

**MISSISSIPPI WATERSHED
MANAGEMENT ORGANIZATION**

ANNUAL FINANCIAL REPORT

December 31, 2015

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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, 2015

	<u>City</u>
Board of Commissioners:	
Donna Schmitt	Columbia Heights & Hilltop
James Saefke	Fridley
Mary Gaasch	Lauderdale
Kevin Reich	Minneapolis
Scott Vreeland	Minneapolis Park & Recreation Board
Jerry Faust	Saint Anthony Village
Matt Haas	Saint Paul
Alternates:	
Linda Johnson	Columbia Heights & Hilltop
Dolores Varichak	Fridley
Jeffrey Dains	Lauderdale
Blong Yang	Minneapolis
Steffanie Musich	Minneapolis Park & Recreation Board
Randy Stille	Saint Anthony Village
Open	Saint Paul

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FINANCIAL SECTION

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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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Notes 9 and 13 to the financial statements, Mississippi Watershed Management Organization adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Mississippi Watershed Management Organization's 2014 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 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 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 and the pension information on pages 38 through 42, 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 basic 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.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

February 25, 2016

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BASIC FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

STATEMENT OF NET POSITION

December 31, 2015

Statement 1

	<u>Primary Government</u> <u>Governmental Activities</u> <u>2015</u>
Assets:	
Cash and investments	\$23,876,926
Due from other governments	25,108
Property taxes receivable:	
Delinquent	50,883
Due from county	49,881
Capital assets - net:	
Nondepreciable	554,676
Depreciable	5,854,293
Total assets	<u>30,411,767</u>
Deferred outflows of resources:	
Related to pensions	<u>132,706</u>
Liabilities:	
Accounts payable	57,645
Due to other governments	16,825
Salaries payable	41,777
Compensated absences payable:	
Due within one year	52,032
Due in more than one year	2,316
Net pension liability:	
Due in more than one year	621,902
Total liabilities	<u>792,497</u>
Deferred inflows of resources:	
Related to pensions	<u>31,354</u>
Net position:	
Net investment in capital assets	6,372,271
Unrestricted	23,348,351
Total net position	<u><u>\$29,720,622</u></u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2015

Statement 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges For	Operating	Capital	Changes in Net Position
		Services	Grants and	Grants and	Primary Government
			Contributions	Contributions	Totals
					2015
Primary government:					
Governmental activities:					
General government	\$1,666,254	\$ -	\$ -	\$ -	(\$1,666,254)
Programs	506,780	-	-	-	(506,780)
Projects	1,889,413	-	50,615	-	(1,838,798)
Total governmental activities	<u>\$4,062,447</u>	<u>\$0</u>	<u>\$50,615</u>	<u>\$0</u>	<u>(4,011,832)</u>
General revenues:					
Property taxes					5,577,502
Unrestricted investment earnings					86,038
Miscellaneous other					16,702
Total general revenues					<u>5,680,242</u>
Change in net position					<u>1,668,410</u>
Net position - January 1, as originally reported					28,536,499
Prior period adjustment					(484,287)
Net position-January 1, as restated					<u>28,052,212</u>
Net position - December 31					<u><u>\$29,720,622</u></u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

