MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

ANNUAL FINANCIAL REPORT

December 31, 2012

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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, 2012

	City
Board of Commissioners:	
Donna Schmitt	Columbia Heights & Hilltop
James Saefke	Fridley
Karen Gill-Gerbig	Lauderdale
Kevin Reich	Minneapolis
Scott Vreeland	Minneapolis Park & Recreation Board
Jerry Faust	Saint Anthony Village
Matt Haas	St. Paul
Alternates:	
Linda Johnson	Columbia Heights & Hilltop
Dolores Varichak	Fridley
Open	Lauderdale
Diane Hofstede	Minneapolis
Liz Wilenski	Minneapolis Park & Recreation Board
Randy Stille	Saint Anthony Village
Karlyn Eckman	Saint Paul

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FINANCIAL SECTION

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HLB 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, 2012, and the related notes to the financial statements, which collectively comprise Mississippi Watershed Management Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 each major fund of Mississippi Watershed Management Organization, as of December 31, 2012, 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.

Report on Summarized Comparative Information

We have previously audited Mississippi Watershed Management Organization's 2011 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated March 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 to 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mississippi Watershed Management Organization's basic financial statements. 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 basic 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and other information sections 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.

February 10, 2014

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BASIC FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF NET POSITION
December 31, 2012
With Comparative Totals for December 31, 2011

Statement 1

	Primary Government	
	Governmental Activities	
	2012	2011
Assets:		
Cash and investments	$17,685,796	$16,433,564
Accounts receivable	-	233,518
Due from other governments	44,446	-
Property taxes receivable:		
Delinquent	40,868	101,091
Due from county	40,322	32,672
Capital assets - net:		
Nondepreciable	349,628	3,991,170
Depreciable	4,818,443	-
Total assets	22,979,503	20,792,015
Liabilities:		
Accounts payable	64,002	78,856
Due to other governments	24,291	780
Salaries payable	26,363	24,462
Contracts payable	-	691,813
Retainage payable	-	164,905
Compensated absences payable:		
Due within one year	27,020	16,902
Due in more than one year	27,020	16,902
Total liabilities	168,696	994,620
Net position:		
Net investment in capital assets	5,119,480	3,134,452
Unrestricted	17,691,327	16,662,943
Total net position	$22,810,807	$19,797,395

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2012
With Comparative Totals For The Year Ended December 31, 2011

Statement 2

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Totals: 2012	Net (Expense) Revenue and Changes in Net Position Primary Government Totals: 2011
Primary government:						
Governmental activities:						
General government	$1,210,600	$ -	$1,404	$ -	($1,209,196)	$990,384
Programs	725,561	-	-	-	(725,561)	681,804
Projects	584,901	-	145,911	-	(438,990)	(1,211,890)
Total governmental activities	$2,521,062	$0	$147,315	$0	(2,373,747)	460,298
General revenues:						
Property taxes					4,811,844	4,537,813
Grants and contributions not restricted to specific programs					3,762	121,905
Unrestricted investment earnings					78,844	87,153
Miscellaneous other					16,169	76,676
Total general revenues					4,910,619	4,823,547
Change in net position					2,536,872	1,939,469
Net position - January 1, as previously reported					19,797,395	17,857,926
Prior period adjustment					476,540	-
Net position - January 1, as restated					20,273,935	17,857,926
Net position - December 31					$22,810,807	$19,797,395

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012
With Comparative Totals For December 31, 2011

