

MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION

455 HAYWARD AVENUE, OAKDALE, MINNESOTA 55082

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Regular Meeting of the Middle St. Croix Watershed Management Organization Bayport Public Library, Bayport, MN Thursday, May 10, 2018 6:00PM

1. Call to Order – 6:00PM
2. Approval of Minutes
 - a. Draft minutes- April 12, 2018 **pages 1-7**
3. Treasurer's Report
 - a. Report of savings account, assets for May 10, 2018
 - b. Approve payment of bills for May 10, 2018
 - c. Budget Tracker Review
4. Public Comments
5. Old Business
 - a. One Watershed One Plan Policy Committee Update and Alternate Appointment
6. New Business
 - a. 2017 Audit **pages 8-29**
 - b. First State Bank Collateral Pledge Agreement **pages 30-39**
 - c. Watershed Based Funding Draft Memorandum of Agreement **pages 40-44**
7. Grant and Cost Share Applications
 - a. None
8. Plan Reviews/Submittals
 - a. 2nd Street Commercial New Construction, Lakeland Shores
 - b. 2909 Itasca Avenue Residential Redevelopment, St. Mary's Point
 - c. 1067 Quixote Shoreline Stabilization, Lakeland
 - d. 12 Point Road Residential Addition, Bayport
9. Administrator's Report
10. Adjourn

Middle St. Croix Watershed Management Organization
Bayport Public Library
Minutes, April 12, 2018

Present: Doug Menikheim, City of Stillwater; Mike Runk, City of Oak Park Heights; Tom McCarthy, City of Lake St. Croix Beach; Brian Zeller, City of Lakeland Shores; John Fellegly, Baytown Township; Annie Perkins, Afton; Patrick McGann, Bayport; Mike Isensee; MSCWMO Administrator; Cameron Blake, WCD BMP Maintenance Technician

Call to Order – Regular Board Meeting

The meeting was called to order at 6:00 by Mr. Zeller.

Approval of Minutes

A motion to approve the January 11th, 2018 minutes was made by Mr. Runk, Seconded by Mr. Menikheim. Motion carried.

Treasurer's Report

The Treasurer's report was presented. Mr. Zeller inquired about receivables from communities discussed in January. Administrator Isensee reported he had notified communities and received about half of them.

Financial Report

The remaining checking account balance is \$212,037.13. First Bank CDs are values at \$32,094.13. The ending balance in the RBC savings account is \$48,694.48.

Mr. McCarthy motioned to approve the budget update. Mr. Runk seconded. Motion carried.

Payment of Bills for March 8, 2018

Carmen Simonet Design \$1,360.00, Carmen Simonet Design \$276.25, Emmons and Oliver Resources \$704.47, Emmons and Oliver Resources \$4,989.29, League of MN Cities \$2,285.00, Minutemen Press \$336.26, Washington Conservation District (Administration) \$4,189.40, Washington Conservation District (Tech Services) \$4,269.25, Washington Conservation District (Water Monitoring) \$4,514.78, Washington Conservation District (EMWREP) \$1,500.00, Washington Conservation District (Administration) \$4,471.25, Washington Conservation District (Tech Services) \$8,006.50, Wenck Associates \$3,965.20.

Mr. Runk motioned to approve payment of the bills. Mr. McCarthy seconded. Motion Carried.

Public Comments

None Submitted.

Mr. Zeller discussed being approached by a research assistant from Mark Lambert, a developer of Summit Management, who inquired about the MSCWMO's regulatory format. Mr. Zeller explained

the MSCWMO's role is advisory for its member community's regulatory program. Administrator Isensee suspects this inquiry is related to the proposed House File 3805 and Senate File 3379 at the state legislature. Administrator Isensee reported that the MN Association of Watershed Directors are aware of the bills and working with stakeholders at the state capitol.

Board of Water and Soil Resources (BWSR) Watershed-Based Funding Update

Administrator Isensee explained that BWSR sent the notification in February that Washington County received \$787,600 through the Watershed Based Funding Program for local projects to improve water quality. The funding needs to be allocated to projects and work agreements completed by June. All Washington County communities were notified and a public meeting was held to identify the types of projects eligible for funding and how to split the funding amongst Washington County local government entities. The decision was made to split the funding evenly between Washington County, Washington Conservation District and the six Watershed Management Organizations for this one time distribution. Based on the agreed funding formula, the MSCWMO will receive \$78,760 for the watershed based funding for project implementation. The funding requires a minimum of 10% match and must be directed to projects and activities to address water quality issues within the watershed. Similar to Clean Water Fund Grants, staff will be working with the Board of Water and Soil Resources to develop an approvable work plan. Staff recommends applying the funding to "shovel ready projects". Two such project areas currently exist: Lily Lake stormwater best management practices and Perro Creek stormwater best management practices.

Administrator Isensee provided the following strategy for applying for grants in 2018: Watershed Based Funding \$58,700 to Lily Lake Raingardens, Watershed Based Funding \$20,000 to Perro Creek Raingardens, St. Croix River Association \$40,000 grant application for projects identified in the Lake St. Croix Direct South Subwatershed Analysis, Competitive Clean Water Fund \$100,000 grant for projects identified in the Lake St. Croix Direct South Subwatershed Analysis, Competitive Clean Water Fund \$900,000 grant to Lily Lake Final 45 Implementation Projects, MPCA Watershed Monitoring Grant to monitor Perro Creek bacteria and Mulberry Ravine outfall.

Mr. Zeller asked about other 2018 projects. Administrator Isensee confirmed that smaller voluntary landowner projects will be funded through the BMP program. Mr. Zeller and Administrator Isensee discussed the grant received from the St. Croix River Association who lobbies legislature for money and then redistributes in an effective partnership so far with the MSCWMO.

Motion by Mr. Zeller, second by Mr. Menikheim to approve the allocation of watershed based funding between the Lily Lake stormwater quality retrofits and the Perro Creek stormwater quality retrofits. The motion carried.