BALANCE SHEET

Statement 3

GOVERNMENTAL FUNDS

December 31, 2015

With Comparative Totals For December 31, 2014

Assets	General Fund	Project and Program Fund	Total Governmental Funds	
			2015	2014
Cash	\$1,568,632	\$22,308,294	\$23,876,926	\$22,467,964
Accounts receivable	-	-	-	7,754
Due from other governments	-	25,108	25,108	32,662
Taxes receivable:				
Delinquent	14,256	36,627	50,883	66,826
Due from county	12,892	36,989	49,881	40,613
Total assets	\$1,595,780	\$22,407,018	\$24,002,798	\$22,615,819
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$9,016	\$48,629	\$57,645	\$80,785
Due to other governments	998	15,827	16,825	99,911
Salaries payable	41,777	-	41,777	40,378
Contracts payable	-	-	-	44,175
Retainage payable	-	-	-	30,178
Total liabilities	51,791	64,456	116,247	295,427
Deferred inflows of resources:				
Unavailable revenues	14,256	36,627	50,883	66,826
Fund balance:				
Committed	-	20,156,600	20,156,600	18,782,570
Assigned	-	2,149,335	2,149,335	2,067,925
Unassigned	1,529,733	-	1,529,733	1,403,071
Total fund balance	1,529,733	22,305,935	23,835,668	22,253,566
Total liabilities, deferred inflows of resources, and fund balance	\$1,595,780	\$22,407,018	\$24,002,798	\$22,615,819
Fund balance reported above			\$23,835,668	
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.			6,408,969	
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.			50,883	
Deferred outflows of resources - pension related are not current financial resources and, therefore, are not reported in the funds.			132,706	
Deferred inflows of resources - pension related are associated with long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.			(31,354)	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
Compensated absences payable			(54,348)	
Net pension liability			(621,902)	
Net position of governmental activities			\$29,720,622	

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, 2015
With Comparative Totals For The Year Ended December 31, 2014

Statement 4

	General Fund	Project and Program Fund	Total Governmental Funds	
			2015	2014
Revenues:				
Property taxes	\$1,549,928	\$4,043,517	\$5,593,445	\$5,523,794
Intergovernmental	-	5,275	5,275	419,179
Reimbursement revenue	-	45,340	45,340	12,919
Investment income	4,628	81,410	86,038	81,683
Other	16,702	-	16,702	17,174
Total revenues	<u>1,571,258</u>	<u>4,175,542</u>	<u>5,746,800</u>	<u>6,054,749</u>
Expenditures:				
Current:				
Personnel costs	1,072,523	-	1,072,523	868,211
Administrative expenses	39,113	-	39,113	17,199
Consultants	37,604	-	37,604	126,801
Insurance	25,321	-	25,321	23,297
HR, accounting and legal	129,489	-	129,489	60,790
Building operations	83,991	-	83,991	51,740
Other	56,555	-	56,555	89,395
Programs	-	481,861	481,861	603,508
Projects	-	1,810,065	1,810,065	1,914,066
Capital outlay	-	428,176	428,176	484,672
Total expenditures	<u>1,444,596</u>	<u>2,720,102</u>	<u>4,164,698</u>	<u>4,239,679</u>
Revenues over (under) expenditures	126,662	1,455,440	1,582,102	1,815,070
Fund balance - January 1	<u>1,403,071</u>	<u>20,850,495</u>	<u>22,253,566</u>	<u>20,438,496</u>
Fund balance - December 31	<u><u>\$1,529,733</u></u>	<u><u>\$22,305,935</u></u>	<u><u>\$23,835,668</u></u>	<u><u>\$22,253,566</u></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, 2015

Statement 5

	<u>2015</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)	\$1,582,102
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.	137,507
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(15,943)
Long-term Liabilities are not due and payable in the current period, and therefore, are not reported in the funds. Long-term liabilities consist of:	
Change in compensated absences payable	1,007
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities. This is the amount by which pension expense exceeded pension contributions:	
Pension contributions	\$60,396
Pension expense	(96,659)
	<u>(36,263)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$1,668,410</u></u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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's 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 storm water management were identified and were 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 activities) 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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 related to 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, 2015

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 General Fund Budget, covering staff salary and benefits, Commission expenses, rent, office expenses and other administrative expenses, and a Projects and Programs Budget, covering the projects and programs 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. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

Investments are stated at fair value, based upon quoted market prices, except for investments in 2a7 – like external investment pools which are stated at amortized cost.

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 inflow of resources 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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

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:

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 are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

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, 2014, from which the summarized information was derived.

