

**MIDDLE ST. CROIX  
WATERSHED MANAGEMENT ORGANIZATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
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FOR THE YEAR ENDED DECEMBER 31, 2017**

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**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
ORGANIZATION  
DECEMBER 31, 2017**

**Board of Managers:**

	<u>City or Township</u>
Brian Zeller (Chair)	Lakeland Shores
Joe Paiement (Vice Chair)	Lakeland
Dan Kylo (Treasurer)	West Lakeland Township
Nancy Anderson (Secretary)	St. Mary's Point
Annie Perkins	Afton
Patrick McGann	Bayport
John Fellego	Baytown Township
Tom McCarthy	Lake St. Croix Beach
Mike Runk	Oak Park Heights
Doug Menikeim	Stillwater

## INDEPENDENT AUDITOR'S REPORT

To the Board of Managers  
Middle St. Croix Watershed Management Organization  
Oakdale, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Middle St. Croix Watershed Management Organization, Oakdale, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Middle St. Croix Watershed Management Organization's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Middle St. Croix Watershed Management Organization, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Middle St. Croix Watershed Management Organization's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of the Middle St. Croix Watershed Management Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middle St. Croix Watershed Management Organization's internal control over financial reporting and compliance.

*Peterson Company Ltd*

Peterson Company Ltd.  
Waconia, Minnesota

April 19, 2018

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

	Governmental Activities
<b>Assets:</b>	
Cash and cash equivalents	\$ 308,769
Total Assets	308,769
<b>Liabilities:</b>	
Accounts payable	32,802
Unearned revenue	153,424
Total Liabilities	186,226
<b>Net Position:</b>	
Unrestricted	122,543
Total Net Position	\$ 122,543

The accompanying notes are an integral part of these financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Net Position
Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
General government	\$ 167,227	\$ -	\$ 125,553	\$ -	\$ (41,674)
Programs	38,496	-	150,543	-	112,047
Total Governmental Activities	\$ 205,723	\$ -	\$ 276,096	\$ -	70,373
General Revenues:					
Unrestricted interest earnings					226
Other					4,190
Total General Revenues					4,416
Change in Net Position					74,789
Net Position - January 1					47,754
Net Position - December 31					\$ 122,543

The accompanying notes are an integral part of these financial statements.



**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2017**

	<u>General Fund</u>
Assets	
Cash	\$ 308,769
Total Assets	<u>\$ 308,769</u>
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 32,802
Unearned revenues	153,424
Total Liabilities	<u>186,226</u>
 Fund Balance	
Unassigned	<u>122,543</u>
Total Fund Balance	<u>122,543</u>
Total Liabilities and Fund Balance	<u>\$ 308,769</u>
 Total Fund Balance	<u>\$ 122,543</u>
 Net Position of Governmental Activities	<u>\$ 122,543</u>

The accompanying notes are an integral part of these financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Total General Fund
Revenues	
Intergovernmental	\$ 276,096
Interest income	226
Other	4,190
Total Revenues	280,512
 Expenditures	
Current:	
General government:	
Contracted personnel services	159,983
Insurance	2,285
Office expenses	1,064
Professional fees	3,895
Programs:	
Local	16,538
State	21,958
Total Expenditures	205,723
Net Change in Fund Balance	74,789
Fund Balance - January 1	47,754
Fund Balance - December 31	\$ 122,543
Net Change in Fund Balance - Governmental Fund	\$ 74,789
Change in Net Position of Governmental Activities	\$ 74,789

The accompanying notes are an integral part of these financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**Note 1 - Summary of Significant Accounting Policies**

The Middle St. Croix Watershed Management Organization (the WMO) was established by a Joint Powers Agreement in 1984, between the cities and townships of Afton, St. Mary's Point, Lake St. Croix Beach, Lakeland Shores, Lakeland, Bayport, Oak Park Heights, Stillwater, West Lakeland Township, and Baytown Township, Minnesota. The WMO was formed to meet the requirements of the Metropolitan Surface Water Management Act under the provisions of Minnesota Statutes 103B.211 and 471-59.

The purpose of the Watershed Management Plan is to:

- Protect, preserve, and use natural surface and groundwater storage and retention systems.
- Minimize public capital expenditures needed to correct flooding and water quality problems.
- Identify and plan for the means to effectively protect and improve surface and groundwater quality.
- Establish more uniform local policies and official controls for surface and groundwater management.
- Prevent erosion of soil into surface water systems.
- Promote groundwater recharge.
- Protect and enhance fish and wildlife habitat and water recreational facilities.
- Secure the other benefits associated with the proper management of surface and groundwater.

The WMO submitted its Watershed Management Plan to the Minnesota Board of Water and Soil Resources in 1984. Each municipality within the WMO has developed, or is in the process of developing, a specific local water management plan to accomplish the various watershed management objectives of the WMO. The work plan includes guidelines for employees and technicians to follow in order to achieve the Organization's objections.

The WMO is governed by a ten-member Board of Managers. The Board consists of ten representatives appointed by each of the member municipalities.

The financial statements of the WMO have been prepared in conformity with generally accepted accounting principles as applied to government units by the Governmental Accounting Standards Board (GASB). The WMO's accounting policies are described below:

**Financial Reporting Entity**

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

**Government-Wide Fund Financial Statements**

The government-wide fund financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the WMO. The governmental activities are supported by member contributions and intergovernmental revenues.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general government revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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 WMO considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the WMO.

The WMO reports one major governmental fund. The General Fund (Administrative Fund) is the general operating fund of the WMO. It is used to account for financial resources to be used for general administrative expenditures and programs of the WMO.