One Watershed One Plan Policy Committee Appointment

One Watershed One Plan is an approach adopted by the Board of Water and Soil Resource as at result from policy work conducted by the Minnesota Association of Soil and Water Conservation Districts (MASWCD), the Minnesota Association of Watershed Districts (MAWD) and the Association of Minnesota Counties (AMC) during a multi-year Local Government Water Roundtable. The Lower St. Croix One Watershed One Plan boundary includes 5 Counties, 5 Soil and

Water Conservation Districts, 5 Watershed Districts and two Joint Powers WMOs. The 17 local entities will work to coordinate their local plans. The resulting plan will not require local entities to implement or participate in activities that are not in their local plan.

The development of this plan is important because the Board of Water and Soil Resources plans to decrease annual grants and distribute Clean Water Funds to One Water One Plans throughout Minnesota. The plan development process is anticipated to run from April 2018 to July 2019. During this timeframe 14 steering committee and 13 policy committee meetings are anticipated. Administrator Isensee will serve. The board is requested to designate a Policy Committee Member and Alternate.

Mr. Menikheim spoke to Administrator Isensee to better understand the process and volunteers to be the primary policy member for the MSCWMO. The board discussed having Administrator Isensee serve as the alternate. Administrator Isensee communicated that he believe it was okay to be the alternate voting member, but was not certain. He could clarify this at the first policy meeting.

Mr. Zeller nominated Mr. Menikheim as the One Watershed One Plan Steering Committee Policy Member and Administrator Isensee as the alternate. Mr. Fellegly Seconded. Motion carried.

MSCWMO 2017 Year End Report

Administrator Isensee will send the executive summary for the board to present to their communities. Administrator Isensee is requesting approval to submit to BWSR.

Mr. Runk moved to approve the MSCWMO 2017 Year End Report, second by Mr. McCarthy. The motion carried.

MSCWMO Biennial Review

Revisions to State Statute 8410 require watersheds at a minimum of every two years, conduct an evaluation of progress on goals and the implementation actions. The following document is the first evaluation of progress since the adoption of the MSCWMO Watershed Management Plan on October 2015.

The Biennial Review finds the MSCWMO is fully implementing all but one of the actions identified in the 10 year management plan. Administrator Isensee will work with communities to identify flood issues. The WMO can work on finding funding to help cities update their models with the ultimate goal of making sure if flooding events were to happen that emergency routes will be acceptable. Administrator Isensee reported that the other components of the watershed plan are either on track or ahead.

Mr. Zeller had a question about flooding issues. Historically surface water discharge has been focused on flooding and now infiltration is being focused on. He wondered if infiltration would help with flooding issues. Administrator Isensee explained that the retrofit infiltration projects are intended to address the first inch of runoff and due to the increase in size and duration of storm events they will likely not be able to address the projected increase from 5.9 to 7.8 inches of 100 year 24 hour large storm events. Susceptibility to flooding issues of the member communities was discussed. Administrator Isensee discussed the 2014 new development standards do a better job of

managing larger storm events identified in Atlas 14. Ms. Perkins asked about incentives for new developments to lessen the load on infrastructure. Administrator Isensee or Mr. Zeller explained that development is currently designed to meet minimum standards and that it's hard to do more due to the financial pressures of land development. Volume control measurements are already part of these minimum requirements.

Mr. Fellegly moved to approve the MSCWMO 2015-2017 Biennial Evaluation.. Mr. McCarthy seconded. Motion carried.

Lake St. Croix Direct South Subwatershed Analysis Final Report

In 2016 the MSCWMO approved the funding to complete the first analysis of the southern portions of the Middle St. Croix Watershed Management Organization. The draft final report summarizes pollutant loads and identifies potential water quality improvement project for areas south of Bayport to St. Mary's Point that directly drain to Lake St. Croix. The final report identifies 10 catchments areas and 19 projects that would reduce phosphorous loading to Lake St. Croix by 110.4 lbs. per year. Most importantly, the report establishes a cost/benefit that will be used to rank and prioritize future water quality improvement projects for grant funding. The full draft report and a summary of projects has been provided to each of the communities within the Lake St. Croix Direct Discharge Area.

Mr. Fellegly moved to approve the Lake St. Croix Direct South Subwatershed Analysis Report. Mr. McCarthy seconded. Motion carried

Board of Water and Soil Resources (BWSR) Biennial Budget Request

The Board of Water and Soil Resources (BWSR) solicits information regarding local government planned activities and associated budgets for the FY 2020-21 Biennial Budget Request (BBR). A primary purpose of the BBR is to generate information in a common format necessary to support the State-Local partnership by ensuring that local water management implementation priorities are used in the development of the State budget. By demonstrating that the MSCWMO and our member communities are prepared and capable of implementing prioritized, targeted and measurable water quality projects, State decision-makers have increased confidence that State funds appropriated for water management projects and activities will achieve their purpose to protect and improve Minnesota's waters.

The MSCWMO BBR includes all projects identified in the 2015 MSCWMO Watershed Management Plan. Administrator Isensee reported the MSCWMO is anticipating \$1.3 million with \$346,000 in leveraged funds. This funding projection is based on the MSCWMO 10 Year Watershed Management Plan.

Mr. Runk moved to approve the MSCWMO 2020-2021 Biennial Budget Request. Mr. McCarthy seconded. Motion carried.

2017 MSCWMO Water Monitoring Summary

Administrator Isensee reported the water monitoring study, identifying Lily Lake, Lake McKusick, and Perro Creek as the waters of interest in MSCWMO. Currently Brown's Creek Watershed District monitors the outflow of the diversion to McKusick. Lily Lake is continuing the long-term statistical improving trend for TP with Secchi and Chl-a neither getting better or worse. Mr. Fellego had a question about the E coli issue in Perro Creek possibly related to dog poop. Administrator Isensee reported that 3 items are being acted on in reference to Perro Creek. 1- articles about pet waste and leaf litter are being published in the City newsletter. 2- Administrator Isensee is contacting homeowners on the creek about voluntary projects to infiltrate more stormwater. 3- He is applying for funding for the PCA to investigate the origin of the E coli bacteria which can cost in excess of \$10,000. There are two locations where wastewater treatment pipes intersect the creek and so this could be an INI issue. Mr. McGann discussed asking Bayport's public works to look at replacement of old sewer lines. Administrator Isensee said he was talking to Matt, the public work's director on testing for INI and working with the PCA to identify the source of E coli prior to implanting projects on the waste water system. Mr. Zeller asked about using dye tabs to find leaks. Mr. Runk asked about televising the sewer pipes. Administrator Isensee explained that Bayport's stormsewer and sanitary were recently entered into GIS which is a great step. Action was needed to approve the report. Mr. McCarthy moved to approve the report. Ms. Perkins seconded. Motion carried.

