

**MISSISSIPPI WATERSHED
MANAGEMENT ORGANIZATION**

ANNUAL FINANCIAL REPORT

December 31, 2017

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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, 2017

City

Board of Commissioners:

Donna Schmitt
James Saefke
Mary Gaasch
Kevin Reich
Scott Vreeland
Jerry Faust
Cailin Rogers

Columbia Heights & Hilltop
Fridley
Lauderdale
Minneapolis
Minneapolis Park & Recreation Board
Saint Anthony Village
Saint Paul

Alternates:

Linda Johnson
Dolores Varichak
Jeffrey Dains
Blong Yang
Liz Wielinski
Randy Stille
Matt Haas

Columbia Heights & Hilltop
Fridley
Lauderdale
Minneapolis
Minneapolis Park & Recreation Board
Saint Anthony Village
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, 2017, 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Mississippi Watershed Management Organization's 2016 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 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 section 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

March 9, 2018

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BASIC FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

STATEMENT OF NET POSITION

Statement 1

December 31, 2017

With Comparative Totals For December 31, 2016

	Primary Government	
	Governmental Activities	
	2017	2016
Assets:		
Cash and investments	\$21,647,969	\$22,155,803
Due from other governments	14,625	8,300
Prepays	20,576	2,233
Property taxes receivable:		
Delinquent	91,553	172,739
Due from county	23,122	63,966
Capital assets - net:		
Nondepreciable	665,691	750,883
Depreciable	6,386,749	6,255,074
Total assets	<u>28,850,285</u>	<u>29,408,998</u>
Deferred outflows of resources:		
Related to pensions	<u>302,695</u>	<u>545,662</u>
Liabilities:		
Accounts payable	88,233	46,805
Due to other governments	222,586	200,642
Contracts payable	19,350	57,444
Retainage payable	41,024	41,024
Salaries payable	61,728	55,190
Unearned revenue	82,647	2,658
Compensated absences payable:		
Due within one year	51,056	48,492
Net pension liability:		
Due in more than one year	906,519	1,104,253
Total liabilities	<u>1,473,143</u>	<u>1,556,508</u>
Deferred inflows of resources:		
Related to pensions	<u>149,459</u>	<u>89,704</u>
Net position:		
Net investment in capital assets	7,052,440	7,005,957
Unrestricted	20,477,938	21,302,491
Total net position	<u>\$27,530,378</u>	<u>\$28,308,448</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2017

With Comparative Totals For The Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2017	2016
Primary government:						
Governmental activities:						
General government	\$1,918,213	\$ -	\$3,626	\$ -	(\$1,914,587)	(\$1,789,454)
Programs	1,169,849	-	122,712	-	(1,047,137)	(699,713)
Projects	3,595,096	-	53,608	-	(3,541,488)	(4,802,775)
Total governmental activities	<u>\$6,683,158</u>	<u>\$0</u>	<u>\$179,946</u>	<u>\$0</u>	<u>(6,503,212)</u>	<u>(7,291,942)</u>
General revenues:						
Property taxes					5,539,929	5,763,149
Unrestricted investment earnings					154,284	82,334
Miscellaneous other					30,929	34,285
Total general revenues					<u>5,725,142</u>	<u>5,879,768</u>
Change in net position					(778,070)	(1,412,174)
Net position - January 1					<u>28,308,448</u>	<u>29,720,622</u>
Net position - December 31					<u>\$27,530,378</u>	<u>\$28,308,448</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