Budgets

Budgets are adopted annually by the Board of Managers. During the budget year, supplemental appropriations and deletions are, or may be, authorized by the Board. The amounts shown in the financial statements as "Budget" represent the original budgeted amounts plus all revisions made during the year and/or for the year. Encumbrance accounting, under which purchase orders, contracts and other commitments of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the WMO.

The WMO monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval procedures.

At December 31, 2017, the WMO's actual expenditures were less than the final budget by \$4,756.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

Cash and Investments

Cash and investment balances are invested, to the extent available, in authorized investments.

In accordance with the provisions of GASB Statement No. 31, the WMO reports investments at fair value in the financial statements. In accordance with the provisions of GASB No. 31, the WMO has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

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.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of internally imposed constraints. These constraints are established by resolution of the WMO Board.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the WMO's intended use. These constraints are established by the WMO Board and/or management.

Unassigned – is the residual classification for the general fund.

When both restricted and unrestricted resources are available for use, it is the Board'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 Board's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

Subsequent Events

In preparing these financial statements, the WMO has evaluated events and transactions for potential recognition or disclosure through April 19, 2018, the date the financial statements were available to be issued.

**Note 2 - Deposits and Investments**

Deposits

In accordance with Minnesota Statutes, the WMO maintains deposits at those depository banks authorized by the WMO Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all WMO 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.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the WMO Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

At December 31, 2017, the carrying amount of the WMO's deposits was \$308,769 and the bank balance was \$309,019.

**Custodial Credit Risk Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the WMO's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all WMO deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The WMO has no additional deposit policies addressing custodial credit risk. Of the \$309,019 bank balance at December 31, 2017, \$10,356 was neither insured, collateralized nor covered by FDIC.

**Note 3 - Unearned Revenue**

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for clean water funds. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ending December 31, 2017 consisted of Lake St. Croix Phase I and II \$82,601; Perro Creek Phase I \$27,151; Lily Lake Phase III \$28,096; Lily Lake Final 45% \$15,576; Total \$153,424.

**Note 4 - Grants**

The WMO receives financial assistance from governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. 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 WMO at December 31, 2017.

**Note 5 - Risk Management**

The WMO is exposed to various risks of loss for which the WMO carries commercial insurance policies.

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

**Note 6 - Commitments and Contingencies**

The WMO is not aware of any existing or pending lawsuits, claims or other actions in which the WMO is a defendant.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 115,435	\$ 115,435	\$ 276,096	\$ 160,661
Interest income	-	-	226	226
Other	-	-	4,190	4,190
Total Revenues	115,435	115,435	280,512	165,077
Expenditures				
Current:				
General government:				
Contracted personnel services	35,600	35,600	159,983	(124,383)
Insurance	3,000	3,000	2,285	715
Office expenses	1,500	1,500	1,064	436
Professional fees	4,400	4,400	3,895	505
Programs:				
Local	93,870	93,870	16,538	77,332
State	72,109	72,109	21,958	50,151
Total Expenditures	210,479	210,479	205,723	4,756
Net Change in Fund Balance	\$ (95,044)	\$ (95,044)	\$ 74,789	\$ 169,833
Fund Balance - January 1			47,754	
Fund Balance - December 31			\$ 122,543	



**INDEPENDENT AUDITOR'S 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**

To the Board of Managers  
Middle St. Croix Watershed Management Organization  
Oakdale, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Middle St. Croix Watershed Management Organization, Oakdale, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Middle St. Croix Watershed Management Organization's basic financial statements, and have issued our report thereon dated April 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Middle St. Croix Watershed Management Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middle St. Croix Watershed Management Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Middle St. Croix Watershed Management Organization's internal control.

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 a 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.

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 deficiency in internal control as described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Middle St. Croix Watershed Management Organization financial statements are free from 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*.

## **Middle St. Croix Watershed Management Organization's Response to Findings**

Middle St. Croix Watershed Management Organization's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Middle St. Croix Watershed Management Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

April 19, 2018

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Managers  
Middle St. Croix Watershed Management Organization  
Oakdale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of Middle St. Croix Watershed Management Organization, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Middle St. Croix Watershed Management Organization's basic financial statements, and have issued our report thereon dated April 19, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except we did not test for compliance with the provisions for tax increment financing because Middle St. Croix Watershed Management Organization has no tax increment financing.

In connection with our audit, Middle St. Croix Watershed Management Organization failed to comply with the Deposits and Investments provision of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, as described in the Schedule of Findings and Responses as item 2017-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Middle St. Croix Watershed Management Organization's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

April 19, 2018

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2017**

**2017-001 Segregation of Duties**

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the WMO to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The WMO has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Managers.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2017**

**2017-002 Deficiencies in Collateral for Deposits**

Criteria: Minnesota Statute 118A.03 provides certain specific collateral requirements for deposits as follows:

118A.03 WHEN AND WHAT COLLATERAL REQUIRED.

*Subdivision 1. For deposits beyond insurance.*

To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section 336.4-108.

*Subd. 2. In lieu of surety bond.*

The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government Treasury bills, Treasury notes, Treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- (5) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- (6) time deposits that are fully insured by any federal agency.

*Subd. 3. Amount.*

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
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***Subd. 4. Assignment.***

Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

***Subd. 5. Withdrawal of excess collateral.***

A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the government entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

***Subd. 6. Default.***

For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

***Subd. 7. Safekeeping.***

All collateral shall be placed in safekeeping in a restricted account at a 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. The selection shall be approved by the government entity.

Condition / context: At December 31, 2017, the WMO held deposits of \$309,019. Deposits up to \$250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral refund was \$64,921 (59,019 x 110%). The WMO was unable to provide evidence that such deposits were properly collateralized in accordance with State Statutes.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the WMO obtain sufficient collateral to comply with Minnesota Statute 118A.03.

Management Response: Management is in the process of working with the bank to get pledged securities set up for the upcoming year.