St. Croix River Association Grant Application- LSCD South Subwatershed

The St. Croix River Association is now accepting applications for funding through its Lake St. Croix Watershed Improvement program on the Minnesota side of the St. Croix River watershed. Grants awards up to \$40,000 will support phosphorus reduction activities and monitoring projects. Applications are due May 15th, 2018. The grant funds are available for two years, and grantees must provide at least 25% of the total project cost. Match may be a combination of cash and in-kind from non-state sources.

Mr. Zeller moved to approve submitting an application for up to \$40,000 for the St. Croix River Association Lake St. Croix Watershed Improvement Grant. Mr. Fellego Seconded. Motion carried.

2018 Conservation Corps of Minnesota Clean Water Fund Work Orders

The MSCWMO was awarded 14 Minnesota Conservation Crew days to assist communities with the installation of water quality BMPs. Staff request to sign and execute the grant agreements. Administrator Isensee discussed the work orders which would include planting on the Stillwater Jr. High and Greeley Gully Basin projects. Mr. Zeller asked about the Greeley Gully basin which was supposed to be completed last year and Administrator Isensee said they are 70% done and should be complete this year. Action was needed to sign the work orders.

Mr. Zeller moved to approve signature and execution of the Clean Water Fund Minnesota Conservation Corps 2018 Grant Agreements. Mr. Fellego seconded. Motion carried.

North Hill Community Garden Native Plant Grant Application

The North Hill Community Garden is applying for cost share funding not to exceed \$250 for a 910 square foot native garden installation on their property at 1004 Martha Street N. in Stillwater. Technical staff have reviewed the project and recommend approval.

Mr. Fellegy moved to approve a native plant grant not to exceed \$250 for the North Hill Community Garden Native Garden. Mr. McGann seconded. Motion carried.

MPCA Monitoring Grant

Administrator Isensee added a motion to apply for the PCA 10 year monitoring grant for Perro Creek and the McKusick outfall. As part of the 10 year state wide monitoring program, the Minnesota Pollution Control Agency is seeking requests for monitoring as part of their 2019-2020 monitoring effort in the Lower St. Croix Watershed. Staff recommend proposing the MPCA monitor Perro Creek for bacteria and monitor the outfall of Mulberry ravine in Stillwater that is the ultimate outfall of Lily Lake, Long Lake, Lake McKusick, and direct urban runoff from Stillwater into the St. Croix.

Mr. Fellegy moved to approve an application to the MPCA to monitor Perro Creek and the Mulberry Ravine. Mr. McGann seconded. Motion passed.

TH 36 Landscaping Installation, Oak Park Heights

Administrator Isensee discussed the tree and shrub planting plan. Mr. Zeller asked who was paying for this. It is part of the bridge project and is paid for.

Mr. Fellegy moved to accept this review. Mr. McGann seconded. Motion carried.

35 Lakeland Shores Road Shoreline Stabilization, Lakeland Shores

Administrator Isensee discussed the effort to use soil filled rip rap for the stabilization project. This could become a conservation cost share project if the logistics of installing the soil filled riprap can be worked out. If the project becomes a conservation cost share project, Administrator Isensee recommends to waive the \$350 review fee for this landowner due to the merit of the project and the efforts of the landowner so far. Action needed to review the installation of rip rap.

Mr. Zeller moved to approve the 25 Lakeland Shores Road Shoreline Stabilization Project. Mr. Fellegy seconded. Motion carried.

CSAH 24, Stillwater

Administrator Isensee requests to approve the underground treatment proposal with 9 significant conditions with the understanding to work out the technical conditions with them. Mr. Zeller inquired why the county decided on an underground project rather than a surface project.

Mr. Menikheim moved to approve the CSAH 24 Project with 9 conditions. Mr. McCarthy seconded. Motion carried.

Palmer Station, Oak Park Heights

Administrator Isensee reported there were many issues with the proposal and the review could not be completed.

Andersen Windows Redevelopment, Bayport

The project has shifted from voluntary to regulatory with the infiltration basin being used for the new pavement plans. Soil tests came back from the site finding the soil to be sandy, well-draining, and not contaminated. Mr. Zeller commended Andersen Window for their commitment to working in partnership with the WMO to improve water quality.

Mr. Zeller moved to approve the Andersen Windows Redevelopment Project. Mr. Felleggy seconded. Motion carried.

Crosby Hotel, Stillwater

The Crosby Hotel was resubmitted for review due to plumbing code issues with the underground filtration basin being located inside the parking ramp. The review application was received and the review of revisions is almost complete. Action is needed.

Mr. Zeller moved to approve the revised stormwater management plans with one condition. This. Mr. Felleggy seconded. Motion carried.

Mr. Felleggy questioned about the status of the Cahanes Farms Project. Administrator Isensee confirmed there were a few preliminary meetings to review partial plans with watershed staff and the township engineer. No formal plans have been submitted at this time.

Administrator's Report

Administrator Isensee submitted and reviewed the Administrators Report. One piece of notable information was there will be a county commissioner meeting in May with participation from WMO's, WD's, and SWCD's. There will be opportunity for one-on-one time with the commissioners to demonstrate that the watersheds are achieving their goals. Mr. Zeller discussed the Lily Lake Open House and the public input. There was discussion about the Lily Lake Association and the Lake McKusick association.

Adjourn

Mr. Zeller motioned to adjourn. Mr. McCarthy seconded. Motion carried. Meeting adjourned at 7:45

**MIDDLE ST. CROIX
WATERSHED MANAGEMENT ORGANIZATION
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
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FOR THE YEAR ENDED DECEMBER 31, 2017**

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**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
ORGANIZATION
DECEMBER 31, 2017**

Board of Managers:

	<u>City or Township</u>
Brian Zeller (Chair)	Lakeland Shores
Joe Paiement (Vice Chair)	Lakeland
Dan Kylo (Treasurer)	West Lakeland Township
Nancy Anderson (Secretary)	St. Mary's Point
Annie Perkins	Afton
Patrick McGann	Bayport
John Fellego	Baytown Township
Tom McCarthy	Lake St. Croix Beach
Mike Runk	Oak Park Heights
Doug Menikeim	Stillwater

INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Middle St. Croix Watershed Management Organization
Oakdale, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Middle St. Croix Watershed Management Organization, Oakdale, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Middle St. Croix 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Middle St. Croix 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.