BALANCE SHEET

Statement 3

GOVERNMENTAL FUNDS

December 31, 2017

With Comparative Totals For December 31, 2016

Assets	General Fund	Project and Program Fund	Total Governmental Funds	
			2017	2016
Cash	\$1,887,305	\$19,760,664	\$21,647,969	\$22,155,803
Due from other governments	-	14,625	14,625	8,300
Prepays	12,726	7,850	20,576	2,233
Taxes receivable:				
Delinquent	27,835	63,718	91,553	172,739
Due from county	7,572	15,550	23,122	63,966
Total assets	\$1,935,438	\$19,862,407	\$21,797,845	\$22,403,041
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$5,409	\$82,824	\$88,233	\$46,805
Due to other governments	221	222,365	222,586	200,642
Salaries payable	61,728	-	61,728	55,190
Contracts payable	-	19,350	19,350	57,444
Retainage payable	-	41,024	41,024	41,024
Unearned revenue	-	82,647	82,647	2,658
Total liabilities	67,358	448,210	515,568	403,763
Deferred inflows of resources:				
Unavailable revenues	27,835	63,718	91,553	172,739
Fund balance:				
Nonspendable	12,726	7,850	20,576	2,233
Committed	-	16,974,833	16,974,833	17,862,368
Assigned	-	2,367,796	2,367,796	2,230,303
Unassigned	1,827,519	-	1,827,519	1,731,635
Total fund balance	1,840,245	19,350,479	21,190,724	21,826,539
Total liabilities, deferred inflows of resources, and fund balance	\$1,935,438	\$19,862,407	\$21,797,845	\$22,403,041
Fund balance reported above			\$21,190,724	\$21,826,539
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.			7,052,440	7,005,957
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.			91,553	172,739
Deferred outflows of resources - pension related are not current financial resources and, therefore, are not reported in the funds.			302,695	545,662
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.			(149,459)	(89,704)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
Compensated absences payable			(51,056)	(48,492)
Net pension liability			(906,519)	(1,104,253)
Net position of governmental activities			\$27,530,378	\$28,308,448

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, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 4

	General Fund	Project and Program Fund	Total Governmental Funds	
			2017	2016
Revenues:				
Property taxes	\$1,712,537	\$3,908,578	\$5,621,115	\$5,641,293
Intergovernmental	3,147	96,381	99,528	10,459
Reimbursement revenue	150	79,939	80,089	261,514
Investment income	11,736	142,548	154,284	82,334
Other	30,367	562	30,929	40,285
Total revenues	<u>1,757,937</u>	<u>4,228,008</u>	<u>5,985,945</u>	<u>6,035,885</u>
Expenditures:				
Current:				
Personnel costs	1,298,190	-	1,298,190	1,147,825
Administrative	43,722	-	43,722	38,857
Consultants	38,322	-	38,322	39,407
Insurance	28,624	-	28,624	26,371
HR, accounting and legal	112,885	-	112,885	124,114
Building operations	48,988	-	48,988	48,232
Other	52,466	-	52,466	56,358
Programs	-	1,080,625	1,080,625	674,164
Projects	-	3,579,620	3,579,620	5,241,305
Capital outlay	26,130	312,188	338,318	648,381
Total expenditures	<u>1,649,327</u>	<u>4,972,433</u>	<u>6,621,760</u>	<u>8,045,014</u>
Revenues over (under) expenditures	108,610	(744,425)	(635,815)	(2,009,129)
Fund balance - January 1	<u>1,731,635</u>	<u>20,094,904</u>	<u>21,826,539</u>	<u>23,835,668</u>
Fund balance - December 31	<u><u>\$1,840,245</u></u>	<u><u>\$19,350,479</u></u>	<u><u>\$21,190,724</u></u>	<u><u>\$21,826,539</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, 2017
With Comparative Totals For The Year Ended December 31, 2016

Statement 5

	<u>2017</u>	<u>2016</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)	(\$635,815)	(\$2,009,129)
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.	46,483	596,988
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(81,186)	121,856
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	(2,564)	5,856
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	\$73,125	
Pension expense	(178,113)	
	<u>(104,988)</u>	<u>(127,745)</u>
Change in net position of governmental activities (Statement 2)	<u>(\$778,070)</u>	<u>(\$1,412,174)</u>

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

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 and 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, 2017

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.

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.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

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.

The following is a listing of funds whose expenditures exceeded budget appropriations:

Fund:	Final Budget	Actual	Over Budget
Project and Program Fund	\$3,925,000	\$4,972,433	\$1,047,433

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 a 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, except for investments in external investment pools that meet GASB 79 requirements, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

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 are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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
Intangibles	5 – 25 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.

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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, 2016, 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.

R. DEFERRED BENEFIT PENSION PLANS

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.

S. 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 (\$81,186) difference are as follows:

Unavailable revenue - general property taxes:	
At December 31, 2016	(\$172,739)
At December 31, 2017	<u>91,553</u>
Net adjustments to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>(\$81,186)</u></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 \$46,483 difference are as follows:

Capital outlay	\$338,318
Depreciation	<u>(291,835)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$46,483</u></u>

Another element of that reconciliation states that “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.” The details of this (\$2,564) difference are as follows:

Compensated absences:	
At December 31, 2016	\$48,492
At December 31, 2017	<u>(51,056)</u>
Net adjustments to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u><u>(\$2,564)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

Minnesota Statutes require that all MWMO deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the MWMO Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any federal agency.

