

**MISSISSIPPI WATERSHED
MANAGEMENT ORGANIZATION**

ANNUAL FINANCIAL REPORT

December 31, 2011

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MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
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INTRODUCTORY SECTION

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MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
ORGANIZATION
December 31, 2011

Board of Commissioners:

	City
Jerry Faust	St. Anthony
Karen Gill-Gerbig	Lauderdale
Scott Vreeland	Minneapolis Park and Recreation Board
Matt Haas	St. Paul
Diane Hofstede	Minneapolis
Liz Wilenski - Alternate	Minneapolis Park and Recreation Board
Karlyn Eckman - Alternate	St. Paul
Randy Stille - Alternate	St. Anthony
Kevin Reich - Alternate	Minneapolis

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FINANCIAL SECTION

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TAUTGES REDPATH, LTD.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mississippi Watershed Management Organization
Minneapolis, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Mississippi Watershed Management Organization as of and for the year ended December 31, 2011, which collectively comprise Mississippi Watershed Management Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mississippi Watershed Management Organization's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Mississippi Watershed Management Organization's 2010 financial statements and, in our report dated June 24, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Mississippi Watershed Management Organization, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, Mississippi Watershed Management Organization adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. Adoption of the provisions of this statement results in changes to classifications of the components of fund balance.

Management has not presented the Management's Discussion and Analysis that governmental 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 information on pages 30 to 31, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mississippi Watershed Management Organization's financial statements as a whole. The introductory section, individual fund financial statements, and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and other information have 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 them.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

March 8, 2013

BASIC FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

STATEMENT OF NET ASSETS

Statement 1

December 31, 2011

With Comparative Totals For December 31, 2010

	Primary Government	
	Governmental Activities	
	2011	2010
Assets:		
Cash and investments	\$16,433,564	\$18,042,966
Due from other governments	233,518	-
Property taxes receivable:		
Delinquent	101,091	167,076
Due from county	32,672	43,427
Capital assets - net:		
Nondepreciable	3,991,170	480,807
Total assets	<u>20,792,015</u>	<u>18,734,276</u>
Liabilities:		
Accounts payable	78,856	825,337
Due to other governments	780	-
Salaries payable	24,462	24,877
Contracts payable	691,813	-
Retainage payable	164,905	-
Compensated absences payable:		
Due within one year	16,902	13,068
Due in more than one year	16,902	13,068
Total liabilities	<u>994,620</u>	<u>876,350</u>
Net assets:		
Invested in capital assets, net of related debt	3,134,452	480,807
Unrestricted	16,662,943	17,377,119
Total net assets	<u>\$19,797,395</u>	<u>\$17,857,926</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF ACTIVITIES
Statement 2

For The Year Ended December 31, 2011

With Comparative Totals For The Year Ended December 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government Totals</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2011</u>	<u>2010</u>
Primary government:						
Governmental activities:						
General government	\$990,384	\$ -	\$ -	\$ -	(\$990,384)	(\$856,466)
Programs	860,885	-	179,081	-	(681,804)	(648,592)
Projects	1,415,055	-	203,165	-	(1,211,890)	(1,145,262)
Total governmental activities	<u>\$3,266,324</u>	<u>\$0</u>	<u>\$382,246</u>	<u>\$0</u>	<u>(2,884,078)</u>	<u>(2,650,320)</u>
General revenues:						
Property taxes					4,537,813	4,654,370
Grants and contributions not restricted to specific programs					121,905	115,042
Unrestricted investment earnings					87,153	78,493
Miscellaneous other					76,676	5,370
Total general revenues					<u>4,823,547</u>	<u>4,853,275</u>
Change in net assets					1,939,469	2,202,955
Net assets - January 1					<u>17,857,926</u>	<u>15,654,971</u>
Net assets - December 31					<u>\$19,797,395</u>	<u>\$17,857,926</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
BALANCE SHEET
GOVERNMENTAL FUNDS
 December 31, 2011

