

**MIDDLE ST. CROIX  
WATERSHED MANAGEMENT ORGANIZATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Supervisors  
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, 2015 and the related notes to the financial statements, which collectively comprise the 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 the Middle St. Croix Watershed Management Organization as of December 31, 2015, and the respective changes in financial position, and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2016, 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 Middle St. Croix Watershed Management Organization's internal control over financial reporting and compliance.

*Peterson Company Ltd*

PETERSON COMPANY LTD  
Certified Public Accountants  
Waconia, Minnesota

April 22, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
DECEMBER 31, 2015**

The Middle St. Croix Watershed Management Organization's discussion and analysis provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's 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 three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position 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 Organizations are single-purpose, special-purpose government units, the Organization combines the government-wide and fund financial statements into a single presentation.

**The Statement of Net Position 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 Position 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 the accrual basis of accounting, which is similar to the accounting used by 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 position and changes in them. You can think of the Organization's net position — 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 position 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 Position 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 the fund 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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

## THE ORGANIZATION AS A WHOLE

Our analysis focuses on the net position and change in net position of the Organization's governmental activities.

Net Position:

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
Current Assets	<u>\$ 259,375</u>	<u>\$ 312,378</u>
Total Assets	<u>\$ 259,375</u>	<u>\$ 312,378</u>
Current Liabilities	<u>\$ 179,363</u>	<u>\$ 166,134</u>
Total Liabilities	<u>\$ 179,363</u>	<u>\$ 166,134</u>
Unrestricted	<u>\$ 80,012</u>	<u>\$ 146,244</u>
Total Net Position	<u>\$ 80,012</u>	<u>\$ 146,244</u>

Net position of the Organization's governmental activities decreased by \$66,232. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$146,244 at December 31, 2014 to \$80,012 at the end of this year.

Change in Net Position:

<u>Revenues</u>	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Intergovernmental	\$ 185,362	\$ 133,635
Investment Earnings	105	146
Miscellaneous	3,445	4,763
Total Revenues	<u>\$ 188,912</u>	<u>\$ 138,544</u>
<u>Expenditures</u>		
Conservation	\$ 255,144	\$ 121,311
Total Expenditures	<u>\$ 255,144</u>	<u>\$ 121,311</u>
Increase (decrease) in Net Position	<u>\$ (66,232)</u>	<u>\$ 17,233</u>

The Organization's total revenues increased by \$50,368. The total cost of programs and services increased by \$133,833.

#### **THE ORGANIZATION'S FUNDS**

As the Organization completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$80,012, which is below last year's total of \$146,244.

#### **General Fund Budgetary Highlights**

The actual charges to appropriations (expenditures) were \$146,144 above the final budgeted amounts. The most significant negative variance of \$100,815 occurred in Local Project Expenditures. The most significant positive variance of \$90,050 occurred in State Revenue.

#### **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 455 Hayward Ave North, Oakdale, MN 55128. The phone number is 651-275-1136.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
OAKDALE, MINNESOTA  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2015**

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and Investments	\$ 235,850	\$ -	\$ 235,850
Due from Other Governments	23,525	-	23,525
<b>Total Assets</b>	<u>259,375</u>	<u>-</u>	<u>259,375</u>
<b>Liabilities</b>			
Current Liabilities:			
Unearned Revenue	\$ 155,662	\$ -	\$ 155,662
Accounts Payable	23,701	-	23,701
<b>Total Liabilities</b>	<u>179,363</u>	<u>-</u>	<u>179,363</u>
<b>Fund Balance/Net Position</b>			
Fund Balance			
Unassigned	\$ 80,012	\$ (80,012)	\$ -
<b>Total Fund Balance</b>	<u>\$ 80,012</u>	<u>\$ (80,012)</u>	<u>\$ -</u>
<b>Net Position</b>			
Unrestricted		<u>\$ 80,012</u>	<u>\$ 80,012</u>
<b>Total Net Position</b>		<u>\$ 80,012</u>	<u>\$ 80,012</u>

