SHELL ROCK RIVER
WATERSHED DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2011
# SHELL ROCK RIVER WATERSHED DISTRICT

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</table>
SHELL ROCK RIVER WATERSHED DISTRICT

LIST OF APPOINTED OFFICIALS

December 31, 2011

Board of Managers

Gary Pistorious
Bruce Haugsdal
Clayton Petersen
Art Ludtke
Alan Bakken
Brett Richards
Roger L. Peterson

Chairperson
Vice-Chairperson
Treasurer
Secretary
Manager
Manager
Manager

Administration

Brett Behnke

Administrator
INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the
Shell Rock River Watershed District
Albert Lea, MN 56007

We have audited the accompanying financial statements of the governmental activities and each major fund of the Shell Rock River Watershed District, 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 Shell Rock River Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with standards generally accepted in the United States of America. 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, and each major fund of Shell Rock River Watershed District as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15 to the financial statements, the District implemented Governmental Accounting Standards No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, during the year ended December 31, 2011.

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

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 supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hill, Larson, Walth & Benda, P.A.

Hill, Larson, Walth & Benda, P. A.
August 13, 2012
As management of the Shell Rock River Watershed District, we offer readers of the Shell Rock River Watershed District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements following this section.

Overview of the Financial Statements: The discussion and analysis are intended to serve as an introduction to the Shell Rock River Watershed 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 display information about the Shell Rock River Watershed District taken as a whole.

Over time, an increase or decrease in net assets may serve as a useful indicator of whether the financial position of the Shell Rock River Watershed District is improving or deteriorating.

Fund Financial Statements: The fund financial statements focus on the individual parts of the District. 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. Shell Rock River Watershed District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of Shell Rock River Watershed District are governmental funds.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

Financial Highlights
- Total assets of Shell Rock River Watershed District exceeded its liabilities at the close of the recent fiscal year by $4,646,288 (Net assets).
- The District's total net assets increased by $285,785.
- As of the close of the current fiscal year, Shell Rock River Watershed District’s governmental funds reported combined ending restricted fund balance was $2,645,366. This total amount is restricted through legal restrictions.
- At the end of the current fiscal year the general fund balance of $220,508.
- The District had no debt outstanding at the end of the current fiscal year.

Financial Analysis of the Watershed District
As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. A portion of Shell Rock River Watershed District’s net assets reflects its investment in capital assets less any related debt to acquire those assets that are still outstanding, which at this time there is no debt outstanding. Shell Rock River Watershed District uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Below are some comparisons:
SHELL ROCK RIVER WATERSHED DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

THE DISTRICT’S NET ASSETS-GOVERNMENT WIDE

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>$3,082,032</td>
<td>$2,602,661</td>
</tr>
<tr>
<td>Net capital assets</td>
<td>1,747,221</td>
<td>1,834,440</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>4,829,253</td>
<td>4,437,101</td>
</tr>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>182,965</td>
<td>76,598</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td>$4,646,288</td>
<td>$4,360,503</td>
</tr>
</tbody>
</table>

THE DISTRICT’S CHANGE IN NET ASSETS-GOVERNMENT WIDE

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>227,859</td>
<td>226,962</td>
</tr>
<tr>
<td>Local sales and use tax</td>
<td>1,210,756</td>
<td>1,387,514</td>
</tr>
<tr>
<td>State aid</td>
<td>22,407</td>
<td>51,878</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>1,702</td>
<td>1,891</td>
</tr>
<tr>
<td>Grants</td>
<td>-</td>
<td>756,600</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>5,165</td>
<td>28,867</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
<td>1,467,889</td>
<td>2,451,712</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and administration</td>
<td>252,329</td>
<td>244,056</td>
</tr>
<tr>
<td>Programs</td>
<td>541,406</td>
<td>448,282</td>
</tr>
<tr>
<td>Projects</td>
<td>388,369</td>
<td>442,571</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>1,182,104</td>
<td>1,134,909</td>
</tr>
</tbody>
</table>

| CHANGE IN NET ASSETS   | $285,785  | $1,316,803|

As you can tell by the information above, at the end of 2011 and 2010, the Shell Rock River Watershed District was able to report positive balances in net assets. Furthermore the governmental activities for 2011 resulted in an increase of Shell Rock River Watershed District’s net assets by $285,785.

Budgetary highlights: Shell Rock River Watershed District adopts an annual appropriated budget for its General Fund for Statutory/Management purposes. A budgetary comparison statement has been provided for this fund with no significant variations for the current year. The General Fund exceeded budgeted revenues and had expenditures above the budgeted amounts for the year ended December 31, 2011.

