

**Middle St. Croix  
Watershed Management Organization**

**FINANCIAL STATEMENTS**

**December 31, 2010**

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**JAMES MAISER**  
**CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
Middle St. Croix Water Management Organization  
Stillwater, Minnesota

I have audited the accompanying financial statements of the governmental activities and the General fund of the Middle St. Croix Water Management Organization, Stillwater, Minnesota as of and for the year ended December 31, 2010 which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Organization management. My responsibility is to express opinions on these financial statements based on the audit.

I conducted the 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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 the Middle St. Croix Water Management Organization, Stillwater, Minnesota as of December 31, 2010, and the results of operations and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information is not a required part of the basic financial statements but it is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 11, 2011 on my consideration of the Organization's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STILLWATER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Middle St. Croix Watershed Management Organization discussion and analysis provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current years activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Organization as a whole and present a longer-term view of the Organization's finances. For governmental activities, financial statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Organization's operations in more detail than the government-wide statements by providing information about the Organization's most significant funds. Since the Organization is a single-purpose, special purpose government unit, the Organization combines the government-wide and fund financial statements into a single presentations.

**The Statement of Net Assets and the Statement of Activities**

One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Organization as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization's net assets and changes in them. You can think of the Organization's net assets — the difference between assets and liabilities—as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the Organization.

In the Statement of Net Assets and the Statement of Activities, the Organization presents Governmental activities. All of the Organization's basic services are reported here. Appropriations from the county and state finance most activities.

## Reporting the Organization's General Fund

Our analysis of the Organization's general fund is part of this report. The fund financial statements provide detailed information about the general fund—not the Organization as a whole. The Organization presents only a general fund, which is a governmental fund. All of the Organization's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the Organization's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Organization's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

## THE ORGANIZATION AS A WHOLE

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

Net Assets:

	Governmental Activities	
	2010	2009
Current Assets	\$127,378	\$94,449
Current Liabilities	20,159	18,236
Total Net Assets	\$107,219	\$76,213

Net assets of the Organization governmental activities increased by \$31,006. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$76,216 at December 31, 2009 to \$107,219 at the end of this year.

The Organization's total revenues decreased by \$138,452. The total cost of programs and services decreased by \$178,173.

## CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Middle St. Croix Watershed Management Organization at 1380 W. Frontage Rd, Hwy 36, Stillwater, MN 55082.

MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
 STILLWATER, MINNESOTA

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

	General Fund	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>			
Cash and investments	\$ 127,378	\$ -	\$ 127,378
Total Assets	<u>\$ 127,378</u>	<u>\$ -</u>	<u>\$ 127,378</u>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts Payable	\$ 11,279	\$ -	\$ 11,279
Deferred Revenue	8,880	-	8,880
Total Liabilities	<u>\$ 20,159</u>	<u>\$ -</u>	<u>\$ 20,159</u>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance/Net Assets			
Unreserved			
Undesignated	107,219	(107,219)	-
Total Fund Balance	<u>\$ 107,219</u>	<u>\$ (107,219)</u>	<u>\$ -</u>
Net Assets			
Unrestricted		107,219	107,219
Total Net Assets		<u>\$ 107,219</u>	<u>\$ 107,219</u>

MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STILLWATER, MINNESOTA

STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 112,156	\$ -	\$ 112,156
Investment earnings	517	-	517
Miscellaneous	2,606	-	2,606
<b>Total Revenues</b>	<u>\$ 115,279</u>	<u>\$ -</u>	<u>\$ 115,279</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	<u>\$ 84,273</u>	<u>\$ -</u>	<u>\$ 84,273</u>
<b>Total Expenditures/Expenses</b>	<u>\$ 84,273</u>	<u>\$ -</u>	<u>\$ 84,273</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 31,006</u>	<u>\$ -</u>	<u>\$ 31,006</u>
Fund Balance/Net Assets January 1	<u>\$ 76,213</u>	<u>\$ -</u>	<u>\$ 76,213</u>
Fund Balance/Net Assets December 31	<u><u>\$ 107,219</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 107,219</u></u>

Notes are an integral part of the basic financial statements.

MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
STILLWATER, MINNESOTA

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

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Neg)</u>
<b>Revenues</b>			
Intergovernmental			
Local	\$ 102,800	\$ 102,800	\$ -
State Grant	-	9,356	9,356
Total intergovernmental	<u>\$ 102,800</u>	<u>\$ 112,156</u>	<u>\$ 9,356</u>
Miscellaneous			
Interest earnings	\$ -	\$ 517	\$ 517
Other	-	2,606	2,606
Total miscellaneous	<u>\$ -</u>	<u>\$ 3,123</u>	<u>\$ 3,123</u>
Total Revenues	<u>\$ 102,800</u>	<u>\$ 115,279</u>	<u>\$ 12,479</u>
Project expenditures			
Local	\$ 102,800	\$ 84,273	\$ 18,527
Total project expenditures	<u>\$ 102,800</u>	<u>\$ 84,273</u>	<u>\$ 18,527</u>
Total Expenditures	<u>\$ 102,800</u>	<u>\$ 84,273</u>	<u>\$ 18,527</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ 31,006</u>	<u>\$ 31,006</u>
Fund Balance - January 1	<u>\$ 76,213</u>	<u>\$ 76,213</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 76,213</u></u>	<u><u>\$ 107,219</u></u>	<u><u>\$ 31,006</u></u>

Notes are an integral part of the basic financial statements.