Statement 3

Assets	General Fund	Project and Program Fund	Total Governmental Funds 2012	Total Governmental Funds 2011
Cash	$1,328,586	$16,357,210	$17,685,796	$16,433,564
Accounts receivable	-	-	-	233,518
Due from other governments	-	44,446	44,446	-
Taxes receivable:				
Delinquent	11,226	29,642	40,868	101,091
Due from county	9,655	30,667	40,322	32,672
Total assets	$1,349,467	$16,461,965	$17,811,432	$16,800,845
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	$7,103	$56,899	$64,002	$78,856
Due to other governments	8,480	15,811	24,291	780
Salaries payable	26,363	-	26,363	24,462
Contracts payable	-	-	-	691,813
Retainage payable	-	-	-	164,905
Deferred revenue	11,226	29,642	40,868	101,091
Total liabilities	53,172	102,352	155,524	1,061,907
Fund balance:				
Committed	-	14,465,248	14,465,248	12,764,445
Assigned	-	1,894,365	1,894,365	1,820,980
Unassigned	1,296,295	-	1,296,295	1,153,513
Total fund balance	1,296,295	16,359,613	17,655,908	15,738,938
Total liabilities and fund balance	$1,349,467	$16,461,965	$17,811,432	$16,800,845
Fund balance reported above			$17,655,908	$15,738,938
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			5,168,071	3,991,170
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.			40,868	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.			(54,040)	(33,804)
Net position of governmental activities			$22,810,807	$19,797,395

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, 2012
With Comparative Totals For The Year Ended December 31, 2011

Statement 4

	General Fund	Project and Program Fund	Total Governmental Funds	
			2012	2011
Revenues:				
Property taxes	$1,236,172	$3,635,895	$4,872,067	$4,603,798
Intergovernmental - MVHC	955	2,807	3,762	121,905
Intergovernmental - Other	1,404	145,911	147,315	203,165
Investment income	5,459	73,385	78,844	87,153
Other	16,169	-	16,169	255,757
Total revenues	1,260,159	3,857,998	5,118,157	5,271,778
Expenditures:				
Current:				
Wages and benefits	776,136	-	776,136	726,901
Payroll taxes	47,128	-	47,128	45,433
Administrative expenses	121,728	-	121,728	16,171
Consultants	27,978	-	27,978	22,562
Insurance	20,545	-	20,545	18,291
Accounting and legal	34,513	-	34,513	44,190
Building operations	34,247	-	34,247	-
Other	56,795	-	56,795	109,168
Programs	-	723,849	723,849	860,885
Projects	-	584,901	584,901	1,415,055
Capital outlay	-	773,367	773,367	3,510,363
Total expenditures	1,119,070	2,082,117	3,201,187	6,769,019
Revenues over expenditures	141,089	1,775,881	1,916,970	(1,497,241)
Fund balance - January 1, as previously reported	1,153,513	14,585,425	15,738,938	17,236,179
Prior period adjustment	1,693	(1,693)	-	-
Fund balance - January 1, as restated	1,155,206	14,583,732	15,738,938	17,236,179
Fund balance - December 31	$1,296,295	$16,359,613	$17,655,908	$15,738,938

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, 2012
With Comparative Totals For The Year Ended December 31, 2011

Statement 5

	2012	2011
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)	$1,916,970	($1,497,241)
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.	700,361	3,510,363
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(60,223)	(65,985)
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.	(20,236)	(7,668)
Change in net position of governmental activities (Statement 2)	$2,536,872	$1,939,469

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

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Today's organization began as the Middle Mississippi River Watershed Management Organization in 1985, and formalized with a joint powers agreement executed by the Cities of Minneapolis, Saint Paul, Lauderdale, Falcon Heights, Saint Anthony Village, the Minneapolis Park and Recreation Board, and the University of Minnesota in 1997. For business purposes, the organization shortened its name to the Mississippi Watershed Management Organization (MWMO).

The First Generation Watershed Management Plan (Plan), published in December of 1986, was never officially approved, resulting in no projects being implemented. In January 1997, the University of Minnesota left the organization and a Second Generation planning effort was initiated. In 1998 the Capitol Region Watershed District was formed adjacent to the MWMO. Falcon Heights requested to remove itself and its accompanying land area from the MWMO into the newly formed watershed district. In 2000, the Bassett Creek Watershed Management Commission and MWMO entered into an agreement, which resulted in a boundary change that transferred 1,002 acres from the Bassett Creek Watershed Management Commission to the MWMO.