Other Items of Interest: In the fiscal years 2009, 2010 and 2011, the Shell Rock River Watershed District completed the South Industrial Park Flood Mitigation Project, Wedge Creek Restoration Reach 3, Whites Lake Fish Barrier, Wedge Creek Fish Barrier and Fountain Lake Fish Barrier. The fish barriers were funded by the State of Minnesota under the Lessard Outdoor Heritage Bill for $655,000. The District will continue to work towards acquiring funding for the dredging of Fountain Lake. The District will also continue with the district wide cost share program with priority to the tributaries of Fountain Lake. The District has applied for funds from L-SOHIC, for the replacement of the Albert Lea Dam and Goose Lake Fish Barrier. In 2012-2013 the District will work on 2 or 3 others sections of Wedge Creek Restoration. The District purchased 257 acres of the Shell Rock River Headwaters, also funded by the L-SOHIC.
Requests for information: This financial report is designed to provide a general overview of Shell Rock River Watershed 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 the Shell Rock River Watershed District, 411 S. Broadway Ave., Albert Lea, MN 56007.
BASIC FINANCIAL STATEMENTS
SHELL ROCK RIVER WATERSHED DISTRICT

Statement of Net Assets
December 31, 2011
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$ 2,733,628</td>
</tr>
<tr>
<td>Sales tax receivable</td>
<td>304,895</td>
</tr>
<tr>
<td>Property taxes receivable</td>
<td>10,370</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>22,822</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>4,497</td>
</tr>
<tr>
<td>Inventory</td>
<td>5,820</td>
</tr>
<tr>
<td>Capital assets - net of depreciation</td>
<td>1,747,221</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>4,829,253</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>182,965</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>182,965</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>1,747,221</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>2,899,067</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$ 4,646,288</strong></td>
</tr>
</tbody>
</table>

*See accompanying notes to financial statements.*
### SHELL ROCK RIVER WATERSHED DISTRICT

**Statement of Activities**

For the Year Ended December 31, 2011

With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Program Revenues</th>
<th>Net (Expense) Revenue and Changes in Net Assets</th>
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</thead>
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<tr>
<td></td>
<td>Charges Expenses</td>
<td>Operating For Grants and Services Contributions</td>
</tr>
<tr>
<td>General government</td>
<td>$ 252,329</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Programs</td>
<td>541,406</td>
<td>- - - -</td>
</tr>
<tr>
<td>Projects</td>
<td>388,369</td>
<td>- - - -</td>
</tr>
<tr>
<td>Total Government Activities</td>
<td>1,182,104</td>
<td>- - - -</td>
</tr>
<tr>
<td>Total Primary Government</td>
<td>$ 1,182,104</td>
<td>$ - $ - $ -</td>
</tr>
</tbody>
</table>

#### General revenues:

- Property taxes: $227,859
- Local sales and use tax: $1,210,756
- State aid: $22,407
- Unrestricted investment earnings: $1,702
- Grants: $756,600
- Contributions and other: $5,165

**Total General Revenues**: $1,467,889

### Change in Net Assets

- $285,785

### Net Assets - Beginning

- $4,360,503

### Net Assets - Ending

- $4,646,288

*See accompanying notes to financial statements.*
## SHELL ROCK RIVER WATERSHED DISTRICT
### Balance Sheet
#### GOVERNMENTAL FUNDS
December 31, 2011
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th>Assets</th>
<th>General</th>
<th>Planning and Implementation</th>
<th>Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>$ 229,599</td>
<td>$ 2,504,028</td>
<td>$ 2,733,627</td>
</tr>
<tr>
<td>Sales tax receivable</td>
<td>-</td>
<td>304,895</td>
<td>304,895</td>
</tr>
<tr>
<td>Property taxes receivable</td>
<td>10,370</td>
<td>-</td>
<td>10,370</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>-</td>
<td>22,822</td>
<td>22,822</td>
</tr>
<tr>
<td>Inventory</td>
<td>-</td>
<td>5,820</td>
<td>5,820</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>4,497</td>
<td>-</td>
<td>4,497</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 244,466</td>
<td>$ 2,837,565</td>
<td>$ 3,082,031</td>
</tr>
</tbody>
</table>

#### Liabilities and Fund Balances

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>General</th>
<th>Planning and Implementation</th>
<th>Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 13,588</td>
<td>$ 169,377</td>
<td>$ 182,965</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>10,370</td>
<td>22,822</td>
<td>33,192</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>23,958</td>
<td>192,199</td>
<td>216,157</td>
</tr>
</tbody>
</table>

#### Fund Balances

<table>
<thead>
<tr>
<th>Nonspendable</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>-</td>
<td>5,820</td>
<td>5,820</td>
</tr>
<tr>
<td>Restricted for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning and implementaion of watershed activities</td>
<td>-</td>
<td>2,639,546</td>
<td>2,639,546</td>
</tr>
<tr>
<td>Unassigned</td>
<td>220,508</td>
<td>-</td>
<td>220,508</td>
</tr>
<tr>
<td>Total Fund Balances</td>
<td>220,508</td>
<td>2,645,366</td>
<td>2,865,874</td>
</tr>
</tbody>
</table>

| Total Liabilities and Fund Balances | $ 244,466 | $ 2,837,565 | $ 3,082,031 | $ 2,602,661 |

Fund balance reported above:

- $ 2,865,874
- $ 1,853,889

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

- Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds:
  - 1,747,222
  - 1,834,440

- Revenue from accounts receivable that do not provide current financial resources are not reported as revenue in the funds:
  - 22,822
  - 664,063

- Revenue from taxes that do not provide current financial resources are not reported as revenue in the funds:
  - 10,370
  - 8,111

Net assets of governmental activities (page6):