O. COMPENSATED ABSENCES

It is the MWMO's policy to permit employees to accumulate earned but unused paid time off (PTO) up to limits defined in the employee handbook. All PTO benefits that are vested as severance pay are accrued 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 PTO benefits.

P. RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Q. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. It is the pension related deferred outflows reported in the government-wide Statement of Net Position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has pension related deferred inflows of related deferred inflows of sources reported in the government-wide Statement of Net Position. The government also has an item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from property taxes.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

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 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 (\$15,943) difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2014	(\$66,826)
At December 31, 2015	<u>50,883</u>
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>(\$15,943)</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 \$137,507 difference are as follows:

Prior year CIP expensed in current year	(\$76,171)
Capital outlay	428,176
Depreciation	<u>(214,498)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$137,507</u>

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 \$1,007 difference are as follows:

Compensated absences:	
At December 31, 2014	\$55,355
At December 31, 2015	<u>(54,348)</u>
Net adjustments to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$1,007</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.

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 \$18,826,817, and the bank balance was \$18,969,762. The entire bank balance was covered by federal depository insurance or covered by perfected collateral pledge and held in the District's name.

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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

- 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.

As of December 31, 2015, the MWMO had the following investments and maturities:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years) Less Than 1</u>
Brokered certificate of deposits	NR	\$ 1,734,430	\$ 1,734,430
External investment pool - 4M Fund	NR	\$ 3,315,679	<u>3,315,679</u>
Total investments			5,050,109
Deposits			<u>18,826,817</u>
Total cash and investments			<u><u>\$ 23,876,926</u></u>

NR - Not Rated

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.

The MWMO's external investment pool is with the 4M Fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated 2a7 – like pool and the fair value of the position in the pool is the same as the value of pool shares.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
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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 will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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. The MWMO does not have any investments that are more than 5% of their investment balance.

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. Investments in securities that are held by the MWMO's broker-dealer in the amount of \$1,734,430 include \$500,000 that is insured through SIPC. The broker-dealer has provided additional protection by providing additional insurance. This insurance is subject to aggregate limits applied to all of the broker-dealer's accounts.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$330,849	\$ -	\$ -	\$330,849
Permanent easement	12,094	-	-	12,094
Construction in progress	327,760	284,989	(401,016)	211,733
Total capital assets, not being depreciated	<u>670,703</u>	<u>284,989</u>	<u>(401,016)</u>	<u>554,676</u>
Capital assets, being depreciated:				
Buildings	4,410,318	-	-	4,410,318
Land improvements	1,173,475	158,880	-	1,332,355
Intangibles	-	207,288	-	207,288
Office equipment	178,261	101,864	-	280,125
Fleet	52,016	-	-	52,016
Furniture and fixtures	179,388	-	-	179,388
Total capital assets, being depreciated	<u>5,993,458</u>	<u>468,032</u>	<u>0</u>	<u>6,461,490</u>
Less accumulated depreciation for:				
Buildings	275,646	110,258	-	385,904
Land improvements	36,149	50,117	-	86,266
Intangibles	-	4,146	-	4,146
Office equipment	35,184	30,345	-	65,529
Fleet	18,577	7,431	-	26,008
Furniture and fixtures	27,143	12,201	-	39,344
Total accumulated depreciation	<u>392,699</u>	<u>214,498</u>	<u>0</u>	<u>607,197</u>
Total capital assets being depreciated - net	<u>5,600,759</u>	<u>253,534</u>	<u>0</u>	<u>5,854,293</u>
Governmental activities capital assets - net	<u>\$6,271,462</u>	<u>\$538,523</u>	<u>(\$401,016)</u>	<u>\$6,408,969</u>

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

Governmental activities:	
General government	\$186,402
Programs	24,919
Projects	3,177
Total depreciation expense - governmental activities	<u>\$214,498</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

CONSTRUCTION COMMITMENTS

At December 31, 2015, the MWMO did not have any construction project commitments.