In 2000, the MWMO Second Generation Plan was approved. In 2006, the Plan was amended to clarify existing programmatic efforts. The MWMO's Third Generation Plan was adopted by the MWMO Board of Commissioners on May 10, 2011. An amendment to the Plan's Capital Improvement Schedule to add additional member projects was adopted by the MWMO Board of Commissioners on May 8, 2012.

In 2011 the Six Cities WMO was dissolved, by August 21, 2012 the cities of Columbia Heights, Fridley and Hilltop, past members of Six Cities WMO, became members of the MWMO. The MWMO's current jurisdictional area includes portions of the Cities of Columbia Heights, Fridley, Hilltop, Lauderdale, Minneapolis, Saint Anthony Village, and Saint Paul covers approximately 40 square miles. Projects in the cities of Columbia Heights, Fridley and Hilltop related to stormwater management were identified and will be added to the MWMO Plan's Capital Improvement Schedule via a 2013 plan amendment.

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 (GASB). 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 position and the statement of changes in net position) 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.

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.

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

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 2012 Amended JCA describes capital budgets as follows:

> "Budget" means a statement of the expected income and expenses of the Organization for each year. The Commission may divide the Budget into an Administrative Budget, covering staff salary and benefits, Commission expenses, rent, office expenses and other administrative expenses, and a Programs and Projects Budget, covering the programs and projects of the Organization, including capital projects. "Capital Improvement Project" means a physical improvement project required by the Metropolitan Surface Water Management Act as found in Minnesota Statutes, Sections 103B.201 to 103B.253 to be included in the capital improvements program of the Plan.
>
> Projects or other necessary expenditures that cannot be accomplished through the ad valorem tax levy shall be addressed by mutual agreement of the affected Members outside of this Agreement.
>
> The Commission will endeavor to equitably apportion the expenditure of Commission funds for projects and programs among the Members' jurisdictions, giving due regard to the financial contributions from tax levies within each Member's jurisdiction as well as the merit of each project and program according to criteria established in the Plan or approved by the Commission.

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. 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.

H. 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.

I. 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.

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 since implementing GASB Statement No. 34.

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.

Property, plant and equipment of the primary government, as well as the component units, are depreciated/amortized, using the straight-line method over the following estimated useful lives:

Assets	
Land improvements	25 years
Buildings	40 years
Furniture and fixtures	5 – 15 years
Office equipment	5 – 10 years
Fleet	5 – 10 years

J. 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 position. 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.

K. 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:

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 and/or management.

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.

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.

L. 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.

M. USE OF ESTIMATES

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

N. 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, 2011, from which the summarized information was derived.

O. 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 retirement. 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.

P. RECLASSIFICATION

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

Q. 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 position 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 ($60,223) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2011	($101,091)
At December 31, 2012	40,868
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	($60,223)

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 $700,361 difference are as follows:

Capital outlay	$773,367
Depreciation	(73,006)
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	$700,361

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 ($20,236) difference are as follows:

Compensated absences:	
At December 31, 2011	$33,804
At December 31, 2012	(54,040)
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	($20,236)

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.

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 $17,685,796, and the bank balance was $17,919,851. The entire bank balance was covered by federal depository insurance or covered by perfected collateral pledge and held in the District's name, except for $1,236,836, which was uncollateralized.

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 2012, 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.