- $ 4,646,288
- $ 4,360,503

See accompanying notes to financial statements.
SHELL ROCK RIVER WATERSHED DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011  
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Planning and Implementation</th>
<th>Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>$ 225,601</td>
<td>$ -</td>
<td>$ 225,601</td>
</tr>
<tr>
<td>State aid</td>
<td>22,407</td>
<td>-</td>
<td>22,407</td>
</tr>
<tr>
<td>Local sales and use tax</td>
<td>-</td>
<td>1,210,757</td>
<td>1,210,757</td>
</tr>
<tr>
<td>Grants</td>
<td>-</td>
<td>641,859</td>
<td>641,859</td>
</tr>
<tr>
<td>Investment income</td>
<td>33</td>
<td>1,669</td>
<td>1,702</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>3,916</td>
<td>630</td>
<td>4,546</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>251,957</td>
<td>1,854,915</td>
<td>2,106,872</td>
</tr>
</tbody>
</table>

Expenditures:  
Current:  
General government 250,884 - 250,884 250,201  
Programs - 504,952 504,952 448,282  
Projects - 312,057 312,057 333,085  
Capital Outlay:  
Projects - 26,994 26,994 21,744  
Total Expenditures 250,884 844,003 1,094,887 1,053,312  
Revenues Over (Under) Expenditures 1,073 1,010,912 1,011,985 734,960  
Other Financing Sources:  
Transfers (to) from other funds - - - -  
Total Other Financing Sources - - - -  
Net Changes in Fund Balances 1,073 1,010,912 1,011,985 734,960  
Fund Balance - January 1 219,435 1,634,454 1,853,889 1,118,929  
Fund Balance - December 31 $ 220,508 $ 2,645,366 $ 2,865,874 $ 1,853,889  

See accompanying notes to financial statements.
Amounts reported for governmental activities in the statement of activities (page 7) are different because:

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net changes in fund balances - total governmental funds (page 9)</td>
<td>$ 1,011,985</td>
<td>$ 734,960</td>
</tr>
<tr>
<td>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation when positive, if negative the depreciation expense exceeded capital outlays in the current year.</td>
<td>(87,219)</td>
<td>(81,597)</td>
</tr>
<tr>
<td>In the funds, receivables that are not available for expenditure are recognized when earned. The adjustment in revenue between the fund statements and the statement of activities is the increase (decrease) in accounts receivable deferred as unavailable.</td>
<td>(641,241)</td>
<td>664,063</td>
</tr>
<tr>
<td>In the funds, receivables that are not available for expenditure are recognized when earned. The adjustment in revenue between the fund statements and the statement of activities is the increase (decrease) in tax revenue deferred as unavailable.</td>
<td>2,260</td>
<td>(623)</td>
</tr>
<tr>
<td>Changes in net assets of governmental activities (page 7)</td>
<td>$ 285,785</td>
<td>$ 1,316,803</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Shell Rock River Watershed District have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The Shell Rock River Watershed District (the District) was originally created on June 25, 2003 by the Minnesota Board of Water and Soil Resources (the Board) as provided in Minnesota Statutes Chapter 103D.

The purpose of the District is to ensure that development, use, control and conservation of the district’s water resources are done in a manner most beneficial to the general welfare of its present and future residents. A seven member Board of Managers originally appointed by the Board operates the District. Currently appointments are made by the Freeborn County Board of Commissioners.

In accordance with Governmental Accounting Standards Board (GASB) pronouncements and generally accepted accounting principles, the financial statements of the reporting entity include the primary government and its component units. Generally, component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Shell Rock River Watershed District (primary government) does not have any component units nor is it a component unit of any other governmental unit.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) display information on all of the nonfiduciary activities of the primary government and its component units. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The District’s net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

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. Taxes and other internally directed revenues are reported instead as general revenues.

D. 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 generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Sales tax, intergovernmental revenues, and interest associated with the current fiscal period are measurable and have been accrued as receivables and also recognized as revenues if they are collected within 75 days of the current fiscal period. Property taxes are recognized as revenue if they are collected within 60 days of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

General Fund – is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue/Planning and Implementation – is established to account for revenue and expenditures related to the preparation and implementation of the Watershed Management Plan.

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 Shell Rock River Watershed District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

E. Budgets

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General Fund. Budgeted expenditure appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the District because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

Legal Compliance

The District prepares annual revenue and expenditure budgets for the District’s General Fund. The District monitors budget performance on the fund basis. The Board through the disbursement approval process has approved all amounts over budget. The cash basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.
SHELL ROCK RIVER WATERSHED DISTRICT  
Notes to Financial Statements (continued)  
December 31, 2011  

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)  

F. Cash and Investments  

Cash and cash equivalents include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.  

Investments are stated at fair value, based upon market prices. Investment income is accrued at the balance sheet date. During the year the district only had a certificate of deposit and no investments.  

G. Property Tax Revenue Recognition  

The Board of Managers annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the District, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes are payable (by property owners) on May 15 and October 15 for each calendar year. These taxes are collected by the County and remitted to the District on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received by the following February. The District has no ability to enforce payment of property taxes by property owners. The County possesses this authority.  

Government-wide financial statements  
The District recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.  

Governmental fund financial statements  
The District recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the District in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the District by the following February) and taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District by February is fully offset by deferred revenue because they are not available to finance current expenditures.  