Note 4 RECEIVABLES

Significant receivables balances not expected to be collected within one year of December 31, 2015 are as follows:

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Project and Program Fund</u>	<u>Total</u>
Delinquent property taxes	<u>\$2,992</u>	<u>\$8,424</u>	<u>\$11,416</u>

Note 5 UNAVAILABLE REVENUE

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	<u>Property Taxes</u>
General Fund	\$14,256
Project and Program Fund	<u>36,627</u>
Total	<u>\$50,883</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 6 FUND BALANCE

A. CLASSIFICATIONS

At December 31, 2015, 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:			
Projects and programs	\$ -	\$20,156,600	\$20,156,600
Assigned:			
Projects and programs	-	2,149,335	2,149,335
Unassigned	1,529,733	-	1,529,733
Total	<u>\$1,529,733</u>	<u>\$22,305,935</u>	<u>\$23,835,668</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, 2015.

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.

Note 9 **DEFINED BENEFIT PENSION PLANS**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

B. PLAN DESCRIPTION

The MWMO participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the MWMO are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

C. BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

GERF Benefits

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. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

D. CONTRIBUTIONS

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The MWMO was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The MWMO's contributions to the GERF for the year ended December 31, 2015, were \$60,396. The MWMO's contributions were equal to the required contributions as set by state statute.

E. PENSION COSTS

GERF Pension Costs

At December 31, 2015, the MWMO reported a liability of \$621,902 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The MWMO's proportion of the net pension liability was based on the MWMO's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the MWMO's proportion was .0120%, which was an increase of .0012% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the MWMO recognized pension expense of \$96,659 for its proportionate share of the GERF's pension expense.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

At December 31, 2015, the MWMO reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$31,354
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	58,873	-
Changes in proportion	42,277	-
Contributions paid to PERA subsequent to the measurement date	31,556	-
Total	<u>\$132,706</u>	<u>\$31,354</u>

\$31,556 reported as deferred outflows of resources related to pensions resulting from MWMO contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2016	\$18,359
2017	18,359
2018	18,359
2019	14,719
2020	-
Thereafter	-

F. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034 and 2.5% thereafter.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
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Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There are no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

G. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. PENSION LIABILITY SENSITIVITY

The following presents the MWMO's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the MWMO's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
MWMO's proportionate share of the GERF net pension liability	\$977,851	\$621,902	\$327,943

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

I. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 10 LONG-TERM DEBT

CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/15</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences payable	<u>\$55,354</u>	<u>\$49,441</u>	<u>\$50,447</u>	<u>\$54,348</u>	<u>\$52,032</u>

Compensated absences are generally liquidated by the General Fund.

Note 11 COMMITMENTS AND CONTINGENCIES

Existing and pending lawsuits, claims and other actions in which the WMO is a defendant are either covered by insurance or of an immaterial amount.

Note 12 RECENTLY ISSUED ACCOUNTING STANDARDS

The Governmental Accounting Standards Boards (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 72 *Fair Value Measurement and Application*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.

Statement No. 77 *Tax Abatement Disclosures*. The provisions of this Statement are effective for reporting periods beginning after December 31, 2015.

Statement No. 79 *Certain External Investment Pools and Pool Participants*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015.

The effect these standards may have on future financial statements is not determinable at this time.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 13 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2015, the MWMO implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. GASB 68 addresses accounting and financial reporting for pension plans that are provided to employees of state and local governments. The standard requires the MWMO to record its share of the net pension liability of defined benefit plans, as well as any corresponding deferred inflows and outflows of resources. See Note 9 for further information.