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 schedule on page 14, 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 Middle St. Croix Watershed Management Organization's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of the Middle St. Croix Watershed Management Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middle St. Croix Watershed Management Organization's internal control over financial reporting and compliance.

Peterson Company Ltd

Peterson Company Ltd.
Waconia, Minnesota

April 19, 2018

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 308,769
Total Assets	308,769
Liabilities:	
Accounts payable	32,802
Unearned revenue	153,424
Total Liabilities	186,226
Net Position:	
Unrestricted	122,543
Total Net Position	\$ 122,543

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

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Net Position
Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
General government	\$ 167,227	\$ -	\$ 125,553	\$ -	\$ (41,674)
Programs	38,496	-	150,543	-	112,047
Total Governmental Activities	\$ 205,723	\$ -	\$ 276,096	\$ -	70,373
General Revenues:					
Unrestricted interest earnings					226
Other					4,190
Total General Revenues					4,416
Change in Net Position					74,789
Net Position - January 1					47,754
Net Position - December 31					\$ 122,543

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2017**

	<u>General Fund</u>
Assets	
Cash	\$ 308,769
Total Assets	<u>\$ 308,769</u>
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 32,802
Unearned revenues	153,424
Total Liabilities	<u>186,226</u>
 Fund Balance	
Unassigned	<u>122,543</u>
Total Fund Balance	<u>122,543</u>
Total Liabilities and Fund Balance	<u>\$ 308,769</u>
 Total Fund Balance	<u>\$ 122,543</u>
 Net Position of Governmental Activities	<u>\$ 122,543</u>

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

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Total General Fund
Revenues	
Intergovernmental	\$ 276,096
Interest income	226
Other	4,190
Total Revenues	280,512
 Expenditures	
Current:	
General government:	
Contracted personnel services	159,983
Insurance	2,285
Office expenses	1,064
Professional fees	3,895
Programs:	
Local	16,538
State	21,958
Total Expenditures	205,723
 Net Change in Fund Balance	74,789
 Fund Balance - January 1	47,754
 Fund Balance - December 31	\$ 122,543
 Net Change in Fund Balance - Governmental Fund	\$ 74,789
 Change in Net Position of Governmental Activities	\$ 74,789

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

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Summary of Significant Accounting Policies

The Middle St. Croix Watershed Management Organization (the WMO) was established by a Joint Powers Agreement in 1984, between the cities and townships of Afton, St. Mary's Point, Lake St. Croix Beach, Lakeland Shores, Lakeland, Bayport, Oak Park Heights, Stillwater, West Lakeland Township, and Baytown Township, Minnesota. The WMO was formed to meet the requirements of the Metropolitan Surface Water Management Act under the provisions of Minnesota Statutes 103B.211 and 471-59.

The purpose of the Watershed Management Plan is to:

-) Protect, preserve, and use natural surface and groundwater storage and retention systems.
-) Minimize public capital expenditures needed to correct flooding and water quality problems.
-) Identify and plan for the means to effectively protect and improve surface and groundwater quality.
-) Establish more uniform local policies and official controls for surface and groundwater management.
-) Prevent erosion of soil into surface water systems.
-) Promote groundwater recharge.
-) Protect and enhance fish and wildlife habitat and water recreational facilities.
-) Secure the other benefits associated with the proper management of surface and groundwater.

The WMO submitted its Watershed Management Plan to the Minnesota Board of Water and Soil Resources in 1984. Each municipality within the WMO has developed, or is in the process of developing, a specific local water management plan to accomplish the various watershed management objectives of the WMO. The work plan includes guidelines for employees and technicians to follow in order to achieve the Organization's objections.

The WMO is governed by a ten-member Board of Managers. The Board consists of ten representatives appointed by each of the member municipalities.

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

Financial Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the WMO does not have any component units.

Government-Wide Fund Financial Statements

The government-wide fund financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the WMO. The governmental activities are supported by member contributions and intergovernmental revenues.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
NOTES TO THE 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 government revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide fund 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. 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 WMO 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.

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 WMO.

The WMO reports one major governmental fund. The General Fund (Administrative Fund) is the general operating fund of the WMO. It is used to account for financial resources to be used for general administrative expenditures and programs of the WMO.

Budgets

Budgets are adopted annually by the Board of Managers. During the budget year, supplemental appropriations and deletions are, or may be, authorized by the Board. The amounts shown in the financial statements as "Budget" represent the original budgeted amounts plus all revisions made during the year and/or for the year. 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 WMO.

The WMO monitors budget performance on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval procedures.

At December 31, 2017, the WMO's actual expenditures were less than the final budget by \$4,756.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Cash and Investments

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

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

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.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of internally imposed constraints. These constraints are established by resolution of the WMO Board.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the WMO's intended use. These constraints are established by the WMO Board and/or management.

Unassigned – is the residual classification for the general fund.

When both restricted and unrestricted resources are available for use, it is the Board'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 Board's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

Subsequent Events

In preparing these financial statements, the WMO has evaluated events and transactions for potential recognition or disclosure through April 19, 2018, the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits

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

Minnesota Statutes require that all WMO 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 WMO 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.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

At December 31, 2017, the carrying amount of the WMO's deposits was \$308,769 and the bank balance was \$309,019.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the WMO's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all WMO deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The WMO has no additional deposit policies addressing custodial credit risk. Of the \$309,019 bank balance at December 31, 2017, \$10,356 was neither insured, collateralized nor covered by FDIC.

Note 3 - Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for clean water funds. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ending December 31, 2017 consisted of Lake St. Croix Phase I and II \$82,601; Perro Creek Phase I \$27,151; Lily Lake Phase III \$28,096; Lily Lake Final 45% \$15,576; Total \$153,424.

Note 4 - Grants

The WMO receives financial assistance from 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 WMO at December 31, 2017.