H. Inventories  

The original cost of rain barrels is shown as inventory. The rain barrels that were purchased by the District are to be resold.  

I. Capital Assets  

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.  

GASB Statement No. 34 requires the District to report and depreciate new infrastructure assets.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets (continued)

Infrastructure assets include lake improvements, dams and drainage systems. The District has elected to implement the general provisions of GASB Statement No. 34.

J. Long-Term Obligations

The District currently has no long-term debt.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

L. Deferred Revenue

All District funds and the governmental activities defer revenue for resources that have been received, but not yet earned. The governmental funds deferred revenue currently consists of taxes receivable, a grant receivable and accounts receivable that are not collected by year-end or soon enough after year-end to pay liabilities of the current period.

M. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

N. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

O. Vacation, Sick Leave and Other Compensated Absences

The District’s liability for vacation, sick leave and other compensated absences were not accrued at December 31, 2011 and were minimal in amount.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are defined as follows:

Nonspendable – This category includes fund balances that cannot be spent because it is either not in spendable form, or is legally or contractually required to be maintained intact. Examples include inventories and pre-paid accounts.

Restricted – Fund balances are reported as restricted when constraints placed on those resources are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the governments highest level of decision making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.

Assigned – Fund balances that are constrained by the government’s intent to use for specified purposes, but are neither restricted or committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes. In the General Fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates authority. The Board has adapted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Finance Director and or District Administrator.

Unassigned – Unassigned fund balance represents the residual classification for the General Fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then 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.

The District has formally adopted a fund balance policy for the General Fund. The District’s policy is to maintain a minimum unassigned fund balance of not less than 30% of the budgeted operating expenditures; however, this need could fluctuate with each year’s budget objectives. In the event the unassigned General fund balance will be calculated to be less than the minimum requirement at the completion of any fiscal year, the District shall plan to adjust budget resources in the subsequent fiscal years to bring the fund balance into compliance with this policy. The Board may consider appropriating year-end fund balances in excess of the policy level or increasing the minimum fund balance. Appropriation from the minimum fund balance shall require the approval of the Board and shall be used for non-recurring expenditures, unforeseen emergencies or immediate capital needs that cannot be accommodated through current year savings.
NOTE 2 – DEPOSITS AND INVESTMENTS

The District’s cash and investments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking</td>
<td>$ 484,012</td>
<td>$ 379,357</td>
</tr>
<tr>
<td>Savings</td>
<td>1,249,616</td>
<td>1,212,997</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>1,000,000</td>
<td>-0-</td>
</tr>
<tr>
<td>Total Cash and Investments</td>
<td>$2,733,628</td>
<td>$1,592,354</td>
</tr>
</tbody>
</table>

A. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits 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.

Balances at December 31, 2011:

<table>
<thead>
<tr>
<th>(1) Insured or collateralized by securities held by the District or its agent in the District's name</th>
<th>Bank Balances</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) Insured or collateralized with securities held by the pledging institution's trust department in the District's name</th>
<th>Bank Balances</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,742,714</td>
<td>2,733,628</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Uncollateralized or collateralized with securities not in the District's name</th>
<th>Bank Balances</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Totals: $2,742,714 $2,733,628

Custodial Credit Risk

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’s policy is to have all accounts collateralized in excess of the FDIC coverage. As of December 31, 2011 the District’s deposits were not exposed to custodial credit risk.
NOTE 2 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Interest Rate Risk
Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District minimizes its exposure to interest rate risk by avoiding long-term investments. Maturity dates are selected to avoid marketing the certificates prior to the actual maturity dates.

Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District’s policy to invest only in certificates of deposit covered by FDIC insurance.

Custodial Credit Risk
The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District’s investment policy is to minimize investment custodial credit risk by purchasing certificates of deposit through banks covered by FDIC insurance and collateralized by Federal securities.

Concentration of Credit Risk
The concentration of credit risk is the risk of the loss that may be caused by the District’s investment in a single issuer. The District has not diversified its investments but is relying on the stability of the U.S. Government. All of the District’s cash and investments are at Wells Fargo Bank.

NOTE 3 – RECEIVABLES AND DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, accounts receivable, a grant receivable and taxes receivable we deferred. No income was received and recorded as deferred because it was unearned.

NOTE 4 – CAPITAL ASSETS

Capital assets are assets which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items). Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight-line method over the estimated useful lives ranging from 3 to 20 years.
SHELL ROCK RIVER WATERSHED DISTRICT
Notes to Financial Statements (continued)
December 31, 2011

NOTE 4 – CAPITAL ASSETS (Continued)

The cost and accumulated depreciation on the capital assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$2,012,283</td>
<td>$1,985,289</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(265,062)</td>
<td>(150,849)</td>
</tr>
<tr>
<td>Net Capital Assets</td>
<td>$1,747,221</td>
<td>$1,916,037</td>
</tr>
</tbody>
</table>

Of the $1,985,289 total capital asset cost, $874,944 was disbursed in 2009 and $0 for 2010 and 2011 for the South Industrial Park Project for purchasing land and for the land improvements. During 2012 or in future years, the District will be finalizing this project and then the land and improvements will be donated by the District to the City. Therefore, during 2009, 2010 and 2011 these improvements were not depreciated.

