u>	<u>(44,750)</u>
<u>\$ 19,789</u>	<u>\$ 2,966</u>	<u>\$ 14,281</u>	<u>\$ 4,667</u>	<u>\$ 50,007</u>	<u>\$ 2,794</u>	<u>\$ 37,844</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING BALANCE SHEET -
SPECIAL PROJECTS FUNDS
December 31, 2011**

	<u>Meeker County Ditch No. 40 (312)</u>	<u>Meeker County Ditch No. 43 (313)</u>	<u>Septic Cert. (314)</u>	<u>Lake Koronis and Rice Lake (315)</u>
ASSETS				
Cash	\$ 100	\$ 100	\$ 25,332	\$ 197,674
Property Taxes Receivable:				
Current	-	-	1,429	42
Delinquent	-	-	1,259	174
Special Assessments Receivable:				
Current	-	-	-	490
Delinquent	-	-	-	-
Deferred	4,194	2,149	-	50,537
Due From Other Governments	-	-	-	-
Due from Other Funds	-	-	21,687	71,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,294</u>	<u>\$ 2,249</u>	<u>\$ 49,707</u>	<u>\$ 320,640</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	4,194	2,149	-	-
Deferred Revenue	4,194	2,149	1,259	50,711
Total Liabilities	<u>8,388</u>	<u>4,298</u>	<u>1,259</u>	<u>50,711</u>
 Fund Balances				
Restricted	-	-	48,448	269,929
Unassigned	(4,094)	(2,049)	-	-
Total Fund Balances	<u>(4,094)</u>	<u>(2,049)</u>	<u>48,448</u>	<u>269,929</u>
Total Liabilities and Fund Balances	<u>\$ 4,294</u>	<u>\$ 2,249</u>	<u>\$ 49,707</u>	<u>\$ 320,640</u>

Grove Lake (316)	WW/Mid SRF (317)	SRF 0218 (318)	Total Special Projects Funds
\$ 488	\$ 196,042	\$ 19,560	\$ 539,619
-	-	-	1,471
-	-	-	1,433
-	-	-	11,622
-	11,197	-	12,032
-	215,229	193,106	691,868
-	-	11,785	11,785
-	9,171	-	102,595
<u>\$ 488</u>	<u>\$ 431,639</u>	<u>\$ 224,451</u>	<u>\$ 1,372,425</u>
\$ -	\$ -	\$ 11,785	\$ 22,597
995	-	-	296,863
-	226,426	193,106	705,333
<u>995</u>	<u>226,426</u>	<u>204,891</u>	<u>1,024,793</u>
-	205,213	19,560	642,565
(507)	-	-	(294,933)
<u>(507)</u>	<u>205,213</u>	<u>19,560</u>	<u>347,632</u>
<u>\$ 488</u>	<u>\$ 431,639</u>	<u>\$ 224,451</u>	<u>\$ 1,372,425</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SPECIAL PROJECTS FUNDS
For the Year Ended December 31, 2011**

	<u>Judicial Ditch No. 1 (301)</u>	<u>Judicial Ditch No. 2 (302)</u>	<u>County Ditch No. 5 (303)</u>	<u>County Ditch No. 7 (304)</u>
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	45,692	7,265	10,162	-
Intergovernmental	-	-	-	-
Miscellaneous:				
Investment Income	2	1	1	857
Other	412	-	-	-
Total Revenues	<u>46,106</u>	<u>7,266</u>	<u>10,163</u>	<u>857</u>
EXPENDITURES				
Current				
Projects:				
Wages	1,245	300	1,010	90
Managers and Administrative	63	50	100	-
Maintenance and Repair	28,239	14,205	75,820	3,951
Mileage and Expense	320	135	425	32
Professional Fees	698	1,066	10,288	-
Office Expense	38	-	13	-
Data Collection	-	-	-	-
Other	68	3	53	-
Debt Service				
Principal	-	-	-	-
Interest and Fiscal Charges	884	441	963	-
Total Expenditures	<u>31,555</u>	<u>16,200</u>	<u>88,672</u>	<u>4,073</u>
Excess of Revenues Over (Under) Expenditures	14,551	(8,934)	(78,509)	(3,216)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	14,551	(8,934)	(78,509)	(3,216)
FUND BALANCES				
Beginning of Year	<u>(44,477)</u>	<u>(10,022)</u>	<u>(17,060)</u>	<u>85,447</u>
End of Year	<u>\$ (29,926)</u>	<u>\$ (18,956)</u>	<u>\$ (95,569)</u>	<u>\$ 82,231</u>

<u>County Ditch No. 21 (305)</u>	<u>County Ditch No. 29 (306)</u>	<u>County Ditch No. 32 (307)</u>	<u>County Ditch No. 36 (308)</u>	<u>County Ditch No. 37 (309)</u>	<u>County Ditch No. 38 (310)</u>	<u>Meeker County Ditch No. 4 (311)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6,850	36	-	29	12,980	2,816	12,576
-	-	-	-	-	-	-
1	44	153	1	1	1	3
-	-	-	-	-	-	-
<u>6,851</u>	<u>80</u>	<u>153</u>	<u>30</u>	<u>12,981</u>	<u>2,817</u>	<u>12,579</u>
215	90	285	-	-	240	45
-	-	-	-	-	-	-
4,653	320	1,023	450	460	1,369	-
87	-	45	-	-	21	54
-	-	-	-	-	-	13,754
-	-	-	-	-	3	-
-	-	-	-	-	-	-
8	-	-	-	15	66	-
-	-	-	-	-	-	-
52	-	-	99	59	271	293
<u>5,015</u>	<u>410</u>	<u>1,353</u>	<u>549</u>	<u>534</u>	<u>1,970</u>	<u>14,146</u>
1,836	(330)	(1,200)	(519)	12,447	847	(1,567)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(200)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200)</u>
1,836	(330)	(1,200)	(519)	12,447	847	(1,767)
(24,750)	3,233	15,481	(1,212)	(82,846)	(4,885)	(42,983)
<u>\$ (22,914)</u>	<u>\$ 2,903</u>	<u>\$ 14,281</u>	<u>\$ (1,731)</u>	<u>\$ (70,399)</u>	<u>\$ (4,038)</u>	<u>\$ (44,750)</u>