Note 5 - Risk Management

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

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 6 - Commitments and Contingencies

The WMO is not aware of any existing or pending lawsuits, claims or other actions in which the WMO is a defendant.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 115,435	\$ 115,435	\$ 276,096	\$ 160,661
Interest income	-	-	226	226
Other	-	-	4,190	4,190
Total Revenues	<u>115,435</u>	<u>115,435</u>	<u>280,512</u>	<u>165,077</u>
Expenditures				
Current:				
General government:				
Contracted personnel services	35,600	35,600	159,983	(124,383)
Insurance	3,000	3,000	2,285	715
Office expenses	1,500	1,500	1,064	436
Professional fees	4,400	4,400	3,895	505
Programs:				
Local	93,870	93,870	16,538	77,332
State	72,109	72,109	21,958	50,151
Total Expenditures	<u>210,479</u>	<u>210,479</u>	<u>205,723</u>	<u>4,756</u>
Net Change in Fund Balance	<u>\$ (95,044)</u>	<u>\$ (95,044)</u>	\$ 74,789	<u>\$ 169,833</u>
Fund Balance - January 1			<u>47,754</u>	
Fund Balance - December 31			<u>\$ 122,543</u>	

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Managers
Middle St. Croix Watershed Management Organization
Oakdale, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Middle St. Croix Watershed Management Organization, Oakdale, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Middle St. Croix Watershed Management Organization's basic financial statements, and have issued our report thereon dated April 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middle St. Croix Watershed Management Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middle St. Croix Watershed Management Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Middle St. Croix Watershed Management Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material *weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control as described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middle St. Croix Watershed Management Organization financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Middle St. Croix Watershed Management Organization's Response to Findings

Middle St. Croix Watershed Management Organization's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Middle St. Croix Watershed Management Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

April 19, 2018

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Managers
Middle St. Croix Watershed Management Organization
Oakdale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of Middle St. Croix 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 Middle St. Croix Watershed Management Organization's basic financial statements, and have issued our report thereon dated April 19, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, 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 Middle St. Croix Watershed Management Organization has no tax increment financing.

In connection with our audit, Middle St. Croix Watershed Management Organization failed to comply with the Deposits and Investments provision of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, as described in the Schedule of Findings and Responses as item 2017-002. 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 the Middle St. Croix Watershed Management Organization's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

April 19, 2018

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

2017-001 Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

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

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The WMO has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Managers.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

2017-002 Deficiencies in Collateral for Deposits

Criteria: Minnesota Statute 118A.03 provides certain specific collateral requirements for deposits as follows:

118A.03 WHEN AND WHAT COLLATERAL REQUIRED.

Subdivision 1. For deposits beyond insurance.

To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state. For the purposes of this section, "banking day" has the meaning given in Federal Reserve Board Regulation CC, Code of Federal Regulations, title 12, section 229.2(f), and incorporates a financial institution's cutoff hour established under section 336.4-108.

Subd. 2. In lieu of surety bond.

The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government Treasury bills, Treasury notes, Treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- (5) 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
- (6) time deposits that are fully insured by any federal agency.

Subd. 3. Amount.

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

**MIDDLE ST. CROIX WATERSHED MANAGEMENT ORGANIZATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

Subd. 4. Assignment.

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

Subd. 5. Withdrawal of excess collateral.

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

Subd. 6. Default.

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

Subd. 7. Safekeeping.

All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

Condition / context: At December 31, 2017, the WMO held deposits of \$309,019. Deposits up to \$250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral refund was \$64,921 (59,019 x 110%). The WMO was unable to provide evidence that such deposits were properly collateralized in accordance with State Statutes.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend the WMO obtain sufficient collateral to comply with Minnesota Statute 118A.03.

Management Response: Management is in the process of working with the bank to get pledged securities set up for the upcoming year.

COLLATERAL PLEDGE AGREEMENT

This Collateral Pledge Agreement dated as of May 1st, 2018 is between Middle St. Croix Water Management Org, a nonprofit organized under the laws of Minnesota, First State Bank and Trust a corporation organized under the laws of Minnesota and U.S. Bank National Association, a national banking association organized under the laws of the United States of America.

WHEREAS, Depositor has selected Deposit Bank as its depository for certain of Depositor's funds; and

WHEREAS, Deposit Bank has separately agreed with Depositor to act as the depository for those funds at Deposit Bank according to a deposit account agreement between Deposit Bank and Depositor and in compliance with applicable laws; and

WHEREAS, such laws require that Deposit Bank secure the deposited funds, to the extent the deposits are not insured by the Federal Deposit Insurance Corporation ("FDIC"), by pledging securities of any type permissible by law; and

WHEREAS, Deposit Bank has selected Custodian to act as custodian of securities that are pledged to various customers of Deposit Bank, in a custody account belonging to Deposit Bank (the "Account"), pursuant to the terms of a custody agreement between Deposit Bank and Custodian ("Custody Agreement"); and

WHEREAS, Deposit Bank has granted a security interest to Depositor in the assets described in Exhibit 4 to this Agreement and any assets substituted therefor (the "Collateral"); and

WHEREAS, Deposit Bank and Depositor wish to express the terms of such security interest and Deposit Bank's pledge of collateral in the terms of this Agreement; and

WHEREAS, Custodian has agreed to act pursuant to the terms of this Agreement; and

NOW, THEREFORE, Depositor, Deposit Bank and Custodian agree as follows:

1. COLLATERAL JURISDICTION. Minnesota shall be the jurisdiction of the Collateral.
2. COLLATERAL TRANSFER. To the extent that the Collateral has not already been received into the Account by Custodian, Deposit Bank covenants to transfer the Collateral to Custodian upon the execution of this Agreement.
3. AUTHORIZED INDIVIDUALS.

3.1 Exhibit 2 to this Agreement contains the names and specimen signatures of individuals authorized to act on behalf of Depositor and Exhibit 3 contains the names and specimen signatures of individuals authorized to act on behalf of Deposit Bank.

3.2 Depositor and Deposit Bank may add or remove authorized representatives without

the consent of the other at any time by providing Custodian with a written replacement exhibit, duly executed by an authorized representative.

3.3 Custodian may rely conclusively and shall be fully protected in acting or refraining from acting upon any direction or instruction reasonably believed by Custodian to be genuine and to have been signed or presented by an authorized representative according to the most recent exhibit provided to Custodian.