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the Shell Rock River Watershed District are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

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

Two methods are used to compute benefits for 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.
NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATEWIDE

For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and for 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 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. PECF members are required to contribute 5.83% of their annual covered salary. In 2011, the District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, 14.4% for PEPFF members, and 8.75% for PECF members. The District’s contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were $21,211, $17,945 and $17,944; respectively the District’s contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 6 – RETIREMENT PLAN

The District sponsors a 401(k) plan that covers employees over the age of 21 who have been with the company for one year and work an average of 20 hours per week or more. At this time there are no District contributions to the plan only employee withholdings.
NOTE 7 – CONTINGENCIES

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to help manage these risks.

Workers compensations coverage for District Employees is provided through a traditional policy. The District pays an annual premium to the insurance company. For workers compensation, the District is not subject to a deductible. The premium is adjusted accordingly based on actual payroll figures and the amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Other insurance coverage is provided through a general liability policy. The District retains risk for the deductible portions of the insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance or settlements in excess of insurance coverage in 2011.

B. Litigation

The District’s attorney has indicated that there is no pending litigation in which the District is involved that would have a material effect upon the District’s financial statements.

C. Federal and State Funds

The District receives financial assistance from state governmental agencies in the form of a homestead credit. The disbursement of funds received generally requires compliance with the terms and conditions specified by the agency and are subject to audit by the respective agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2011.
NOTE 8 – COMMITMENTS

The District is liable for the following lease commitments:

Lease of office space and meeting rooms in the Freeborn County Courthouse. The lease ran through December 31, 2011 whereby the lease amount in 2011 is $7,353 per year to be paid semiannually. The space is currently being leased on a monthly basis and can be cancelled with a 60 day notice.

In 2012, the District signed a new lease agreement with Earl and Gayle Neist for new office and garage space. The lease starts on July 15, 2012 and continues 24 months until July 1, 2014. The lease terms call for two semi-annual payments of $3,900 during the lease.

The Watershed district is planning on moving from the courthouse to their new space in 2012.

The following is a schedule by years of minimum future rentals on non-cancelable operating leases as of December 31, 2014:

<table>
<thead>
<tr>
<th>Year</th>
<th>Minimum Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$3,900</td>
</tr>
<tr>
<td>2013</td>
<td>7,800</td>
</tr>
<tr>
<td>2014</td>
<td>3,900</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
</tr>
</tbody>
</table>

NOTE 9 – LOCAL SALES AND USE TAX

During 2005, the citizens of the District and the state legislature approved a local option sales tax of 1/4% with the proceeds going to the Shell Rock River Watershed District. The tax became effective April 1, 2006 and is set to expire ten years from the effective date or when it reaches $15,000,000, whichever comes first.

NOTE 10–RESTRICTION OF FUNDS

At December 31, 2011 the District held unallocated money received from the local sales and use tax as restricted funds to be used for planning and implementation.

NOTE 11–EXCESS OF EXPENDITURES OVER BUDGET

The general fund had expenditures in excess of budget of $834 for the year ended December 31, 2011. These items have been reviewed with management. Comparisons of budget to actual results can be found on page 20 of the Required Supplementary Information.

NOTE 12–ACCOUNTS RECEIVABLE

In 2011, $22,822 is shown as an account receivable for services on the fund financial statements. This amount has not been collected, but is still considered collectible. Since it is still considered collectable the District has not wrote the accounts receivable off, but it is being showed as deferred revenue because the district has not received the payment yet.
NOTE 13– SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 13, 2012 the date the financial statements were available to be issued.

NOTE 14– RELATED PARTY TRANSACTIONS

During the year the District entered into a project with an individual on the board of managers. The individuals land will benefit from the project. All Minnesota legal compliance procedures were followed in the transaction and the project follows the Incentive and cost share program guidelines. The project was approved not to exceed $15,235.

NOTE 15. ACCOUNTING CHANGE

GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions” enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District implemented this standard for fiscal year end December 31, 2011. Changes to governmental fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in note 1.
REQUIRED SUPPLEMENTARY INFORMATION
SHELL ROCK RIVER WATERSHED DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2011
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Budgeted</th>
<th></th>
<th></th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td>Actual</td>
<td>Positive (Negative)</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>$ 250,000</td>
<td>$ 250,000</td>
<td>$ 225,601</td>
<td>$(24,399)</td>
</tr>
<tr>
<td>State aid</td>
<td>-</td>
<td>-</td>
<td>22,407</td>
<td>22,407</td>
</tr>
<tr>
<td>Investment income</td>
<td>50</td>
<td>50</td>
<td>33</td>
<td>(17)</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>-</td>
<td>-</td>
<td>3,916</td>
<td>3,916</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>250,050</td>
<td>250,050</td>
<td>251,957</td>
<td>1,907</td>
</tr>
</tbody>
</table>

Expenditures:

Current:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager per diems and expenses</td>
<td>11,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Salary and benefits</td>
<td>139,490</td>
<td>139,490</td>
</tr>
<tr>
<td>Dues, seminars and travel</td>
<td>25,250</td>
<td>25,250</td>
</tr>
<tr>
<td>Office supplies and other</td>
<td>16,760</td>
<td>16,760</td>
</tr>
<tr>
<td>Equipment</td>
<td>21,350</td>
<td>21,350</td>
</tr>
<tr>
<td>Rent and utilities</td>
<td>9,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Accounting/audit</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Legal</td>
<td>3,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Advertising</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>Insurance</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Professional services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>250,050</td>
<td>250,050</td>
</tr>
</tbody>
</table>

Revenues Over (Under) Expenditures

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -</td>
<td>$ -</td>
<td>$ 1,073</td>
</tr>
</tbody>
</table>

Other Financing Sources:

Transfers to other funds

Total Other Financing Sources

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

Net Changes in Fund Balance

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,073</td>
<td>1,051</td>
<td></td>
</tr>
</tbody>
</table>

Fund Balance - January 1

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>219,435</td>
<td>218,384</td>
<td></td>
</tr>
</tbody>
</table>

Fund Balance - December 31

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 220,508</td>
<td>$ 219,435</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
COMPARATIVE INDIVIDUAL FUND STATEMENTS AND SCHEDULES
SHELL ROCK RIVER WATERSHED DISTRICT  
GENERAL FUND  
Comparative Balance Sheet  
December 31, 2011  
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th>Assets</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>$ 229,599</td>
<td>$ 224,306</td>
</tr>
<tr>
<td>Property taxes receivable</td>
<td>10,370</td>
<td>11,231</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>4,497</td>
<td>2,867</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 244,466</strong></td>
<td><strong>$ 238,404</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Fund Balances</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 13,588</td>
<td>$ 10,858</td>
</tr>
<tr>
<td>Deferred tax revenue</td>
<td>10,370</td>
<td>8,111</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>23,958</strong></td>
<td><strong>18,969</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund Balances</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>220,508</td>
<td>219,435</td>
</tr>
<tr>
<td><strong>Total Fund Balances</strong></td>
<td><strong>220,508</strong></td>
<td><strong>219,435</strong></td>
</tr>
</tbody>
</table>

| Total Liabilities and Fund Balances | $ 244,466 | $ 238,404 |

See accompanying notes to financial statements.
SHELL ROCK RIVER WATERSHED DISTRICT
GENERAL FUND

Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>$ 225,601</td>
<td>$ 227,584</td>
</tr>
<tr>
<td>State aid</td>
<td>22,407</td>
<td>22,972</td>
</tr>
<tr>
<td>Investment income</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>3,916</td>
<td>665</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>251,957</td>
<td>251,252</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager per diems and expenses</td>
<td>6,105</td>
<td>5,940</td>
</tr>
<tr>
<td>Salary and benefits</td>
<td>147,077</td>
<td>139,304</td>
</tr>
<tr>
<td>Dues, seminars and travel</td>
<td>22,610</td>
<td>19,196</td>
</tr>
<tr>
<td>Office supplies and other</td>
<td>7,954</td>
<td>7,805</td>
</tr>
<tr>
<td>Equipment</td>
<td>13,280</td>
<td>6,707</td>
</tr>
<tr>
<td>Rent and utilities</td>
<td>8,353</td>
<td>10,498</td>
</tr>
<tr>
<td>Telephone and internet</td>
<td>8,392</td>
<td>5,053</td>
</tr>
<tr>
<td>Accounting/audit</td>
<td>10,300</td>
<td>10,000</td>
</tr>
<tr>
<td>Legal</td>
<td>5,390</td>
<td>2,368</td>
</tr>
<tr>
<td>Advertising</td>
<td>653</td>
<td>579</td>
</tr>
<tr>
<td>Insurance</td>
<td>14,133</td>
<td>12,550</td>
</tr>
<tr>
<td>Professional services</td>
<td>3,753</td>
<td>22,971</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>2,884</td>
<td>7,230</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>250,884</td>
<td>250,201</td>
</tr>
</tbody>
</table>

| Revenues Over (Under) Expenditures          | 1,073     | 1,051     |

| Other Financing Sources:                    |           |           |
| Transfers (to) from other funds             |           |           |
| Total Other Financing Sources               |           |           |

| Net Changes in Fund Balance                 | 1,073     | 1,051     |

| Fund Balance - January 1                    | 219,435   | 218,384   |

| Fund Balance - December 31                  | $ 220,508 | $ 219,435 |

See accompanying notes to financial statements.
SHELL ROCK RIVER WATERSHED DISTRICT
PLANNING AND IMPLEMENTATION FUND

Comparative Balance Sheet
December 31, 2011
With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$2,504,028</td>
<td>$1,368,048</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>22,822</td>
<td>691,822</td>
</tr>
<tr>
<td>Sales tax receivable</td>
<td>304,895</td>
<td>304,387</td>
</tr>
<tr>
<td>Inventory</td>
<td>5,820</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$2,837,565</td>
<td>$2,364,257</td>
</tr>
</tbody>
</table>

|                                |          |          |
| **Liabilities and Fund Balances**|          |          |
| Liabilities                    |          |          |
| Accounts payable               | $169,377 | $65,740  |
| Deferred revenue               | 22,822   | 664,063  |
| **Total Liabilities**          | 192,199  | 729,803  |
| Fund Balances                  | 2,645,366 | 1,634,454 |
| **Total Liabilities and Fund Balances** | $2,837,565 | $2,364,257 |