Statement 3

	<u>General Fund</u>	<u>Project and Program Fund</u>	<u>Total Governmental 2011</u>
Assets			
Cash	\$1,171,361	\$15,262,203	\$16,433,564
Due from other governments	-	233,518	233,518
Taxes receivable:			
Delinquent	22,786	78,305	101,091
Due from county	<u>7,566</u>	<u>25,106</u>	<u>32,672</u>
Total assets	<u><u>\$1,201,713</u></u>	<u><u>\$15,599,132</u></u>	<u><u>\$16,800,845</u></u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$172	\$78,684	\$78,856
Due to other governments	780	-	780
Salaries payable	24,462	-	24,462
Contracts payable	-	691,813	691,813
Retainage payable	-	164,905	164,905
Deferred revenue	<u>22,786</u>	<u>78,305</u>	<u>101,091</u>
Total liabilities	<u><u>48,200</u></u>	<u><u>1,013,707</u></u>	<u><u>1,061,907</u></u>
Fund balance:			
Committed	-	12,764,445	12,764,445
Assigned	-	1,820,980	1,820,980
Unassigned	<u>1,153,513</u>	<u>-</u>	<u>1,153,513</u>
Total fund balance	<u><u>1,153,513</u></u>	<u><u>14,585,425</u></u>	<u><u>15,738,938</u></u>
Total liabilities and fund balance	<u><u>\$1,201,713</u></u>	<u><u>\$15,599,132</u></u>	<u><u>\$16,800,845</u></u>
 Fund balance reported above			\$15,738,938
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			3,991,170
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.			101,091
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			<u>(33,804)</u>
Net assets of governmental activities			<u><u>\$19,797,395</u></u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2011
 With Comparative Totals For The Year Ended December 31, 2010

Statement 4

	General Fund	Project and Program Fund	Total Governmental Funds	
			2011	2010
Revenues:				
Property taxes	\$1,066,143	\$3,537,655	\$4,603,798	\$4,693,484
Intergovernmental - MVHC	28,231	93,674	121,905	115,042
Intergovernmental - Other	-	203,165	203,165	-
Investment income	6,904	80,249	87,153	78,493
Other	75,422	180,335	255,757	5,370
Total revenues	<u>1,176,700</u>	<u>4,095,078</u>	<u>5,271,778</u>	<u>4,892,389</u>
Expenditures:				
Current:				
Administrative	28,339	-	28,339	78,483
Wages and benefits	726,901	-	726,901	580,910
Payroll taxes	45,433	-	45,433	37,649
Insurance	18,291	-	18,291	15,294
Accounting and legal	44,190	-	44,190	47,580
Other	119,562	-	119,562	96,442
Programs	-	860,885	860,885	702,831
Projects	-	1,415,055	1,415,055	1,091,023
Capital outlay	-	3,510,363	3,510,363	247,707
Total expenditures	<u>982,716</u>	<u>5,786,303</u>	<u>6,769,019</u>	<u>2,897,919</u>
Revenues over (under) expenditures	193,984	(1,691,225)	(1,497,241)	1,994,470
Fund balance - January 1	<u>959,529</u>	<u>16,276,650</u>	<u>17,236,179</u>	<u>15,241,709</u>
Fund balance - December 31	<u>\$1,153,513</u>	<u>\$14,585,425</u>	<u>\$15,738,938</u>	<u>\$17,236,179</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2011
 With Comparative Totals For The Year Ended December 31, 2010

Statement 5

	<u>2011</u>	<u>2010</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balance - total governmental funds (Statement 4)	(\$1,497,241)	\$1,994,470
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,510,363	247,707
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(65,985)	(39,114)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(7,668)</u>	<u>(108)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$1,939,469</u></u>	<u><u>\$2,202,955</u></u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mississippi Watershed Management Organization (the MWMO) was established by a Joint Powers Agreement on January 1, 1997 originally formed in 1985 and amended in 1997 between the Cities of Minneapolis, St. Paul, St. Anthony, Lauderdale and the Minneapolis Park and Recreation Board. The MWMO was formed to meet the requirements of the Metropolitan Surface Water Management Act (Minnesota Statutes 103B and 473.875-473.883). The Act requires, among other things, the preparation of Watershed Management Plans in the Minneapolis-St. Paul Metropolitan area. The purpose of Watershed Management Plan is to protect, serve, and use natural surface and groundwater storage and retention systems.

On April 30, 2002, a revised Joint and Cooperative Agreement (JCA) was entered into by the Cities of Minneapolis, St. Paul, Lauderdale, St. Anthony, and the Minneapolis Park and Recreation Board that now form the Mississippi Watershed Management Organization (MWMO). The MWMO encompasses 13,602 acres (33.5 square miles) of fully developed urban lands and waters within the core Minneapolis/St. Paul metropolitan area. The MWMO is a special taxing district under MS 275.066 and the MWMO Board exercised its levy authority for the first time in 2002.