4. AMOUNT OF COLLATERAL.

4.1 Deposit Bank covenants that it will at all times during the term of this Agreement maintain Collateral with an aggregate market value in an amount not less than one hundred ten percent (110%) of (a) the amount of Depositor's collected funds on deposit, increased by (b) the amount of accrued but unpaid interest. on such deposited funds, (c) reduced by that portion of the funds insured by the FDIC. Such amount is hereinafter called the "Required Collateral Value".

5. WITHDRAWALS AND SUBSTITUTIONS OF COLLATERAL.

5.1 Deposit Bank may withdraw any of the Collateral by providing Custodian with a written withdrawal authorization executed by an authorized representative of Deposit Bank ("Withdrawal Authorization"). Deposit Bank covenants that the market value of the Collateral following any withdrawal will equal or exceed the Required Collateral Value. Custodian shall be entitled to rely on, and act upon, any Withdrawal Authorization. Deposit Bank and Depositor agree to hold Custodian harmless from any action taken pursuant to or consistent with any Withdrawal Authorization.

5.2 Deposit Bank may substitute assets for any of the Collateral by providing Custodian with a written substitution authorization executed by an authorized representative of Deposit Bank ("Substitution Authorization"). Deposit Bank covenants that the market value of the Collateral following any substitution will equal or exceed the Required Collateral Value. Custodian shall be entitled to rely on, and act upon, any Substitution Authorization. Deposit Bank and Depositor agree to hold Custodian harmless from any action taken pursuant to or consistent with any Substitution Authorization.

5.3 A Substitution Authorization or Withdrawal Authorization may be provided to Custodian by overnight delivery, regular mail, facsimile, email or other written means acceptable to Custodian. Custodian may require such authorization to come in the form of Custodian's standard "Pledge Asset Instruction Memorandum".

5.4 Depositor and Deposit Bank agree that Custodian shall act only upon written instructions received from Deposit Bank unless Depositor delivers to Custodian a "Notice of Exclusive Control" substantially in the form of Exhibit 1 to this Agreement.

6. DEPOSIT BANK OBLIGATIONS. Deposit Bank shall perform all of the duties and obligations required of a depository under all applicable law with respect to collateralization of Depositor's funds on deposit with Deposit Bank. Upon the termination of this Agreement

pursuant to Section 10, Deposit Bank shall turn over to Depositor, or any depository designated by Depositor, all of Depositor's funds held by Deposit Bank as depository. Deposit Bank will furnish to Depositor a monthly statement listing a description of the Collateral. The statement will specify the par value, market value, and maturity date of each component of the Collateral. Upon request, Deposit Bank shall provide to Depositor a copy of Deposit Bank's most recent publicly available quarterly or annual financial statement.

7. CUSTODIAN OBLIGATIONS. Custodian shall be required to act solely in accordance with the provisions of this Agreement. This Agreement does not create any obligation or duty for Custodian other than those expressly set forth herein and no implied duties shall be read into this Agreement against Custodian. Custodian shall record Collateral in its books and records as being pledged pursuant to the terms of this Agreement. Custodian shall have no duty to furnish to Depositor a statement listing a description of the Collateral or any par value, market value or maturity date related to the Collateral. Custodian shall not be responsible for ensuring that Deposit Bank performs any of the duties and obligations required of a depository under all applicable law with respect to collateralization of Depositor's funds on deposit with Deposit Bank.

8. INDEMNIFICATION.

8.1 Depositor agrees to indemnify and hold harmless Custodian, its officers, directors, employees and agents, against all claims, liabilities or expenses (including reasonable attorneys' fees) arising out of this Agreement or with respect to the Collateral, except to the extent that such claims, liabilities or expenses are caused by Custodian's gross negligence or willful misconduct.

8.2 Deposit Bank agrees to indemnify and hold harmless Custodian, its officers, directors, employees and agents, against all claims, liabilities or expenses (including reasonable attorneys' fees) arising out of this Agreement or with respect to the Collateral, except to the extent that such claims, liabilities or expenses are caused by Custodian's gross negligence or willful misconduct.

9. DEFAULT AND REMEDIES.

9.1 If Deposit Bank defaults in performing its duties and obligations under Section 6 above, or if Deposit Bank is declared insolvent, or if a receiver is appointed for Deposit Bank, Depositor shall be entitled to the Collateral. Deposit Bank agrees that upon such conditions described in the preceding sentence, Deposit Bank shall release the Collateral to Depositor on demand, free of exchange or any other charges. Depositor shall return any portion of Collateral, in excess of Deposit Bank's indebtedness to Depositor, to Deposit Bank. Custodian shall not be authorized or required to investigate or establish whether any of the conditions precedent described above exist or have occurred. Deposit Bank hereby directs Custodian to act upon any Notice of Exclusive Control received from Depositor.

9.2 Upon receipt of a Notice of Exclusive Control by Custodian, (a) Custodian shall comply with any written instructions received from Depositor at any time to transfer, sell, redeem, close open trades or otherwise liquidate any Collateral (including instructions to transfer

assets directly to, or into an account in the name of, Depositor), without further consent by Deposit Bank, and (b) Deposit Bank shall no longer be entitled to make any instructions relating to the Collateral to Custodian.

9.3 Custodian shall not be liable to Deposit Bank for complying with a Notice of Exclusive Control. Depositor covenants that it will only give instructions or deliver a Notice of Exclusive Control to Custodian in accordance with applicable law and any terms Depositor has agreed upon separately with Deposit Bank. Custodian has no duty to investigate the existence of a default or whether Depositor is authorized under applicable law or any other agreement to give instructions or deliver a Notice of Exclusive Control to Custodian.

10. TERMINATION OF AGREEMENT.

10.1 This Agreement shall remain in effect until terminated by any party hereto giving thirty (30) days prior written notice of termination to the other parties hereto.

10.2 Upon termination of this Agreement, all obligations of the parties to each other hereunder shall cease, except that all indemnification obligations herein shall survive with respect to any claim arising from events prior to termination.

10.3 Deposit Bank agrees that it may not close the Account and may not terminate the Custody Agreement so long as this Agreement is in effect.

11. SUCCESSORS AND ASSIGNS. The terms of this Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns, heirs and personal representatives.

12. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

13. COLLATERAL.

13.1 Custodian shall have no responsibility whatsoever to determine whether the Collateral consists of securities of a type permissible by law.