*See accompanying notes to financial statements.*
### SHELL ROCK RIVER WATERSHED DISTRICT
### PLANNING AND IMPLEMENTATION FUND
### Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
### For the Year Ended December 31, 2011
### With Comparative Totals For December 31, 2010

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>State aid</td>
<td>$</td>
<td>$28,906</td>
</tr>
<tr>
<td>Local sales and use tax</td>
<td>1,210,757</td>
<td>1,387,514</td>
</tr>
<tr>
<td>Grants and projects</td>
<td>641,859</td>
<td>101,600</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,669</td>
<td>1,860</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>630</td>
<td>17,140</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>1,854,915</td>
<td>1,537,020</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering</td>
<td>467,128</td>
<td>421,487</td>
</tr>
<tr>
<td>Professional services</td>
<td>37,824</td>
<td>26,795</td>
</tr>
<tr>
<td>Projects and studies</td>
<td>238,430</td>
<td>305,253</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>21,923</td>
<td>9,800</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>51,704</td>
<td>18,032</td>
</tr>
<tr>
<td><strong>Capital Outlay:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District owned asset purchase</td>
<td>26,994</td>
<td>21,744</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>844,003</td>
<td>803,111</td>
</tr>
</tbody>
</table>

| Revenues Over (Under) Expenditures | 1,010,912 | 733,909 |
| Transfer (to) from General Fund    | -         | -       |

| Net Changes in Fund Balance        | 1,010,912 | 733,909 |

| Fund Balance - January 1           | 1,634,454 | 900,545 |

| Fund Balance - December 31         | $2,645,366 | $1,634,454 |

*See accompanying notes to financial statements.*
SUPPLEMENTARY FINANCIAL INFORMATION
## SHELL ROCK RIVER WATERSHED DISTRICT
### SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND
### Combining Balance Sheet
### December 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>100</th>
<th>200</th>
<th>300</th>
<th>400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erosion and</td>
<td>$ 136,613</td>
<td>$ -</td>
<td>$ 4,210</td>
<td>$ 10,892</td>
</tr>
<tr>
<td>Water Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albert Lea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dam Replacement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Storm</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subwatershed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Assets         |           |           |           |           |
| Cash and       |           |           |           |           |
| investments    | $ 136,613 | $ -       | $ 4,210   | $ 10,892  |
| Accounts       |           |           |           |           |
| receivable     | -         | -         | -         | -         |
| Sales tax      |           |           |           |           |
| receivable     | -         | -         | -         | -         |
| Inventory -    |           |           |           |           |
| rain barrels   | -         |           | -         | -         |

| Total Assets   | $ 136,613 | $ -       | $ 4,210   | $ 10,892  |
| Liabilities and Fund Balances |           |           |           |           |
| Liabilities    |           |           |           |           |
| Accounts payable| $ 136,613 | $ -       | $ 4,210   | $ 10,892  |
| Deferred revenue|           |           |           |           |

| Total Liabilities | 136,613 | -         | 4,210     | 10,892    |

| Fund Balances    |           |           |           |           |
| Restricted for   |           |           |           |           |
| watershed        |           |           |           |           |
| improvements     |           |           |           |           |

| Total Liabilities and Fund Balances | $ 136,613 | $ -       | $ 4,210   | $ 10,892  |


See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th></th>
<th>500</th>
<th>600</th>
<th>700</th>
<th>900</th>
<th>999</th>
<th>Total 2011</th>
<th>Total 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dredging Elements</td>
<td>$10,269</td>
<td>$7,193</td>
<td>$200</td>
<td>-</td>
<td>-</td>
<td>$2,334,651</td>
<td>$2,504,028</td>
</tr>
<tr>
<td>Water Monitoring</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22,822</td>
<td>22,822</td>
</tr>
<tr>
<td>Rural Sewage Management</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>304,895</td>
<td>304,895</td>
</tr>
<tr>
<td>Education</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,820</td>
<td>5,820</td>
</tr>
<tr>
<td></td>
<td>$10,269</td>
<td>$7,193</td>
<td>$200</td>
<td>-</td>
<td>-</td>
<td>$2,668,188</td>
<td>$2,837,565</td>
</tr>
</tbody>
</table>

|                  | $10,269 | $7,193 | $200 | -    | -    | $169,377  | $430,493  |
|                  | -    | -    | -    | -    | -    | 22,822    | 22,822    |
|                  | 10,269 | 7,193 | 200  | -    | -    | 22,822    | 192,199   |
|                  | -    | -    | -    | -    | -    | 2,645,366 | 2,645,366 |
|                  | $10,269 | $7,193 | $200 | -    | -    | $2,668,188 | $2,837,565 |

See accompanying notes to financial statements.
SHELL ROCK RIVER WATERSHED DISTRICT  
SPECIAL REVENUE FUND - PLANNING AND IMPLEMENTATION FUND  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended December 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>100</th>
<th>200</th>
<th>300</th>
<th>400</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State aid</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Local sales and use tax</td>
<td>220,575</td>
<td>-</td>
<td>92,027</td>
<td>275,508</td>
</tr>
<tr>
<td>Grants and reimbursements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contributions and other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>220,575</td>
<td>-</td>
<td>92,027</td>
<td>275,508</td>
</tr>
</tbody>
</table>