The MWMO submitted its Watershed Management Plan to the Minnesota Board of Water and Soil Resources in 1999. That Board, which has final approval authority for Watershed Management Plans, formally approved the Watershed Management Plan of the MWMO in 2006. Each member within the MWMO has developed, or is in the process of developing, a specific local management plan to accomplish the various watershed management objectives of the MWMO.

The MWMO is governed by a five member Board of Commissioners. The Board consists of five representatives appointed by each of the members and four alternates.

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

A. FINANCIAL REPORTING ENTITY

In accordance with Governmental Accounting Standards Board (GASB) pronouncements and generally accepted accounting principles, the financial statements of the reporting entity include those of the MWMO (the primary government) and its component units. GASB Statement No. 14 defines a component unit as "legally separate organizations for which the elected officials of the primary government are financially accountable." The MWMO does not have any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*. There are no business-type activities which rely to a significant extent on fees and charges for support.

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 revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the MWMO 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. However, debt service expenditures are recorded only when payment is due.

Property taxes, 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 MWMO.

MWMO reports the following major governmental funds:

General Fund – the general operating fund of the MWMO. It is used to account for financial resources to be used for general administrative expenditures and for the construction and maintenance of projects of common benefit to the MWMO.

Project and Program Fund (special revenue fund) - established to account for projects and programs of the MWMO. Property taxes are committed for water projects and programs.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. BUDGETS

Budgets are adopted annually by the Board of Commissioners. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. 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 MWMO.

E. CAPITAL BUDGET

The JCA, Subdivision 11, describes the MWMO's capital budgets as follows:

At a minimum, all funds generated through the annual levy in a member's community will be made available to that member community if capital improvement projects have been designated in the Plan and approved in the capital budget. Any or all funds generated through the annual levy within a member's Watershed Management Organization jurisdiction will be made available to that member if capital improvement projects have been designated in the Plan and approved in the capital budget associated with that levy.

F. CASH AND INVESTMENTS

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

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

G. MARKET VALUE HOMESTEAD CREDIT (MVHC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by market value credit aid. This credit is paid to the MWMO by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The credit is recognized as revenue by the MWMO at the time of collection.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

H. PROPERTY TAX REVENUE RECOGNITION

The Board of Managers annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the MWMO, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the MWMO at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the MWMO on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The MWMO has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The MWMO recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

I. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. None of the MWMO's funds maintain significant amounts of inventories of materials and supplies.

J. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets and intangible assets such as easements and computer software are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the MWMO as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

GASB Statement No. 34 requires the MWMO to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999 the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The MWMO did not acquire any infrastructure assets during 2011.

The MWMO implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010 which required the MWMO to capitalize and amortize intangible assets. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required under the provision of GASB Statement No. 51. The MWMO has elected not to report intangible assets acquired in years prior to 2010. The MWMO did not acquire any intangible assets since January 1, 2010.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. 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 MWMO Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the MWMO's intended use. These constraints are established by the MWMO Board.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the MWMO's policy to first use restricted resources, and then use unrestricted resources as they are needed.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

When committed, assigned or unassigned resources are available for use, it is the MWMO's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

M. INTERFUND TRANSACTIONS

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

N. 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.

O. COMPARATIVE TOTALS

The basic financial statements, required supplementary information and individual fund statements, include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the MWMO's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

P. COMPENSATED ABSENCES

It is the MWMO's policy to permit employees to accumulate earned but unused vacation and a percentage of sick pay benefits. All vacation pay and accumulated sick leave benefits that is vested as severance pay is accrued when incurred in the government-wide financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Q. RECLASSIFICATIONS

Certain reclassifications were made to prior year amounts to conform with current year presentation.

R. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this (\$65,985) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2010	(\$167,076)
At December 31, 2011	<u>101,091</u>
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>(\$65,985)</u>

Another element of that reconciliation states that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$3,510,363 difference are as follows:

Capital outlay - construction in progress	<u>\$3,510,363</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$3,510,363</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Another element of that reconciliation states that “some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$7,668) difference are as follows:

Compensated absences:	
At December 31, 2010	\$26,136
At December 31, 2011	<u>(33,804)</u>
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$7,668)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

Minnesota Statutes require that all MWMO 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 MWMO 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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the MWMO's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all MWMO's deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. At year end, the carrying amount of the MWMO's deposits was \$16,433,564 and the bank balance was \$16,747,212. The entire bank balance was covered by perfected collateral.