NORTH FORK CROW RIVER WATERSHED DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - SPECIAL PROJECTS FUNDS
For the Year Ended December 31, 2011**

	<u>Meeker County Ditch No. 40 (312)</u>	<u>Meeker County Ditch No. 43 (313)</u>	<u>Septic Cert. (314)</u>	<u>Lake Koronis and Rice Lake (315)</u>
REVENUES				
Property Taxes	\$ -	\$ -	\$ 47,272	\$ 214
Special Assessments	-	-	-	18,315
Intergovernmental	-	-	-	-
Miscellaneous:				
Investment Income	-	-	116	2,773
Other	100	-	-	-
Total Revenues	<u>100</u>	<u>-</u>	<u>47,388</u>	<u>21,302</u>
EXPENDITURES				
Current				
Projects:				
Wages	-	-	-	-
Managers and Administrative	-	-	-	-
Maintenance and Repair	-	-	-	-
Mileage and Expense	33	33	-	14
Professional Fees	698	698	-	-
Office Expense	-	-	-	2
Data Collection	-	-	-	4,456
Other	33	33	37,823	309
Debt Service				
Principal	-	-	-	51,910
Interest and Fiscal Charges	-	-	-	2,919
Total Expenditures	<u>764</u>	<u>764</u>	<u>37,823</u>	<u>59,610</u>
Excess of Revenues Over (Under) Expenditures	(664)	(764)	9,565	(38,308)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	-	-
Transfers In	100	100	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(564)	(664)	9,565	(38,308)
FUND BALANCES				
Beginning of Year	<u>(3,530)</u>	<u>(1,385)</u>	<u>38,883</u>	<u>308,237</u>
End of Year	<u>\$ (4,094)</u>	<u>\$ (2,049)</u>	<u>\$ 48,448</u>	<u>\$ 269,929</u>

Grove Lake (316)	WW/Mid SRF (317)	SRF 0218 (318)	TMDL (319)	Total Special Projects Funds
\$ -	\$ -	\$ -	\$ -	\$ 47,486
5	88,695	19,569	-	224,990
-	-	-	29,795	29,795
5	1,802	51	-	5,812
-	-	-	-	512
<u>10</u>	<u>90,497</u>	<u>19,620</u>	<u>29,795</u>	<u>308,595</u>
-	-	-	-	3,520
-	-	-	-	213
-	-	-	-	130,490
-	-	-	136	1,335
-	-	-	29,659	56,861
-	-	-	-	56
-	-	-	-	4,456
-	18	81,068	-	119,497
-	69,156	-	-	121,066
-	9,319	-	-	15,300
<u>-</u>	<u>78,493</u>	<u>81,068</u>	<u>29,795</u>	<u>452,794</u>
10	12,004	(61,448)	-	(144,199)
-	-	81,008	-	81,008
-	-	-	-	200
-	-	-	-	(200)
<u>-</u>	<u>-</u>	<u>81,008</u>	<u>-</u>	<u>81,008</u>
10	12,004	19,560	-	(63,191)
<u>(517)</u>	<u>193,209</u>	<u>-</u>	<u>-</u>	<u>410,823</u>
<u>\$ (507)</u>	<u>\$ 205,213</u>	<u>\$ 19,560</u>	<u>\$ -</u>	<u>\$ 347,632</u>

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

Honorable President and Managers
of the Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

The management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses on Internal Control, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Findings 10-01, 10-03 and 11-01 to be material weaknesses.



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated June 1, 2012.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Control. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Kern, Dewenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 1, 2012



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REPORT ON LEGAL COMPLIANCE

Honorable President and Managers
of the Watershed Board
North Fork Crow River Watershed District
Brooten, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 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 Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and Tax Increment Financing. Our study included all of the listed categories except tax increment financing.

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

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 1, 2012

NORTH FORK CROW RIVER WATERSHED DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL December 31, 2011

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 10-01 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2011, the District had a lack of segregation of accounting duties due to a limited number of office employees. In order to have appropriate segregation of accounting duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Management's Response:

Solutions to remedy this situation have been explored although; it has been found that it would not be cost effective to hire additional staff to have greater segregation of duties.

Audit Finding 10-03 – Preparation of Financial Statements

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in an organization of your size.

Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response:

Solutions have been considered but it is not cost effective hire additional staff qualified to prepare the financial statements.

NORTH FORK CROW RIVER WATERSHED DISTRICT

**SCHEDULE OF FINDINGS AND RESPONSES ON
INTERNAL CONTROL
December 31, 2011**

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 11-01 – Material Audit Adjustments

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required in the following areas:

- Deferred Revenue and Receivables
- Loan Proceeds and Notes Payable

Management's Response:

Management is aware of the needed audit adjustment, understands the reason for the adjustment and will make adjustments to internal controls to remedy any similar future issues.