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 \$10,841,014, and the bank balance was \$10,864,842. 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.
- 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.

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- 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, 2017, the MWMO had the following investments and maturities:

Investment Type	Rating	Fair Value	Investment Maturities (In Years)	
			Less Than 1	1 - 5
Brokered certificate of deposits	NR	\$ 5,941,749	\$ 5,198,488	\$ 743,261
External investment pool - 4M Fund		2,849,909	2,849,909	-
External investment pool - 4M Fund Plus		15,297	15,297	-
External investment pool - 4M Term Series		2,000,000	2,000,000	-
Total investments		10,806,955	\$ 10,063,694	\$ 743,261
Deposits		10,841,014		
Total cash and investments		\$ 21,647,969		

NR - Not Rated

The WMO categorizes its fair value measurements within the fair value hierarchy established by the Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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The WMO has the following recurring fair value measurements as of December 31, 2017:

Investment Type	12/31/2017	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments at fair value:				
Brokered certificates of deposit	\$5,941,749	\$ -	\$5,941,749	\$ -
Investments at amortized cost:				
External investment pool - 4M Fund	2,849,909			
External investment pool - 4M Fund Plus	15,297			
External investment pool - 4M Term Series	2,000,000			
Total	\$10,806,955			

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 investment 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 pool and the fair value of the position in the pool is the same as the value of pool shares. The pool is managed to maintain a portfolio weighted average maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1. The pool measures their investments in accordance with Government Accounting Standards Board Statement No. 79, at amortized cost.

The 4M Liquid Asset Fund has no redemption requirements. The 4M Plus Fund requires funds to be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period are subject to a penalty equal to seven days interest on the amount withdrawn. The 4M Term Series are designed for each investment to be held for the full term of that series. If an investment made in a Term Series is withdrawn prior to the maturity date of that Series, seven days' notice of redemption is required and a penalty will likely be assessed.

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 \$5,941,749 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. The CDs held by any Term Series will

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either be insured by FDIC up to the maximum amount of such insurance or fully collateralized by pledged securities or letters of credit provided by Federal Home loan Banks for amounts in excess of FDIC insurance. The U.S. government obligations held by a Term Series will be backed by the full faith and credit of the U.S. government or by the agency or instrumentality issuing or guaranteeing the obligation. The municipal obligations held by a Term Series may be backed only by the taxing power of the issuer of such securities or may be secured by specific revenues by the issuer.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$330,849	\$ -	\$ -	\$330,849
Intangibles - stormwater credits	204,109	-	-	204,109
Permanent easement	12,094	-	-	12,094
Construction in progress	203,831	276,746	(361,938)	118,639
Total capital assets, not being depreciated	<u>750,883</u>	<u>276,746</u>	<u>(361,938)</u>	<u>665,691</u>
Capital assets, being depreciated:				
Buildings	4,443,404	-	-	4,443,404
Land improvements	1,338,046	-	-	1,338,046
Intangibles	653,886	403,216	-	1,057,102
Office equipment	336,718	14,675	-	351,393
Fleet	52,016	-	-	52,016
Furniture and fixtures	293,703	5,619	-	299,322
Total capital assets, being depreciated	<u>7,117,773</u>	<u>423,510</u>	<u>0</u>	<u>7,541,283</u>
Less accumulated depreciation for:				
Buildings	496,989	111,911	-	608,900
Land improvements	139,788	53,522	-	193,310
Intangibles	27,471	49,724	-	77,195
Office equipment	108,365	46,440	-	154,805
Fleet	33,439	7,432	-	40,871
Furniture and fixtures	56,647	22,806	-	79,453
Total accumulated depreciation	<u>862,699</u>	<u>291,835</u>	<u>0</u>	<u>1,154,534</u>
Total capital assets being depreciated - net	<u>6,255,074</u>	<u>131,675</u>	<u>-</u>	<u>6,386,749</u>
Governmental activities capital assets - net	<u>\$7,005,957</u>	<u>\$408,421</u>	<u>(\$361,938)</u>	<u>\$7,052,440</u>