The standard required retroactive implementation which resulted in a restatement of net position as of December 31, 2014. Certain amounts necessary to fully restate 2014 financial information are not determinable, therefore, prior year comparative amounts have not been restated. Details of the prior period adjustment are as follows:

	<u>Governmental Activities</u>
Net position - January 1, 2015, as previously reported	\$ 28,536,499
Prior period adjustment:	
Deferred outflows of resources - pension related	23,043
Net pension liability	<u>(507,330)</u>
Net position - January 1, 2015, as restated	<u>\$ 28,052,212</u>

REQUIRED SUPPLEMENTARY INFORMATION

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

REQUIRED SUPPLEMENTARY INFORMATION

Statement 6

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2015

With Comparative Actual Amounts For The Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
Property taxes	\$1,530,000	\$1,530,000	\$1,549,928	\$19,928	\$1,220,786
Reimbursement revenue	-	-	-	-	240
Investment income	-	-	4,628	4,628	4,941
Other	-	-	16,702	16,702	17,174
Total revenues	<u>1,530,000</u>	<u>1,530,000</u>	<u>1,571,258</u>	<u>41,258</u>	<u>1,243,141</u>
Expenditures:					
Current:					
Personnel costs	1,300,000	1,300,000	1,072,523	227,477	868,211
Insurance	25,000	25,000	25,321	(321)	23,297
HR, accounting and legal	120,000	120,000	167,093	(47,093)	187,591
Miscellaneous	85,000	85,000	179,659	(94,659)	158,334
Capital outlay	-	-	-	-	33,029
Total expenditures	<u>1,530,000</u>	<u>1,530,000</u>	<u>1,444,596</u>	<u>85,404</u>	<u>1,270,462</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	126,662	<u>\$126,662</u>	(27,321)
Fund balance - January 1			<u>1,403,071</u>		<u>1,430,392</u>
Fund balance - December 31			<u>\$1,529,733</u>		<u>\$1,403,071</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - PROJECT AND PROGRAM FUND
For The Year Ended December 31, 2015
With Comparative Actual Amounts For The Year Ended December 31, 2014

Statement 7

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
Revenues:					
Property taxes	\$3,985,000	\$3,985,000	\$4,043,517	\$58,517	\$4,303,008
Intergovernmental	-	-	5,275	5,275	419,179
Reimbursement revenue	-	-	45,340	45,340	12,679
Investment income	-	-	81,410	81,410	76,742
Total revenues	3,985,000	3,985,000	4,175,542	190,542	4,811,608
Expenditures:					
Projects:					
Stadium Plaza Tree System	800,000	800,000	-	800,000	-
Columbia Heights Library	600,000	600,000	-	600,000	-
Green 4th Street / Prospect North Projects	1,710,000	1,710,000	275,405	1,434,595	-
Hennepin County Interchange Project	-	-	-	-	500,000
Jackson Pond	-	-	795,000	(795,000)	-
Longfellow Station Rain Beam	-	-	30,000	(30,000)	-
LaBelle Park	-	-	236,141	(236,141)	-
Land conservation	-	-	361,032	(361,032)	-
Regional Stormwater Treatment - SAV	-	-	39,665	(39,665)	-
Northeast Green Campus	-	-	69,335	(69,335)	868,161
Riverside Avenue Reconstruction	-	-	-	-	426,517
R L Stevenson Elementary School Riverbank Restoration	-	-	2,488	(2,488)	75,620
Administrative project expense	-	-	999	(999)	43,768
Total projects	3,110,000	3,110,000	1,810,065	1,299,935	1,914,066
Programs:					
Water conservation	55,000	55,000	-	55,000	-
Grants - stewardship fund	-	-	102,775	(102,775)	34,168
Watershed assessment	50,000	50,000	65,388	(15,388)	198,069
Communication and outreach	150,000	150,000	87,239	62,761	58,641
Planning	55,000	55,000	17,476	37,524	84,074
Monitoring	125,000	125,000	206,858	(81,858)	177,915
Program support consultants	-	-	2,125	(2,125)	50,641
Total programs	435,000	435,000	481,861	(46,861)	603,508
Capital outlay	440,000	440,000	428,176	11,824	451,643
Total expenditures	3,985,000	3,985,000	2,720,102	1,264,898	2,969,217
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	1,455,440	<u>\$1,455,440</u>	1,842,391
Fund balance - January 1			<u>20,850,495</u>		<u>19,008,104</u>
Fund balance - December 31			<u>\$22,305,935</u>		<u>\$20,850,495</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY* -
 GENERAL EMPLOYEES RETIREMENT FUND
 For The Year Ended December 31, 2015