**Expenditures:**

**Current:**

<table>
<thead>
<tr>
<th>Professional Services:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>68,290</td>
<td>-</td>
<td>88,811</td>
<td>112,863</td>
</tr>
<tr>
<td>Professional services</td>
<td>7,121</td>
<td>-</td>
<td>232</td>
<td>22,880</td>
</tr>
<tr>
<td>Projects and studies</td>
<td>142,073</td>
<td>-</td>
<td>2,501</td>
<td>56,502</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2,430</td>
<td>-</td>
<td>483</td>
<td>18,709</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>661</td>
<td>-</td>
<td>-</td>
<td>46,793</td>
</tr>
</tbody>
</table>

**Capital Outlay:**

| District owned asset purchase | -   | -   | -   | 17,761 |
| **Total Expenditures**        | 220,575 | -   | 92,027 | 275,508 |

| Revenues Over (Under) Expenditures | - | - | - | - |
| Transfer (to) from General Fund   | - | - | - | - |
| Net Changes in Fund Balance       | - | - | - | - |
| Fund Balance - January 1           | - | - | - | - |
| **Fund Balance - December 31**    | $ | - | $ | - |

*See accompanying notes to financial statements.*

- 30 -
<table>
<thead>
<tr>
<th>500</th>
<th>600</th>
<th>700</th>
<th>900</th>
<th>999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dredging</td>
<td>Water</td>
<td>Rural</td>
<td>Information</td>
<td>Unallocated</td>
</tr>
<tr>
<td>Elements</td>
<td>Monitoring</td>
<td>Sewage</td>
<td>and</td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>-</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>41,988</td>
<td>137,996</td>
<td>75,940</td>
<td>-</td>
<td>366,723</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>641,859</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,669</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>630</td>
</tr>
<tr>
<td>41,988</td>
<td>137,996</td>
<td>75,940</td>
<td>-</td>
<td>1,010,881</td>
</tr>
<tr>
<td>36,555</td>
<td>99,712</td>
<td>60,897</td>
<td>-</td>
<td>-</td>
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<tr>
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See accompanying notes to financial statements.
OTHER REPORTS
REPORT ON INTERNAL CONTROL

To the Honorable Board of Managers
Shell Rock River Watershed District
Albert Lea, MN 56007

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Shell Rock River Watershed District as of and for the year ended December 31, 2011 in accordance with auditing standards generally accepted in the United States of America, 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the District's internal control to be significant deficiencies

Lack of segregation of duties:
The limited number of staff prevents proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in organizations of this size, but the managers should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.
Managers review is particularly important when there is a lack of segregation of duties. The absence of these controls over the bill payment approval process is considered a significant deficiency because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the company’s internal control.

**Lack of control over the financial reporting process:**
Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operation, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management approved, and accepted responsibility for those financial statements prior to their issuances; however, management does not possess the skill, knowledge, or ability to prepare the financial statements or evaluate the completeness of their presentation.

This communication is intended solely for the information and use of the managers and management of the Shell Rock River Watershed District, and is not intended to be and should not be used by anyone other than these specified parties.

**Hill, Larson, Walth & Benda, P.A.**

Hill, Larson, Walth & Benda, P.A.

August 13, 2012
INDEPENDENT AUDITOR’S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Managers
Shell Rock River Watershed District
Albert Lea, MN 56007

We have audited the financial statements of the Shell Rock River Watershed District as of and for the year ended December 31, 2011, and have issued our report thereon dated August 13, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the District has no public debt.

The results of our tests indicate that for the items tested, the Shell Rock River Watershed 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 others within the Shell Rock River Watershed District and is not intended to be, and should not be, used by anyone other than those specified parties.

Hill, Larson, Walth & Benda, P.A.

Hill, Larson, Walth & Benda, P.A.

August 13, 2012
I. INTERNAL CONTROL OVER FINANCIAL REPORTING

2011-1 Segregation of Duties

Due to the limited number of office personnel, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Shell Rock River Watershed District; however, the District’s management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the District’s Board and management be aware of the absence of segregation of the accounting functions and implement oversight procedures and monitor those procedures to ensure that internal control policies and procedures are effective.

Client’s Response: The District Board is aware of the limited control. However, the District takes all possible measures of internal control. The Board reviews all bills and financial statements monthly. The District Administrator reviews and initials all invoices. Two Managers must sign all checks.

2011-2 Preparation of Financial Statements

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operation, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management approved, and accepted responsibility for those financial statements prior to their issuances; however, management does not possess the skill, knowledge, or ability to prepare the financial statements or evaluate the completeness of their presentation.

Under these circumstances, the most effective controls lie in management’s knowledge of the City’s financial operations. 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 and other considerations. We recommend the District obtain the training and expertise to internally prepare its annual financial statements. If the District still intends to have its external auditor assist in preparation then, at a minimum, the District must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the District’s financial statements, including notes. As an alternative, the District could consider using an independent outside consultant to assist in preparing its basic financial statements.

Client’s Response: The District intends to adequately train management and staff to prepare annual financial statements.