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

Governmental activities:	
General government	\$187,135
Programs	89,224
Projects	15,476
Total depreciation expense - governmental activities	<u>\$291,835</u>

Note 4 RECEIVABLES

Significant receivables balances not expected to be collected within one year of December 31, 2017 are as follows:

	<u>Major Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Project and Program Fund</u>	
Delinquent property taxes	<u>\$15,336</u>	<u>\$35,108</u>	<u>\$50,444</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	\$27,835
Project and Program Fund	63,718
Total	<u>\$91,553</u>

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Note 6 FUND BALANCE

A. CLASSIFICATIONS

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Project and Program Fund</u>	<u>Total</u>
Nonspendable			
General Fund	\$12,726	\$ -	\$12,726
Projects and programs	-	7,850	7,850
	<u>12,726</u>	<u>7,850</u>	<u>20,576</u>
Committed:			
Projects and programs	-	16,974,833	16,974,833
Assigned:			
Projects and programs	-	2,367,796	2,367,796
Unassigned	<u>1,827,519</u>	<u>-</u>	<u>1,827,519</u>
Total	<u><u>\$1,840,245</u></u>	<u><u>\$19,350,479</u></u>	<u><u>\$21,190,724</u></u>

Note 7 FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The MWMO may be eligible to receive financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the MWMO at December 31, 2017.

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. 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.

B. 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.

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.

C. 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 2017. The MWMO was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The MWMO's contributions to the GERF for the year ended December 31, 2017, were \$73,125. The MWMO's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

GERF Pension Costs

At December 31, 2017, the MWMO reported a liability of \$906,519 for its proportionate share of the GERF's net pension liability. The MWMO's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the MWMO totaled \$11,377. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the MWMO's proportion was .0142%, which was an increase of .0006% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the MWMO recognized pension expense of \$178,113 for its proportionate share of the GERF's pension expense. In addition, the MWMO recognized an additional \$329 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

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At December 31, 2017, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$29,876	\$58,580
Changes in actuarial assumptions	150,502	90,879
Difference between projected and actual investment earnings	6,346	-
Changes in proportion	79,092	-
Contributions paid to PERA subsequent to the measurement date	<u>36,879</u>	<u>-</u>
Total	<u><u>\$302,695</u></u>	<u><u>\$149,459</u></u>

\$36,879 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2018	\$82,351
2019	80,893
2020	(8,407)
2021	(38,480)
Thereafter	-

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

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The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statute. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members of the GERF. 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.

G. 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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
MWMO's proportionate share of the GERF net pension liability	\$1,406,078	\$906,519	\$497,539

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H. 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, 2017, was as follows:

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/17</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences payable	<u>\$48,492</u>	<u>\$60,232</u>	<u>\$57,668</u>	<u>\$51,056</u>	<u>\$51,056</u>

Compensated absences are generally liquidated by the General Fund.

Note 11 COMMITMENTS AND CONTINGENCIES

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant that would be material to the financial statements.

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. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 83 *Certain Asset Retirement Obligations*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84 *Fiduciary Activities*. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 85 *Omnibus 2017*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 86 *Certain Debt Extinguishment Issues*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87 *Leases*. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.

The effect these standards may have on future financial statements is not determinable at this time, but it is expected that Statement No. 87 may have a material impact.

REQUIRED SUPPLEMENTARY INFORMATION

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

REQUIRED SUPPLEMENTARY INFORMATION

Statement 6

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2017

With Comparative Actual Amounts For The Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
Revenues:					
Property taxes	\$1,720,000	\$1,720,000	\$1,712,537	(\$7,463)	\$1,643,648
Intergovernmental revenue	-	-	3,147	3,147	-
Reimbursement revenue	-	-	150	150	-
Investment income	-	-	11,736	11,736	5,133
Other	-	-	30,367	30,367	34,285
Total revenues	<u>1,720,000</u>	<u>1,720,000</u>	<u>1,757,937</u>	<u>37,937</u>	<u>1,683,066</u>
Expenditures:					
Current:					
Personnel costs	1,405,000	1,405,000	1,298,190	106,810	1,147,825
Insurance	25,000	25,000	28,624	(3,624)	26,371
HR, accounting and legal	180,000	180,000	151,207	28,793	163,521
Miscellaneous	85,000	85,000	145,176	(60,176)	143,447
Capital outlay	25,000	25,000	26,130	(1,130)	-
Total expenditures	<u>1,720,000</u>	<u>1,720,000</u>	<u>1,649,327</u>	<u>70,673</u>	<u>1,481,164</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	108,610	<u>\$108,610</u>	201,902
Fund balance - January 1			<u>1,731,635</u>		<u>1,529,733</u>
Fund balance - December 31			<u>\$1,840,245</u>		<u>\$1,731,635</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - PROJECT AND PROGRAM FUND
For The Year Ended December 31, 2017
With Comparative Actual Amounts For The Year Ended December 31, 2016