Statement 8

Measurement Date	Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	Covered-Employee Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	December 31, 2015	0.0120%	\$621,902	\$702,372	88.5%	78.2%

* The schedule is provided prospectively beginning with the MWMO's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION CONTRIBUTIONS* - GENERAL EMPLOYEES RETIREMENT FUND

For The Year Ended December 31, 2015

Statement 9

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (c)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/c)</u>
December 31, 2015	\$60,396	\$60,396	\$0	\$805,274	7.5%

* The schedule is provided prospectively beginning with the MWMO's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI
December 31, 2015

Note A LEGAL COMPLIANCE – BUDGETS

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

Note B PENSION INFORMATION

PERA – General Employees Retirement Fund

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes. Details can be obtained from the financial reports of PERA.

INDIVIDUAL FUND FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE BALANCE SHEET
GENERAL FUND
 December 31, 2015
 With Comparative Amounts For December 31, 2014

Statement 10

Assets	2015	2014
Cash	\$1,568,632	\$1,454,669
Accounts receivable	-	7,754
Taxes receivable:		
Delinquent	14,256	15,984
Due from county	12,892	8,064
Total assets	\$1,595,780	\$1,486,471
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$9,016	\$26,447
Due to other governments	998	591
Salaries payable	41,777	40,378
Total liabilities	51,791	67,416
Deferred inflows of resources:		
Unavailable revenues	14,256	15,984
Fund balance:		
Unassigned	1,529,733	1,403,071
Total liabilities, deferred inflows of resources, and fund balance	\$1,595,780	\$1,486,471

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2015
With Comparative Amounts For The Year Ended December 31, 2014

Statement 11

	<u>2015</u>	<u>2014</u>
Revenues:		
Property taxes	\$1,549,928	\$1,220,786
Reimbursement revenue	-	240
Investment income	4,628	4,941
Other	16,702	17,174
Total revenues	<u>1,571,258</u>	<u>1,243,141</u>
Expenditures:		
Current:		
Wages and benefits	1,009,256	816,971
Payroll taxes	63,267	51,240
Administrative	39,113	17,199
Consultants	37,604	126,801
Insurance	25,321	23,297
HR, accounting and legal	129,489	60,790
Building operations	83,991	51,740
Equipment	10,304	26,412
Supplies	11,635	10,123
Telecommunications	31,478	25,105
Other	3,138	27,755
Capital outlay	-	33,029
Total expenditures	<u>1,444,596</u>	<u>1,270,462</u>
Revenues over (under) expenditures	126,662	(27,321)
Fund balance - January 1	<u>1,403,071</u>	<u>1,430,392</u>
Fund balance - December 31	<u><u>\$1,529,733</u></u>	<u><u>\$1,403,071</u></u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE BALANCE SHEET
PROJECT AND PROGRAM FUND
 December 31, 2015
 With Comparative Amounts For December 31, 2014