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 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Prior Period Adjustment	Increases	Decrease	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$233,100	$ -	$97,749	$ -	$330,849
Construction in progress	3,758,070	476,540	531,200	(4,747,031)	18,779
Total capital assets, not being depreciated	3,991,170	476,540	628,949	(4,747,031)	349,628
Capital assets, being depreciated:					
Buildings	-	-	4,410,318	-	4,410,318
Land improvements	-	-	158,500	-	158,500
Office equipment	-	-	118,247	-	118,247
Fleet	-	-	52,016	-	52,016
Furniture and fixtures	-	-	152,368	-	152,368
Total capital assets, being depreciated	-	-	4,891,449	-	4,891,449
Less accumulated depreciation for:					
Buildings	-	-	55,130	-	55,130
Land improvements	-	-	3,170	-	3,170
Office equipment	-	-	5,912	-	5,912
Fleet	-	-	3,715	-	3,715
Furniture and fixtures	-	-	5,079	-	5,079
Total accumulated depreciation	-	-	73,006	-	73,006
Total capital assets being depreciated - net	-	-	4,818,443	-	4,818,443
Governmental activities capital assets - net	$3,991,170	$476,540	$5,447,392	($4,747,031)	$5,168,071

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$71,294
Programs	1,712
Total depreciation expense - governmental activites	$73,006

Note 4 RECEIVABLES

Significant receivables balances not expected to be collected within one year of December 31, 2012 are as follows:

	Major Funds		
	General	Project and Program Fund	Total
Delinquent property taxes	$9,329	$24,633	$33,962

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)	$11,226	$ -
Delinquent property taxes receivable (Project and Program Fund)	29,642	-
Total	$40,868	$0

Note 5 FUND BALANCE

A. CLASSIFICATIONS

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	General Fund	Project and Program Fund	Total
Committed	$ -	$14,465,248	$14,465,248
Assigned	-	1,894,365	1,894,365
Unassigned	1,296,295	-	1,296,295
Total	$1,296,295	$16,359,613	$17,655,908

Note 6 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, 2012.

Note 7 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.

Note 8 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 2012. The Organization was required to contribute the following percentages of annual covered payroll in 2012: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The Organization's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were $41,980, $42,236 and $33,907, respectively. The MWMO's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 9 LONG-TERM DEBT

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12	Due Within One Year
Governmental activities:					
Compensated absences payable	$33,804	$45,799	$25,563	$54,040	$27,020

Compensated absences are generally liquidated by the General Fund.

Note 10 COMMITMENTS AND CONTINGENCIES

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

Note 11 PRIOR PERIOD ADJUSTMENT

During 2012, corrections to the prior year financial statements were made to correct construction in progress amounts related to additional building related costs not capitalized. In previous years, all costs associated with the WMO's new building were not identified and not included in construction in progress at year end. In addition, in 2011, the WMO coded project and program expenditures relating to a consultants time to the General Fund instead of the Project and Program Fund. A summary of these changes are as follows:

		Major Governmental Funds	
	Governmental Activities	General Fund	Project and Program Fund
Fund balance/net position - December 31, 2011, as previously reported	$ 19,797,395	$ 1,153,513	$ 14,585,425
Prior period adjustments:			
Additional construction in progress	476,540	-	-
Correction of expense	-	1,693	(1,693)
Total prior period adjustments	476,540	1,693	(1,693)
Fund balance/net position - January 1, 2012, as restated	$ 20,273,935	$ 1,155,206	$ 14,583,732

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REQUIRED SUPPLEMENTARY INFORMATION

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended December 31, 2012
With Comparative Actual Amounts For The Year Ended December 31, 2011

Statement 6

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
Revenues:					
Property taxes	$1,222,641	$1,222,641	$1,236,172	$13,531	$1,066,143
Intergovernmental - MVHC	955	955	955	-	28,231
Intergovernmental - Other	1,404	1,404	1,404	-	-
Investment income	-	-	5,459	5,459	6,904
Other	-	-	16,169	16,169	75,422
Total revenues	1,225,000	1,225,000	1,260,159	35,159	1,176,700
Expenditures:					
Current:					
Wages and benefits	930,000	930,000	776,136	153,864	726,901
Insurance	-	-	20,545	(20,545)	18,291
Accounting and legal	125,000	125,000	34,513	90,487	44,190
Miscellaneous	170,000	170,000	287,876	(117,876)	193,334
Total expenditures	1,225,000	1,225,000	1,119,070	105,930	982,716
Revenues over expenditures	$0	$0	141,089	$141,089	193,984
Fund balance - January 1, as previously reported			1,153,513		959,529
Prior period adjustment			1,693		-
Fund balance - January 1, as restated			1,155,206		959,529
Fund balance - December 31			$1,296,295		$1,153,513