Notes are an integral part of the basic financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
OAKDALE, MINNESOTA  
STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 185,362	\$ -	\$ 185,362
Investment Earnings	105	-	105
Miscellaneous	3,445	-	3,445
Total Revenues	<u>\$ 188,912</u>	<u>\$ -</u>	<u>\$ 188,912</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	<u>\$ 255,144</u>	<u>\$ -</u>	<u>\$ 255,144</u>
Total Expenditures/Expenses	<u>\$ 255,144</u>	<u>\$ -</u>	<u>\$ 255,144</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ (66,232)</u>	<u>\$ -</u>	<u>\$ (66,232)</u>
Fund Balance/Net Position January 1	<u>\$ 146,244</u>	<u>\$ -</u>	<u>\$ 146,244</u>
Fund Balance/Net Position December 31	<u><u>\$ 80,012</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 80,012</u></u>

Notes are an integral part of the basic financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
OAKDALE, MINNESOTA  
BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2015**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
Local	\$ 156,000	\$ 95,312	\$ (60,688)
State Grant	-	90,050	90,050
Total Intergovernmental	<u>\$ 156,000</u>	<u>\$ 185,362</u>	<u>\$ 29,362</u>
Miscellaneous			
Interest Earnings	\$ -	\$ 105	\$ 105
Other	-	3,445	3,445
Total Miscellaneous	<u>\$ -</u>	<u>\$ 3,550</u>	<u>\$ 3,550</u>
 Total Revenues	 <u>\$ 156,000</u>	 <u>\$ 188,912</u>	 <u>\$ 32,912</u>
<b>Expenditures</b>			
Project Expenditures			
Local	\$ 109,000	\$ 209,815	\$ (100,815)
State	-	45,329	(45,329)
Total Project Expenditures	<u>\$ 109,000</u>	<u>\$ 255,144</u>	<u>\$ (146,144)</u>
 Total Expenditures	 <u>\$ 109,000</u>	 <u>\$ 255,144</u>	 <u>\$ (146,144)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 47,000</u>	<u>\$ (66,232)</u>	<u>\$ (113,232)</u>
Fund Balance - January 1	<u>\$ 146,244</u>	<u>\$ 146,244</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 193,244</u></u>	<u><u>\$ 80,012</u></u>	<u><u>\$ (113,232)</u></u>

Notes are an integral part of the basic financial statements.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

The financial reporting policies of the Middle St. Croix Watershed Management Organization conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

**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 by a 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 (i.e. The Statement of Net Position 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.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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 are recognized when the corresponding expenditures are incurred.

Investment earnings and miscellaneous revenues are recognized when earned.

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

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

Budget Information

The Organization adopts an estimated revenues and expenditures 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 which affect: the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Assets, Liabilities, and Net Position

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, 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 valued at historical or estimated historical cost.

Liabilities

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

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, or 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.

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Organization is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the Organization intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the Board Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The Organization applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental 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 Intergovernmental 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.

**Note 2 - Detailed Notes**

Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2015, consists of the following: Lake St. Croix Direct North Phase I \$61,721; Quixote Avenue \$28,376; MIDS Accelerate Implementation Grant \$23,913; Lily Phase III \$41,652; Total \$155,662.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Deposits

Minnesota 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. When not covered by insurance or surety bonds, 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.

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

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, 2015, the Organization's deposits were not exposed to custodial credit risk.

**Note 3 - Operating Leases**

Office space is provided by the Washington Conservation District, the fiscal agent for the Organization.

**Note 4 - Stewardship, Compliance and Accountability**

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$255,144; Budget \$109,000; Excess \$146,144.

**Note 5 - Reconciliation of Fund Balance to Net Position**

Governmental Fund Balance, January 1	\$ 146,244
Less: Excess of Expenditures Over Revenues	(66,232)
Governmental Fund Balance, December 31	\$ 80,012
 Net Position	 \$ 80,012

**Note 6 - Reconciliation of Change in Fund Balance to Change in Net Position**

Change in Fund Balance	\$ (66,232)
Change in Net Position	\$ (66,232)

**MINNESOTA LEGAL COMPLIANCE REPORT**

Board of Supervisors  
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 Middle St. Croix Watershed Management Organization of Oakdale, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2016.

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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the Organization is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Middle St. Croix Watershed Management Organization failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining the 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 22, 2016

**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**

Board of Supervisors  
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, 2015, 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 22, 2016.

**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 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 over financial reporting 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.*

Our 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 material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Middle St. Croix Watershed Management Organization's 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control 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 22, 2016