Statement 7

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget -	2016 Actual Amounts
	Original	Final		Positive	
				(Negative)	
Revenues:					
Property taxes	\$3,925,000	\$3,925,000	\$3,908,578	(\$16,422)	\$3,997,645
Intergovernmental	-	-	96,381	96,381	10,459
Reimbursement revenue	-	-	79,939	79,939	261,514
Investment income	-	-	142,548	142,548	77,201
Other revenue	-	-	562	562	6,000
Total revenues	<u>3,925,000</u>	<u>3,925,000</u>	<u>4,228,008</u>	<u>303,008</u>	<u>4,352,819</u>
Expenditures:					
Projects:					
Seward Commons	-	-	-	-	100,000
Columbia Heights Library	-	-	-	-	600,000
Green 4th Street / Prospect North Projects	-	-	150,801	(150,801)	1,054,107
Minneapolis Sculpture Garden	-	-	1,380,492	(1,380,492)	145,095
Westminister Project	-	-	-	-	22,980
Edison Interpretive Signage	-	-	-	-	30,954
24th Avenue SE Infiltration	-	-	650,000	(650,000)	-
Halls Island	-	-	7,869	(7,869)	-
Old Bassett Creek Tunnel Assessment	-	-	88,108	(88,108)	-
Land conservation	-	-	-	-	1,190,695
Regional Stormwater Treatment - SAV	-	-	88,842	(88,842)	1,430,270
Northeast Green Campus	-	-	384,641	(384,641)	631,038
R L Stevenson Elementary School Riverbank Restoration	-	-	2,725	(2,725)	2,909
1NE Watershed System	1,000,000	1,000,000	-	1,000,000	-
Fridley Street Reconstruction	300,000	300,000	325,621	(25,621)	-
MPRB Water Works	500,000	500,000	-	500,000	-
MPLS Upper Harbor Terminal	600,000	600,000	-	600,000	-
NE BMP's for Commercial Properties	-	-	34,462	(34,462)	-
Hawthorn Eco-Village	-	-	160,000	(160,000)	-
Harbor Freight Pond	-	-	300,000	(300,000)	-
8th Street South Tree Trenches	-	-	6,059	(6,059)	-
CIP & Exhibit Maintenance & Replacement schedule Fund	100,000	100,000	-	100,000	-
Engineering consulting	-	-	-	-	33,257
Total projects	<u>2,500,000</u>	<u>2,500,000</u>	<u>3,579,620</u>	<u>(1,079,620)</u>	<u>5,241,305</u>
Programs:					
Grants - stewardship fund	150,000	150,000	208,820	(58,820)	152,919
Master Water Stewards	50,000	50,000	55,475	(5,475)	53,637
Watershed assessment	460,000	460,000	412,439	47,561	83,396
Communication and outreach	250,000	250,000	126,949	123,051	142,597
Planning	50,000	50,000	5,898	44,102	8,836
Monitoring	150,000	150,000	271,044	(121,044)	232,779
Total programs	<u>1,110,000</u>	<u>1,110,000</u>	<u>1,080,625</u>	<u>29,375</u>	<u>674,164</u>
Capital outlay	<u>315,000</u>	<u>315,000</u>	<u>312,188</u>	<u>2,812</u>	<u>648,381</u>
Total expenditures	<u>3,925,000</u>	<u>3,925,000</u>	<u>4,972,433</u>	<u>(1,047,433)</u>	<u>6,563,850</u>
Revenues over expenditures	<u>\$0</u>	<u>\$0</u>	<u>(744,425)</u>	<u>(\$744,425)</u>	<u>(2,211,031)</u>
Fund balance - January 1			<u>20,094,904</u>		<u>22,305,935</u>
Fund balance - December 31			<u>\$19,350,479</u>		<u>\$20,094,904</u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