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - PROJECT AND PROGRAM FUND
For The Year Ended December 31, 2012
With Comparative Actual Amounts For The Year Ended December 31, 2011

Statement 7

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
Revenues:					
Property taxes	$3,597,193	$3,597,193	$3,635,895	$38,702	$3,537,655
Intergovernmental - MVHC	2,807	2,807	2,807	-	93,674
Intergovernmental - Other	-	-	145,911	145,911	203,165
Investment income	-	-	73,385	73,385	80,249
Other	-	-	-	-	180,335
Total revenues	3,600,000	3,600,000	3,857,998	257,998	4,095,078
Expenditures:					
Projects:					
Mississippi River gorge erosion stabilization	-	-	-	-	483,152
Grainbelt shoreline	-	-	-	-	205,850
Father Hennepin Park	-	-	-	-	59,184
SEMI Wet Pond	-	-	576,157	(576,157)	666,869
MWMO new building	-	-	8,744	(8,744)	-
Saint Anthony Village Stormwater Treatment	1,210,000	1,210,000	-	1,210,000	-
MWMO Stormwater Treatment Demonstration	550,000	550,000	-	550,000	-
Eco Village	80,000	80,000	-	80,000	-
MPRB Central Riverfront Shoreline Restoration	100,000	100,000	-	100,000	-
MPRB Scherer Park SW Improvements	960,000	960,000	-	960,000	-
Bridal Veil Creek Sub-watershed WQ Retrofits	100,000	100,000	-	100,000	-
Total projects	3,000,000	3,000,000	584,901	2,415,099	1,415,055
Programs:					
Grants - Stewardship Fund	250,000	250,000	208,277	41,723	344,812
Watershed assessment	-	-	53,979	(53,979)	72,380
Education	100,000	100,000	74,900	25,100	93,567
Planning	50,000	50,000	63,531	(13,531)	7,988
Greening	-	-	-	-	18,225
Monitoring	100,000	100,000	120,863	(20,863)	203,157
Land conservation	-	-	202,299	(202,299)	79,983
Misc./program support (consulting)	100,000	100,000	-	100,000	40,773
Capital outlay	-	-	773,367	(773,367)	3,510,363
Total programs	600,000	600,000	1,497,216	(897,216)	4,371,248
Total expenditures	3,600,000	3,600,000	2,082,117	1,517,883	5,786,303
Revenues over expenditures	$0	$0	1,775,881	$1,775,881	(1,691,225)
Fund balance - January 1, as previously reported			14,585,425		16,276,650
Prior period adjustment			(1,693)		-
Fund balance - January 1, as restated			14,583,732		16,276,650
Fund balance - ending			$16,359,613		$14,585,425

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2012

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
COMPARATIVE BALANCE SHEET
GENERAL FUND
December 31, 2012
With Comparative Amounts For December 31, 2011

Statement 8

Assets	2012	2011
Cash	$1,328,586	$1,171,361
Taxes receivable:		
Delinquent	11,226	22,786
Due from county	9,655	7,566
Total assets	$1,349,467	$1,201,713
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$7,103	$172
Due to other governments	8,480	780
Salaries payable	26,363	24,462
Deferred revenue	11,226	22,786
Total liabilities	53,172	48,200
Fund balance:		
Unassigned	1,296,295	1,153,513
Total liabilities and fund balance	$1,349,467	$1,201,713

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2012
With Comparative Amounts For The Year Ended December 31, 2011