Statement 12

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$22,308,294	\$21,013,295
Due from other governments	25,108	32,662
Taxes receivable:		
Delinquent	36,627	50,842
Due from county	<u>36,989</u>	<u>32,549</u>
Total assets	<u><u>\$22,407,018</u></u>	<u><u>\$21,129,348</u></u>
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$48,629	\$54,338
Due to other governments	15,827	99,320
Contracts payable	-	44,175
Retainage payable	<u>-</u>	<u>30,178</u>
Total liabilities	<u>64,456</u>	<u>228,011</u>
Deferred inflows of resources:		
Unavailable revenues	<u>36,627</u>	<u>50,842</u>
Fund balance:		
Committed	20,156,600	18,782,570
Assigned	<u>2,149,335</u>	<u>2,067,925</u>
Total fund balance	<u>22,305,935</u>	<u>20,850,495</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$22,407,018</u></u>	<u><u>\$21,129,348</u></u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
PROJECT AND PROGRAM FUND
For The Year Ended December 31, 2015
With Comparative Amounts For The Year Ended December 31, 2014

Statement 13

	<u>2015</u>	<u>2014</u>
Revenues:		
Property taxes	\$4,043,517	\$4,303,008
Intergovernmental	5,275	419,179
Reimbursement revenue	45,340	12,679
Investment income	81,410	76,742
Total revenues	<u>4,175,542</u>	<u>4,811,608</u>
Expenditures:		
Projects:		
Green 4th Street / Prospect North Project	275,405	-
Hennepin County Interchange Project	-	500,000
Jackson Pond	795,000	-
Regional Stormwater Treatment - SAV	39,665	-
Longfellow Station Rain Beam	30,000	-
LaBelle Park	236,141	-
Land conservation	361,032	-
Northeast Green Campus	69,335	868,161
Riverside Avenue Reconstruction	-	426,517
R L Stevenson Elementary School Riverbank Restoration	2,488	75,620
Administrative project expense	999	43,768
Total projects	<u>1,810,065</u>	<u>1,914,066</u>
Programs:		
Grants - stewardship fund	102,775	34,168
Watershed assessment	65,388	198,069
Communication and outreach	87,239	58,641
Planning	17,476	84,074
Monitoring	206,858	177,915
Miscellaneous program support	2,125	50,641
Total programs	<u>481,861</u>	<u>603,508</u>
Capital outlay	<u>428,176</u>	<u>451,643</u>
Total expenditures	<u>2,720,102</u>	<u>2,969,217</u>
Revenues over expenditures	1,455,440	1,842,391
Fund balance - January 1	<u>20,850,495</u>	<u>19,008,104</u>
Fund balance - December 31	<u><u>\$22,305,935</u></u>	<u><u>\$20,850,495</u></u>

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OTHER INFORMATION - UNAUDITED

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MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
TAX LEVY AND REVENUE BY COUNTY
December 31, 2015

Exhibit 1

2015 Tax Collections

Hennepin County	\$5,083,467
Ramsey County	30,277
Anoka County	<u>479,701</u>
Total tax collections	<u><u>\$5,593,445</u></u>
Levy amount - per Mississippi WMO budget	<u><u>\$5,600,000</u></u> *
Collection percentage	<u><u>99.9%</u></u>

* Levy amount includes a contingency for uncollected taxes of \$85,000

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OTHER REPORTS

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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, 2015, 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.

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.

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

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.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

February 25, 2016

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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, 2015 and the related notes to the financial statements and have issued our report thereon dated February 25, 2016

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except we did not test for compliance with the provisions for tax increment financing because 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 of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Responses as item 2015-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Mississippi Watershed Management Organization's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of Mississippi Watershed Management Organization and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

February 25, 2016

Mississippi Watershed Management Organization
Minnesota Legal Compliance Report
Schedule of Findings and Responses

2015-001 Retention of Brokers Certification Form

Criteria: Minnesota Statute 118A.04 reads as follows:

118A.04 Investments

Subd. 9. Broker; statement and receipt. (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

Condition: Minnesota Statutes require Water Management Organizations annually, prior to entering into transactions, obtain and retain broker certifications from all brokers with whom the entity has transactions. The MWMO did not retain broker certifications covering transactions for the year 2015.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the MWMO obtain and retain broker certification forms from all broker-dealers.

Management Response: The MWMO will ensure they retain the broker certification form annually.