REQUIRED SUPPLEMENTARY INFORMATION

Statement 8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY* -

GENERAL EMPLOYEES RETIREMENT FUND

For The Year Ended December 31, 2017

Measurement Date June 30	Fiscal Year Ending December 31	MWMO's Proportionate Share (Percentage) of the Net Pension Liability	MWMO's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with MWMO (b)	MWMO's Proportionate Share of the Net Pension Liability Associated with MWMO (a+b)	Covered Payroll (c)	MWMO's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2015	0.0120%	\$621,902	\$ -	\$621,902	\$702,372	88.5%	78.2%
2016	2016	0.0136%	1,104,253	14,445	1,118,698	844,154	132.5%	68.9%
2017	2017	0.1420%	906,519	11,377	917,896	913,036	100.5%	75.9%

* 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****Statement 9****SCHEDULE OF PENSION CONTRIBUTIONS* - GENERAL EMPLOYEES RETIREMENT FUND**

For The Year Ended December 31, 2017

<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 Payroll (c)</u>	<u>Contributions as a Percentage of Covered Payroll (b/c)</u>
December 31, 2015	\$60,396	\$60,396	\$0	\$805,274	7.5%
December 31, 2016	63,988	63,988	0	853,166	7.5%
December 31, 2017	73,125	73,125	0	975,005	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
NOTES TO RSI
December 31, 2017

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

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

INDIVIDUAL FUND FINANCIAL STATEMENTS

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE BALANCE SHEET
GENERAL FUND
 December 31, 2017
 With Comparative Amounts For December 31, 2016

Statement 10

Assets	2017	2016
Cash	\$1,887,305	\$1,779,820
Prepays	12,726	-
Taxes receivable:		
Delinquent	27,835	49,362
Due from county	7,572	19,278
Total assets	\$1,935,438	\$1,848,460
Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$5,409	\$11,133
Due to other governments	221	1,140
Salaries payable	61,728	55,190
Total liabilities	67,358	67,463
Deferred inflows of resources:		
Unavailable revenues	27,835	49,362
Fund balance:		
Nonspendable	12,726	-
Unassigned	1,827,519	1,731,635
Total fund balance	1,840,245	1,731,635
Total liabilities, deferred inflows of resources, and fund balance	\$1,935,438	\$1,848,460

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 11

	<u>2017</u>	<u>2016</u>
Revenues:		
Property taxes	\$1,712,537	\$1,643,648
Intergovernmental	3,147	-
Reimbursement revenue	150	-
Investment income	11,736	5,133
Other	30,367	34,285
Total revenues	<u>1,757,937</u>	<u>1,683,066</u>
Expenditures:		
Current:		
Wages and benefits	1,223,163	1,079,450
Payroll taxes	75,027	68,375
Administrative	43,722	38,857
Consultants	38,322	39,407
Insurance	28,624	26,371
HR, accounting and legal	112,885	124,114
Building operations	48,988	48,232
Equipment	19,265	18,877
Supplies	6,976	5,654
Telecommunications	22,629	28,721
Other	3,596	3,106
Capital outlay	26,130	-
Total expenditures	<u>1,649,327</u>	<u>1,481,164</u>
Revenues over (under) expenditures	108,610	201,902
Fund balance - January 1	<u>1,731,635</u>	<u>1,529,733</u>
Fund balance - December 31	<u><u>\$1,840,245</u></u>	<u><u>\$1,731,635</u></u>

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION

COMPARATIVE BALANCE SHEET

PROJECT AND PROGRAM FUND

December 31, 2017

With Comparative Amounts For December 31, 2016

Statement 12

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$19,760,664	\$20,375,983
Due from other governments	14,625	8,300
Prepays	7,850	2,233
Taxes receivable:		
Delinquent	63,718	123,377
Due from county	15,550	44,688
	<u> </u>	<u> </u>
Total assets	<u>\$19,862,407</u>	<u>\$20,554,581</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balance		
Liabilities:		
Accounts payable	\$82,824	\$35,672
Due to other governments	222,365	199,502
Contracts payable	19,350	57,444
Retainage payable	41,024	41,024
Unearned revenue	82,647	2,658
Total liabilities	<u>448,210</u>	<u>336,300</u>
 Deferred inflows of resources:		
Unavailable revenues	<u>63,718</u>	<u>123,377</u>
 Fund balance:		
Nonspendable	7,850	2,233
Committed	16,974,833	17,862,368
Assigned	<u>2,367,796</u>	<u>2,230,303</u>
Total fund balance	<u>19,350,479</u>	<u>20,094,904</u>
	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$19,862,407</u>	<u>\$20,554,581</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, 2017
With Comparative Amounts For The Year Ended December 31, 2016