Statement 9

	2012	2011
Revenues:		
Property taxes	$1,236,172	$1,066,143
Intergovernmental - MVHC	955	28,231
Intergovernmental - other	1,404	-
Investment income	5,459	6,904
Other	16,169	75,422
Total revenues	1,260,159	1,176,700
Expenditures:		
Current:		
Wages and benefits	776,136	726,901
Payroll taxes	47,128	45,433
Administrative	27,978	16,171
Consultants	121,728	22,562
Insurance	20,545	18,291
Accounting and legal	34,513	44,190
Building operations	34,247	-
Rent	-	52,640
Equipment	-	22,370
Supplies	24,272	9,506
Telecommunications	27,635	10,636
Other	4,888	14,016
Total expenditures	1,119,070	982,716
Revenues over expenditures	141,089	193,984
Fund balance - January 1, as previously reported	1,153,513	959,529
Prior period adjustment	1,693	-
Fund balance - January 1, as restated	1,155,206	959,529
Fund balance - December 31	$1,296,295	$1,153,513

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE BALANCE SHEET
PROJECT AND PROGRAM FUND
December 31, 2012
With Comparative Amounts For December 31, 2011

Statement 10

	2012	2011
Assets		
Cash	$16,357,210	$15,262,203
Accounts receivable	-	233,518
Due from other governments	44,446	-
Taxes receivable:		
Delinquent	29,642	78,305
Due from county	30,667	25,106
Total assets	$16,461,965	$15,599,132
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$56,899	$78,684
Due to other governments	15,811	-
Contracts payable	-	691,813
Retainage payable	-	164,905
Deferred revenue	29,642	78,305
Total liabilities	102,352	1,013,707
Fund balance:		
Committed	14,465,248	12,764,445
Assigned	1,894,365	1,820,980
Total fund balance	16,359,613	14,585,425
Total liabilities and fund balance	$16,461,965	$15,599,132

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
PROJECT AND PROGRAM FUND
For The Year Ended December 31, 2012
With Comparative Amounts For The Year Ended December 31, 2011

Statement 11

	2012	2011
Revenues:		
Property taxes	$3,635,895	$3,537,655
Intergovernmental - MVHC	2,807	93,674
Intergovernmental - Other	145,911	203,165
Investment income	73,385	80,249
Other	-	180,335
Total revenues	3,857,998	4,095,078
Expenditures:		
Projects:		
Mississippi River gorge erosion	-	483,152
Grainbelt shoreline	-	205,850
Father Hennepin Stairway Replacement	-	59,184
SEMI Wet Pond	576,157	666,869
MWMO New Building	8,744	-
Total projects	584,901	1,415,055
Programs:		
Grants - Stewardship Fund	208,277	344,812
Watershed assessment	53,979	72,380
Education	74,900	93,567
Planning	63,531	7,988
Greening	-	18,225
Monitoring	120,863	203,157
Land conservation	202,299	79,983
Miscellaneous	-	40,773
Capital outlay	773,367	3,510,363
Total programs	1,497,216	4,371,248
Total expenditures	2,082,117	5,786,303
Revenues over expenditures	1,775,881	(1,691,225)
Fund balance - January 1, as previously reported	14,585,425	16,276,650
Prior period adjustment	(1,693)	-
Fund balance - January 1, as restated	14,583,732	16,276,650
Fund balance - December 31	$16,359,613	$14,585,425

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OTHER INFORMATION - UNAUDITED

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
TAX LEVY AND REVENUE BY COUNTY
December 31, 2012

Exhibit 1

2012 Tax Collections	
Hennepin County	$4,849,537
Ramsey County	22,530
Total	4,872,067
Market Value Credit Aid	3,762
Total tax collections	$4,875,829
Levy amount - per Mississippi WMO budget	$4,945,000 *
Collection percentage	98.6%

* Levy amount includes a 2% contingency for uncollected taxes of $120,000

OTHER REPORTS

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HLB 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, 2012, 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 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 accompanying schedule of findings and responses as finding 2012-1 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 in Mississippi Watershed Management Organization's internal control as described in the accompanying Schedule of Findings and Responses as item 2012-2 to be a significant deficiency.