B. INVESTMENTS

Minnesota Statutes authorize the MWMO to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

During 2011, the MWMO did not invest in any of the above type of investments.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. The MWMO follows State Statutes in regards to credit risk of investments. The MWMO does not have an investment policy which further limits its investment choices.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rates of debt investments could adversely affect the fair value of an investment. The MWMO does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the MWMO's investment in a single issuer. The MWMO does not have an investment policy which addresses the concentration of credit risk.

Custodial Credit Risk - Investments. For investments in securities, custodial credit risk is the risk that in the event of a failure of the counterparty, the MWMO will not be able to recover the value of its investment securities that are in the possession of an outside party. The MWMO does not have an investment policy which addresses custodial credit risk.

Note 3 MEMBER CONTRIBUTIONS

In accordance with the provisions of the JCA (Section 9, Subd. 2), members agreed to contribute if required by the MWMO each year to the general fund. Each member's percentage share is based on an average of the following two percentages:

- (1) The percentage of the total assessed valuation of all real property within the watershed which lies within the member's boundaries; and
- (2) The percentage of the total area in the watershed which lies within the member's boundaries.

For 2011, the MWMO assessed the members \$0 in member contributions.

Note 4 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$233,100	\$ -	\$ -	\$233,100
Construction in progress	247,707	3,510,363	-	3,758,070
Governmental activities capital assets - net	<u>\$480,807</u>	<u>\$3,510,363</u>	<u>\$0</u>	<u>\$3,991,170</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 5 RECEIVABLES

Significant receivables balances not expected to be collected within one year of December 31, 2011 are as follows:

	Major Funds		
	General	Project and Program Fund	Total
MCWD reimbursement	\$ -	\$30,353	\$30,353
Delinquent property taxes	16,697	57,378	74,075
Total	<u>\$16,697</u>	<u>\$87,731</u>	<u>\$104,428</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$22,786	\$ -
Delinquent property taxes receivable (Project and Program Fund)	78,305	-
Total	<u>\$101,091</u>	<u>\$0</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 6 FUND BALANCE

The MWMO adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. This standard changed fund balance classifications for governmental fund statements. Definitions for the new classifications are included in Note 1L.

A. CLASSIFICATIONS

At December 31, 2011, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Project and Program Fund</u>	<u>Total</u>
Committed for:			
Projects and programs	<u>\$ -</u>	<u>\$12,764,445</u>	<u>\$12,764,445</u>
Assigned for:			
Projects and programs	<u>-</u>	<u>1,820,980</u>	<u>1,820,980</u>
Unassigned	<u>1,153,513</u>	<u>-</u>	<u>1,153,513</u>
Total	<u><u>\$1,153,513</u></u>	<u><u>\$14,585,425</u></u>	<u><u>\$15,738,938</u></u>

Note 7 FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The MWMO may be eligible to receive financial assistance from federal and state 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 MWMO at December 31, 2011.

Note 8 RISK MANAGEMENT

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

Property and casualty insurance coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The MWMO pays an annual premium to the LMCIT. The MWMO is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess various amounts.

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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 9 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

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

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

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The MWMO makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The MWMO was required to contribute the following percentages of annual covered payroll in 2011: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The MWMO's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$42,236, \$33,907, and \$29,552, respectively. The MWMO's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 10 OPERATING LEASE

The MWMO leases building space under an operating lease that expired June 30, 2011. The MWMO is currently month to month on the lease until January 2012.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 11 LONG-TERM DEBT

CHANGE IN LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences payable	<u>\$26,136</u>	<u>\$53,357</u>	<u>\$45,689</u>	<u>\$33,804</u>	<u>\$16,902</u>

Compensated absences are generally liquidated by the General Fund.

Note 12 COMMITMENTS AND CONTINGENCIES

The Districts management has indicated that there are no pending lawsuits or other actions on which the District is a defendant.

The District had committed a contract in the amount of \$326,075.

REQUIRED SUPPLEMENTARY INFORMATION

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
Statement 6
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2011

With Comparative Actual Amounts For The Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual	Variance with Final Budget - Positive (Negative)	2010 Actual
	Original	Final	Amounts		Amounts
Revenues:					
Property taxes	\$1,071,769	\$1,071,769	\$1,066,143	(\$5,626)	\$1,037,501
Intergovernmental - MVHC	28,231	28,231	28,231	-	25,430
Investment income	-	-	6,904	6,904	4,291
Other	-	-	75,422	75,422	4,045
Total revenues	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,176,700</u>	<u>76,700</u>	<u>1,071,267</u>
Expenditures:					
Wages and benefits	850,000	850,000	726,901	123,099	580,910
Insurance	-	-	18,291	(18,291)	15,294
Accounting and legal	80,000	80,000	44,190	35,810	47,580
Miscellaneous	170,000	170,000	193,334	(23,334)	212,574
Total expenditures	<u>1,100,000</u>	<u>1,100,000</u>	<u>982,716</u>	<u>117,284</u>	<u>856,358</u>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	193,984	<u>\$193,984</u>	214,909
Fund balance - January 1			<u>959,529</u>		<u>744,620</u>
Fund balance - December 31			<u>\$1,153,513</u>		<u>\$959,529</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - PROJECT AND PROGRAM FUND
 For The Year Ended December 31, 2011
 With Comparative Actual Amounts For The Year Ended December 31, 2010