13.2 Custodian shall under no circumstance be responsible for determining whether the aggregate market value of the Collateral fails to meet, equals, or exceeds the Required Collateral Value.

13.3 Custodian shall have no responsibility to determine the suitability or value of any Collateral and shall have no duty to report to Depositor if the value of any Collateral should decrease.

13.4 Custodian shall have no responsibility to investigate or monitor withdrawal or substitution activity by Deposit Bank and shall at all times act according to any Withdrawal Authorization or Substitution Authorization that Custodian receives.

14. LIMITED SUBORDINATION. Custodian subordinates to the Depositor's security interests all of Custodian's present and future security interests, liens, claims, rights of setoff, and other

rights and interests relating to any of the Collateral except for claims and rights of setoff resulting from obligations associated with payment in full for trading activity in the Account and except for account fees, expenses or commissions owed to Custodian for the Account. Except to the extent allowed under this Section 14, Custodian will not assert or enforce any of Custodian's present or future security interests, claims, liens, rights of setoff or other rights or interests in any of the Collateral.

15. MISCELLANEOUS.

15.1 The headings of this Agreement are for convenience of reference only, are of no legal significance, and shall not be used in the interpretation of this Agreement.

15.2 If any provision of this Agreement is held to be illegal or unenforceable under applicable law by a court of competent jurisdiction, that provision should be deemed reformed so as to be enforceable to the extent permitted by applicable law, or if that is not possible, then this Agreement should be read as if that provision was never a part of it, and the remainder of the Agreement shall be enforceable.

15.3 THIS AGREEMENT REPRESENTS THE FINAL AGREEMENT OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES, AND CANNOT BE AMENDED OR MODIFIED IN ANY MANNER EXCEPT BY A WRITTEN AGREEMENT EXECUTED BY THE PARTIES.

15.4 All notices under this Agreement shall be in writing, shall be addressed as set forth below, and shall be deemed effective upon actual receipt by the addressee.

15.5 All tax reports to federal, state, and local tax authorities relating to the Collateral shall be under the name and tax identification number of Deposit Bank.

16. RELATION TO CUSTODY AGREEMENT. Deposit Bank acknowledges that in the event of any inconsistency between this Agreement and the Custody Agreement, the terms of this Agreement shall govern with regard to the subject matter hereof, provided, however, that no term in this Agreement shall diminish (a) any obligation of Deposit Bank to Custodian, or (b) any of Custodian's rights, under the Custody Agreement. To the extent not otherwise set forth herein, the Account shall be operated by Custodian in accordance with the terms of the Custody Agreement.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representative as of the Effective Date.

DEPOSITOR:
Middle St. Croix Water Management Org

DEPOSIT BANK:
First State Bank and Trust

Signature

Name:

Title:

Signature

Name: Jason Howard

Title: Senior VP CFO

ACKNOWLEDGMENT

The undersigned securities intermediary hereby acknowledges the terms of the foregoing Agreement. Custodian represents and warrants that the individual executing this acknowledgment is a representative of Custodian and has been authorized to do so by all necessary corporate action.

U.S. BANK NATIONAL ASSOCIATION
425 WALNUT STREET
CINCINNATI, OH 45202

Signature

Name:

Title:

Exhibit 1

Sample Notice of Exclusive Control

[Letterhead of Depositor]

COPY

Date: _____

To: U.S. Bank National Association (“Custodian”)
425 Walnut Street
Cincinnati, OH 45202

RE: Notice of Exclusive Control – U.S. Bank Custody Account No. [***]

This is to notify Custodian that the Collateral for the undersigned in the above-referenced custody account (a description of which is attached hereto) is now under the exclusive control of Depositor. Custodian is hereby instructed to cease complying with substitution or trading instructions given by or on behalf of Deposit Bank relating to the Collateral, to cease distributing interest and regular cash dividends earned on the Collateral, and to refuse to accept any other instructions from Deposit Bank intended to exercise authority with respect to the Collateral unless instructed by the undersigned on behalf of Depositor.

Depositor represents and warrants to Custodian that this Notice of Exclusive Control is authorized by all applicable laws and any agreements between Depositor and Deposit Bank.

Notwithstanding the foregoing, Custodian’s obligation to follow this Notice of Exclusive Control is absolute, and Custodian shall not inquire as to the truth or accuracy of any statement herein.

All future instructions relating to the Collateral shall be given solely by the undersigned on behalf of Depositor unless further evidence of authority is provided to Custodian.

[***] (“Depositor”)

print name

signature

date

title (an authorized officer of Depositor)

EXHIBIT 2:

AUTHORIZED REPRESENTATIVES OF DEPOSITOR

One signature of any of the following shall effectively and conclusively bind Depositor.

Name: _____

Signature: _____

Name: _____

Signature: _____

Name: _____

Signature: _____

EXHIBIT 3:

AUTHORIZED REPRESENTATIVES OF DEPOSIT BANK

One signature of any of the following shall effectively and conclusively bind Deposit Bank.

Name: _____

Signature: _____

Name: _____

Signature: _____

Name: _____

Signature: _____

EXHIBIT 4:

COLLATERAL DESCRIPTION

U.S. Bank National Association Custody Account Number 001050988397 (this is the same for all bonds pledged)

Asset Description: Lancaster Ohio General Obligation

CUSIP: 514246GW1

Issued Date: 06/24/2014

Rate: 4% (note, this rate is completely independent of the deposit rate)

Maturity Date: 12/1/2029

Original Face/Par Value: \$255,000

Current Market Value: \$269,356.50 (as of April 30, 2018)

**WASHINGTON COUNTY METRO WATERSHED BASED FUNDING
MEMORANDUM OF AGREEMENT**

This agreement (Agreement) is made and entered into by and among:

Washington County, by and through its Board of Commissioners (referred to as the County);

The Washington Conservation District, by and through its Board of Supervisors (collectively referred to as the WCD);

The Brown's Creek, Carnelian Marine St. Croix, Comfort Lake Forest Lake, Ramsey Washington Metro, Rice Creek, South Washington and Valley Branch Watershed Districts, each by and through its Board of Managers (collectively referred to as the Watershed Districts); and

The Middle St. Croix, Joint Powers Watershed Management Organizations, each by and through its governing board (referred to as the Watershed Organization),

(Altogether, the County, WCD, Watershed Districts and Watershed Organization are collectively referred to as the "Parties.")