Statement 13

	<u>2017</u>	<u>2016</u>
Revenues:		
Property taxes	\$3,908,578	\$3,997,645
Intergovernmental	96,381	10,459
Reimbursement revenue	79,939	261,514
Investment income	142,548	77,201
Other revenue	562	6,000
Total revenues	<u>4,228,008</u>	<u>4,352,819</u>
Expenditures:		
Projects:		
Seward Commons	-	100,000
Columbia Heights Library	-	600,000
Green 4th Street / Prospect North Project	150,801	1,054,107
Minneapolis Sculpture Garden	1,380,492	145,095
Westminister Project	-	22,980
Edison Interpretive Signage	-	30,954
24th Avenue SE Infiltration	650,000	-
Halls Island	7,869	-
Old Bassett Creek Tunnel Assessment	88,108	-
Land conservation	-	1,190,695
Regional Stormwater Treatment - SAV	88,842	1,430,270
Northeast Green Campus	384,641	631,038
R L Stevenson Elementary School Riverbank Restoration	2,725	2,909
Fridley Street Reconstruction	325,621	-
NE BMP's for Commercial Properties	34,462	-
Hawthorn Eco-Village	160,000	-
Harbor Freight Pond	300,000	-
8th Street South Tree Trenches	6,059	-
Engineering consulting	-	33,257
Total projects	<u>3,579,620</u>	<u>5,241,305</u>
Programs:		
Grants - stewardship fund	208,820	152,919
Master Water Stewards	55,475	53,637
Watershed assessment	412,439	83,396
Communication and outreach	126,949	142,597
Planning	5,898	8,836
Monitoring	271,044	232,779
Total programs	<u>1,080,625</u>	<u>674,164</u>
Capital outlay	<u>312,188</u>	<u>648,381</u>
Total expenditures	<u>4,972,433</u>	<u>6,563,850</u>
Revenues over expenditures	(744,425)	(2,211,031)
Fund balance - January 1	<u>20,094,904</u>	<u>22,305,935</u>
Fund balance - December 31	<u>\$19,350,479</u>	<u>\$20,094,904</u>

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OTHER INFORMATION - UNAUDITED

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
TAX LEVY AND REVENUE BY COUNTY
December 31, 2017

Exhibit 1

2017 Tax Collections

Hennepin County	\$5,186,486
Ramsey County	31,759
Anoka County	<u>402,870</u>
Total tax collections	<u><u>\$5,621,115</u></u>
Levy amount - per Mississippi WMO budget	<u><u>\$5,700,000</u></u> *
Collection percentage	<u><u>98.6%</u></u>

* Levy amount includes a contingency for uncollected taxes of \$55,000

MISSISSIPPI WATERSHED MANAGEMENT ORGANIZATION
 PROJECTS AND PROGRAMS INTERGOVERNMENTAL
 AND REIMBURSEMENT REVENUE DETAIL
 December 31, 2017

Exhibit 2

Intergovernmental revenue

Projects:

Board of Soil and Water Resources - NE BMP's Commercial properties \$34,462

Programs:

Hennepin County - Lincoln School playground 61,604

Other - Lincoln School playground 315

Total Intergovernmental revenue \$96,381

Reimbursement revenue

Projects:

Towerside Phase I \$18,117

Miscellaneous 1,029

Programs:

Watershed assessments - Towerside Phase II 42,891

Communication and Outreach - NE School signage 5,800

Monitoring:

Towerside - Reuse maintenance 10,545

St. Anthony Falls / LCCMR 1,334

Other 223

Total reimbursement revenue \$79,939

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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, 2017, 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. 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 the attention of those charged with governance.

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 or significant deficiencies. 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

March 9, 2018

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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, 2017 and the related notes to the financial statements which collectively comprise the Mississippi Watershed Management Organization's basic financial statements, and have issued our report thereon dated March 9, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 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*. 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

March 9, 2018

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