Statement 7

	Budgeted Amounts		2011 Actual	Variance with Final Budget - Positive (Negative)	2010 Actual
	Original	Final	Amounts		Amounts
Revenues:					
Property taxes	\$3,556,326	\$3,556,326	\$3,537,655	(\$18,671)	\$3,655,983
Intergovernmental - MVHC	93,674	93,674	93,674	-	89,612
Intergovernmental - Other	-	-	203,165	203,165	-
Investment income	-	-	80,249	80,249	74,202
Other	-	-	180,335	180,335	1,325
Total revenues	<u>3,650,000</u>	<u>3,650,000</u>	<u>4,095,078</u>	<u>445,078</u>	<u>3,821,122</u>
Expenditures:					
Projects:					
Mississippi River gorge erosion stabilization	-	-	483,152	(483,152)	783,461
Grainbelt shoreline	-	-	205,850	(205,850)	-
B.F. Nelson	-	-	-	-	204,878
Father Hennepin Park	-	-	59,184	(59,184)	22,232
MWMO building	-	-	-	-	80,452
SEMI Went Pond	-	-	666,869	(666,869)	-
Riverside	1,600,000	1,600,000	-	1,600,000	-
Franklyn Avenue	300,000	300,000	-	300,000	-
Total projects	<u>1,900,000</u>	<u>1,900,000</u>	<u>1,415,055</u>	<u>484,945</u>	<u>1,091,023</u>
Programs:					
Water conservation and reuse	100,000	100,000	-	100,000	-
Grants - Stewardship Fund	250,000	250,000	344,812	(94,812)	231,411
Watershed assessment	100,000	100,000	72,380	27,620	117,179
Education	250,000	250,000	93,567	156,433	90,155
Planning	200,000	200,000	7,988	192,012	39,557
Greening	-	-	18,225	(18,225)	35,300
Monitoring	150,000	150,000	203,157	(53,157)	93,338
Land conservation	600,000	600,000	79,983	520,017	-
Miscellaneous/program support (consulting)	100,000	100,000	40,773	59,227	95,891
Capital outlay	-	-	3,510,363	(3,510,363)	247,707
Total programs	<u>1,750,000</u>	<u>1,750,000</u>	<u>4,371,248</u>	<u>(2,621,248)</u>	<u>950,538</u>
Total expenditures	<u>3,650,000</u>	<u>3,650,000</u>	<u>5,786,303</u>	<u>(2,136,303)</u>	<u>2,041,561</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	<u>(1,691,225)</u>	<u>(\$1,691,225)</u>	<u>1,779,561</u>
Fund balance - beginning			<u>16,276,650</u>		<u>14,497,089</u>
Fund balance - ending			<u>\$14,585,425</u>		<u>\$16,276,650</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2011

Note A BUDGETS

The General and Project and Program Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level for the General and Project and Program Funds.

INDIVIDUAL FUND STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
BALANCE SHEET
GENERAL FUND
December 31, 2011

Statement 8

Assets	2011
Cash	\$1,171,361
Taxes receivable:	
Delinquent	22,786
Due from county	<u>7,566</u>
Total assets	<u><u>\$1,201,713</u></u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$172
Due to other governments	780
Salaries payable	24,462
Deferred revenue	<u>22,786</u>
Total liabilities	<u>48,200</u>
Fund balance:	
Unassigned	<u>1,153,513</u>
Total liabilities and fund balance	<u><u>\$1,201,713</u></u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND

Statement 9

For The Year Ended December 31, 2011

With Comparative Amounts For The Year Ended December 31, 2010

	2011	2010
Revenues:		
Property taxes	\$1,066,143	\$1,037,501
Intergovernmental - MVHC	28,231	25,430
Investment income	6,904	4,291
Other	75,422	4,045
Total revenues	1,176,700	1,071,267
Expenditures:		
Administrative	28,339	78,483
Wages and benefits	726,901	580,910
Payroll taxes	45,433	37,649
Insurance	18,291	15,294
Accounting and legal	44,190	47,580
Rent	52,640	56,991
Equipment	22,370	2,575
Supplies	9,506	9,853
Telecommunications	10,636	8,441
Other	24,410	18,582
Total expenditures	982,716	856,358
Revenues over expenditures	193,984	214,909
Fund balance - January 1	959,529	744,620
Fund balance - December 31	\$1,153,513	\$959,529

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TAUTGES REDPATH, LTD.
Certified Public Accountants

REPORT ON INTERNAL CONTROL

To the Board of Commissioners and Management
Mississippi Watershed Management Organization
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Mississippi Watershed Management Organization as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Mississippi Watershed Management Organization's internal control over financial reporting (internal control) as a basis for designing 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 Mississippi Watershed Management Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Mississippi Watershed Management Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the attached schedule of findings and responses as finding 2011-1, to be a material weakness.

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 as described in the accompanying schedule of findings and responses as finding 2011-2, to be a significant deficiency.

Mississippi Watershed Management Organization
Report on Internal Control

Mississippi Watershed Management Organization's written response to the significant deficiency and material weakness identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Mississippi Watershed Management Organization's responses, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Mississippi Watershed Management Organization's Board, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

March 8, 2013

Mississippi Watershed Management Organization
Report on Internal Control
Schedule of Findings and Responses

2011-1 Board Authorization of Bills

Criteria: All payments should be approved by the Board and all disbursements should clearly state what the payment is for.

Condition: The Board Chair and Treasurer receives a list of all claims and signs every check, but the entire Board only receives the monthly financial statements. In addition, when the claims list is given to the Chair, the Visa bill shows only the total amount due and does not show a breakdown of what each charge is for. Visa charges are coded a month or more later.

Cause: Unknown.

Effect: There is an increased risk that errors of fraud could occur and not be detected in a timely manner.

Recommendation: We recommend the entire Board is presented with a claims list each month, including a detailed list of all Visa charges stating what each charge is for.

Management Response: The process for Board authorization has changed subsequent to year end, the Board will receive a list of all claims.

Mississippi Watershed Management Organization
Report on Internal Control
Schedule of Findings and Responses

2011-2 Lack of Supporting Documentation for Disbursements

Criteria: Internal controls over cash disbursements should be designed to assure that certain control objectives are met. Control objectives include that disbursements are authorized and reasonable and disbursements are made only for goods and services received. Critical internal control procedures that assure that control objectives are met include retention of vendor invoices supporting the disbursement.

Condition: During the audit, we noted 2 instances where invoices could not be found to substantiate credit card purchases.

<u>Date</u>	<u>Description</u>	<u>Amount</u>
4/8/2011	Office Max	\$32.31
4/8/2011	Shoplet.com	\$68.85

Cause: Unknown.

Effect: The lack of documentation causes an inability to detect unauthorized disbursements and substantiate authorized disbursements.

Recommendation: We recommend the MWMO retain supporting documentation to substantiate all MWMO expenditures.

Management Response: The MWMO will make sure all supporting documentation is maintained.



TAUTGES REDPATH, LTD.
Certified Public Accountants

REPORT ON COMPLIANCE WITH MINNESOTA LEGAL COMPLIANCE
AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

To the Honorable Commissioners of the
Mississippi Watershed Management Organization
Minneapolis, Minnesota

We have audited the basic financial statements of the Mississippi Watershed Management Organization, as of and for the year ended December 31, 2011 and have issued our report thereon dated March 8, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories except public indebtedness, because it is not applicable to the Mississippi Watershed Management Organization.

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

This report is intended solely for the information and use of management, the Board of Commissioners, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

March 8, 2013

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TAUTGES REDPATH, LTD.
Certified Public Accountants

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Commissioners
Mississippi Watershed Management Organization
Minneapolis, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Mississippi Watershed Management Organization (the Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 8, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 16, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. As described in Note 6 to the financial statements, the Organization implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The most significant effect of this standard is that fund balance is now classified into the five following categories; nonspendable, restricted, committed, assigned and unassigned. These categories are based on the constraint imposed on the use of resources. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Organization does not have any significant sensitive estimates affecting the financial statements.

Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The Organization does not have any particularly sensitive disclosures in its financial statements. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

During the audit, there were several delays in obtaining information, which resulted in the issuance of the audit being delayed.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial both individually and in the aggregate, to the financial statement taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 8, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