**MIDDLE ST. CROIX WATER MANAGEMENT ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

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

Financial Reporting Entity

The Middle St. Croix Watershed Management Organization was established in 1984 by a joint powers agreement pursuant to Minnesota Statutes 471.59 and 103B.211 to develop a Surface Water Management Plan and institute programs to conserve soil and water resources through implementation of practices that preserve and use natural storage areas, control excessive volumes and rates of run-off, effectively reduce or prevent erosion and sedimentation, promote ground water recharge, improve water quality and prevent flooding in order to protect and manage the natural and artificial water conveying systems of the Middle St. Croix River Watershed. The affairs of the Organization are governed Board of Commissioners, consisting of one commissioner from each of the governmental units that is a party to the joint powers agreement. The joint powers agreement consists of the following governmental units: Afton, St. Mary's Point, Lake St. Croix Beach, Lakeland shores, Lakeland, West Lakeland Township, Bayport, Baytown Township, Oak Park Heights and Stillwater.

Each fiscal year the Organization develops a work plan which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the Organization's objectives.

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 Organization does not have any component units.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

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

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues is recognized when the corresponding expenditures are

**MIDDLE ST. CROIX WATER MANAGEMENT ORGANIZATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Budget Information

The Organization adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The Organization does not use encumbrance accounting.

Use of Estimates

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

Assets, Liabilities and Fund Equity Accounts

Assets

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

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

Liabilities

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

Equity

Reserved fund balance indicates the portion of fund equity, which has been legally segregated for specific purposes or is not appropriable for spending.

Unreserved, designated account indicates the portion of fund equity that the Organization has set aside for planned future expenditures.

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

Risk Management

The Organization is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; worker's compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Insurance Trust. The Organization retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Organization pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**MIDDLE ST. CROIX WATER MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

Deposits

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

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

Custodial Credit Risk Deposits

At December 31, 2010, the Organization's deposits totaled \$127,378, of which \$11,421 were cash deposits and \$115,957 in bank certificate of deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the Organization's deposits may not be returned to it. The Organization does not have a deposit policy for custodial credit risk. As of December 31, 2010, the Organization's deposits were not exposed to custodial credit risk.

**Note 2 – Operating Leases**

Office space is provided by Washington Conservation District.

**Note 3 – Reconciliation of Fund Balance to Net Assets**

Governmental Fund Balance, January 1	\$76,213
Plus: Excess of Revenue Over Expenditures	<u>31,006</u>
Governmental Fund Balance, December 31	<u>\$107,219</u>
Adjustments from Fund Balance to Net Assets:	<u>    \$0</u>
Net Assets	<u>\$107,219</u>

**Note 4 – Reconciliation of Change in Fund Balance to Change in Net Assets**

Change in fund balance	<u>\$31,006</u>
Net change in net assets	<u>\$31,006</u>

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**REPORT ON LEGAL COMPLIANCE**

Board of Supervisors  
Middle St. Croix Watershed Management Organization  
Stillwater, Minnesota

I have audited the accompanying financial statements of the governmental activities, and the General fund of the Middle St. Croix Watershed Management Organization, Stillwater, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the Organization's basic financial statements and have issued my report thereon dated August 11, 2011.

My audit was made in accordance with auditing standards generally accepted in the United States of America and provisions of the Minnesota Legal Compliance Audit Guide for Local Government, 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 I considered necessary in the circumstances.

The Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. My study included all of the listed categories except public indebtedness. The public indebtedness category was not tested because the Organization is not allowed to issue debt.

The results of my test indicate that for the items tested, the Organization complied with the material terms and conditions of applicable legal provisions.

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



JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota

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CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT**

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

Board of Supervisors  
Middle St. Croix Watershed Management Organization  
Stillwater, Minnesota

I have audited the financial statements of the governmental activities, and the General fund of the Middle St. Croix Watershed Management Organization as of and for the year ended December 31, 2010, and have issued my report thereon dated August 11, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control**

In planning and performing my audit of the financial statements of the governmental activities, and the General fund of the Middle St. Croix Watershed Management Organization, Stillwater, Minnesota as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, I considered the Organization's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middle St. Croix Watershed Management Organization's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the organization and the Board of Supervisors, Board of Soil and Water Resources, State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



JAMES MAISER  
Certified Public Accountant and Consultant

August 11, 2011  
Waconia, Minnesota