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Equal Opportunity Employer 100-Percent Employee-Owned

HLB Tautges Redpath, Ltd. is a member of HLB International, a world-wide network of independent accounting firms and business advisors.

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

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.

February 10, 2014

2012-1 Audit Adjustments

Criteria: A WMO's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: During 2012, the WMO recorded a material prior period adjustment to record construction in progress, relating to the new building, which was not previously recorded in capital assets, totaling $476,540.

A material audit adjustment relating to salaries payable was detected by the auditor and corrected by management totaling $23,909.

A significant but not material audit adjustment related to cash was also detected by the auditor and corrected by management.

Cause: Due to the complexities of governmental accounting, we believe most entities similar in size to the WMO will receive this type of finding.

Effect: Inadequate controls over the year end closing process result is an increased risk that financial statement misstatements may occur and not be detected on a timely basis.

Recommendation: We recommend WMO staff continue efforts to appropriately record these types of transactions.

View of responsible Official and Corrective Action Plan: The prior period adjustment was detected and prepared by the WMO staff and contracted accountants in connection with reviewing vendor activity associated with the new facility construction. It was noted that not all vendors / vendor costs associated with the new facility had been included in the prior construction work in progress. A thorough review of accounting by vendor was performed to identify capital cost previously expensed. The mechanism now is in place to identify and record capital costs on an ongoing basis. The other current adjustments were attributable to the resolving aged checks carried as outstanding items and a communication issue regarding pay period dates. Again the issues creating these adjustments have been identified and addressed.

2012-2 Lack of Supplementary Documentation for Employee Expense Reimbursements

Criteria: Internal controls over cash disbursements should be designed to include the retention of vendor invoices supporting each disbursements.

Condition: Of the twelve employee expense reimbursements sampled, there was no supporting receipts for five items.

Cause: Unknown.

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

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

View of responsible Official and Corrective Action Plan: The WMO performed a thorough review of their staffing and procedures during 2013 with implementation scheduled for early 2014. The outcome of this effort is existing procedures will be modified as needed and additional procedures required will be developed. With these enhancements the WMO anticipates that situations such as incomplete documentation will be eliminated.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

MINNESOTA LEGAL COMPLIANCE REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Mississippi Watershed Management Organization, as of and for the year ended December 31, 2012 and the related notes to the financial statements and have issued our report thereon dated February 10, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65, 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 audit considered all of the listed categories except public indebtedness because it is not applicable to the Mississippi Watershed Management Organization.

In connection with our audit, nothing came to our attention that caused us to believe that the Mississippi Watershed Management Organization failed to comply with the provisions for the Minnesota Legal Compliance Audit Guide for Political Subdivisions, except as noted in finding 2012-3.

This report is intended solely for the information and use of management, the Board of Commissioners, and the State Auditors, 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.

February 10, 2014

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2012-3 Deficiencies in Collateral for Deposits

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

M.S. 118A.03 **When and What Collateral Required.** Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

(1) United States government treasury bills, treasury notes, treasury bonds;

(2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

(3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

(4) 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

(5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subd. 4. **Assignment.** Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subd. 5. **Withdrawal of excess collateral.** A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

> Subd. 7. **Safekeeping.** All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.
> HIST: 1996 c 399 art 1 s 4

Condition: At December 31, 2012, the District held deposits in an interest bearing Demand account with Northeast Bank totaling $17,919,851. Deposits up to $250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral required was $19,436,836 ($17,669,851 x 110%). Collateral in the amount of $18,200,000 was provided, resulting in a collateral deficiency of $1,236,836.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the District implement controls to monitor compliance with Minnesota Statute 118A.03 on a regular basis.

View of responsible Official and Corrective Action Plan: The WMO will initiate a program that will monitor and project monthly cash balances in order to collaborate with the depository to comply with collateral requirements on a continual basis.

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