WHEREAS, the County is a political subdivision of the State of Minnesota, with authority to carry out environmental programs and land use controls, pursuant to Minnesota Statutes Chapters 373 and 375, and as otherwise provided by law;

WHEREAS, the WCD is a political subdivision of the State of Minnesota, with statutory authority to carry out erosion control and other soil and water conservation programs, pursuant to Minnesota Statutes Chapter 103C and as otherwise provided by law;

WHEREAS, the Watershed Districts are political subdivisions of the State of Minnesota, with statutory authority to carry out conservation of the natural resources of the state by land use controls, flood control, and other conservation projects for the protection of the public health and welfare and the provident use of the natural resources, pursuant to Minnesota Statutes Chapters 103B, 103D, 103E and as otherwise provided by law;

WHEREAS, the Water Management Organization is a joint powers entity formed in accordance with a Minnesota Statutes Section 471.59, with authority to carry out conservation of the natural resources of the state by land use controls, flood control, and other conservation projects for the protection of the public health and welfare and the provident use of the natural resources, as provided in Minnesota Statutes Chapter 103B and as otherwise provided by law; and

WHEREAS, the Parties have a common interest and authority to implement state approved plans under chapters 103B, 103C, or 103D in WASHINGTON COUNTY to conserve soil and water resources through the implementation of practices, programs, and regulatory controls that effectively control or prevent erosion, sedimentation, siltation and related pollution in order to preserve natural resources, ensure continued soil productivity, protect water quality, reduce damages caused by floods, protect groundwater resources, control or prevent aquatic invasive species, preserve wildlife, protect the tax base, and protect public lands and waters; and

WHEREAS, each of the Parties maintains its water management authority pursuant to state law, and has in place a state-approved and locally adopted: watershed management plan required under §103B.231, county groundwater plan authorized under §103B.255, or soil and water conservation district comprehensive plan under Minnesota Statutes §103C.331, subdivision 11; and

WHEREAS, with matters that relate to coordination of water management authorities pursuant to Minnesota Statutes Chapters 103B, 103C, and 103D with public drainage systems pursuant to Minnesota Statutes Chapter 103E, this Agreement does not change the rights or obligations of the public drainage system authorities.

WHEREAS, all eligible units of local government have been offered the opportunity to participate in the management and use of fund allocations from the 2018-19 Watershed Based Funding Pilot Program (“Pilot Program”), and the Parties have formed this agreement to work collaboratively to utilize watershed-based funding made available by the Board of Water and Soil Resources (BWSR).

NOW, THEREFORE, the Parties hereto agree as follows:

1. **Purpose:** The Parties recognize the importance of partnerships to plan and implement protection and restoration efforts for *WASHINGTON COUNTY* water planning entities. The purpose of this Agreement is
 - a. To agree to a funding distribution for the Pilot Program made available by BWSR.
 - b. To continue to collaborate on watershed based funding.
 - c. The recitals set forth in the above whereas clauses are herein included.
2. **Term:** This agreement is effective upon signature of all Parties; and will remain in effect until December 31, 2022, unless canceled according to the provisions of this Agreement or earlier terminated by law. The funding distribution in this Agreement only applies to the FY18-19 Watershed Based Funding Pilot Program allocation.
3. **Formula for Funding Distribution:** The Parties agree to split Pilot Program Funding based on the formula; The sum of all funds allocated to each party herein under the Pilot Program divided by the total number of Parties to the agreement (Total dollars

allocated/10 Parties). Each Party independently will enter into a grant agreement with BWSR, or make such other arrangements as BWSR may require, for its receipt and use of its fund allotment.

4. **Projects:** The funds provided to the Parties by BWSR for the Pilot Program will be used for projects located within Washington County. However, if sufficient feasible projects do not exist in Washington County upon which funds should be expended, each Party may in its own discretion use its remaining per capita share of the funding distribution on projects outside Washington County, provided they can be shown to benefit the water resources of Washington County or prevent adverse impacts caused by drainage from/to Washington County.

5. **General Provisions:**

- a. **Compliance with Laws/Standards:** The Parties agree to abide by all federal, state, and local laws; statutes, ordinances, rules and regulations now in effect or hereafter adopted pertaining to this Agreement or to the facilities, programs, and staff for which the Agreement is responsible.
- b. **Indemnification:** Each party to this Agreement shall be liable for the acts of its officers, employees or agents and the results thereof to the extent authorized or limited by law and shall not be responsible for the acts of any other party, its officers, employees or agents. The provisions of the Municipal Tort Claims Act, Minnesota Statute Chapter 466 and other applicable laws govern liability of the Parties. To the full extent permitted by law, actions by the Parties, their respective officers, employees, and agents pursuant to this Agreement are intended to be and shall be construed as a “cooperative activity.” It is the intent of the Parties that they shall be deemed a “single governmental unit” for the purpose of liability, as set forth in Minnesota Statutes Section 471.59, subd. 1a (a). For purposes of Minnesota Statutes Section 471.59, subd. 1a (a) it is the intent of each party that this Agreement does not create any liability or exposure of one party for the acts or omissions of any other party.
- c. **Records Retention and Data Practices:** The Parties agree that records created pursuant to the terms of this Agreement will be retained in a manner that meets their respective entity’s records retention schedules that have been reviewed and approved by the State in accordance with Minnesota Statutes Section 138.17. The Parties further agree that records prepared or maintained in furtherance of the Agreement shall be subject to the Minnesota Government Data Practices Act.
- d. **Timeliness:** The Parties agree to perform obligations under this Agreement in a timely manner and keep each other informed about any delays that may occur.

e. **Extension:** The Parties may extend the termination date of this Agreement upon written agreement by all Parties.

6. **Administration:**

a. **Establishment of Working Group.** Each party agrees to participate in a Working Group to continue to collaborate on watershed based funding.

b. **Submittal of 2018-2019 Project List.** The Parties must submit a joint project list to BWSR for a determination of project eligibility. Each Party will submit its own project list to the WCD by July 2, 2018 for compilation and transmittal to BWSR.

c. **Grant Agreements.** Notwithstanding any other term of this Agreement, each Party is independently and solely responsible to fulfill the terms of its grant agreement with BWSR for its receipt and use of Pilot Program funds.

7. **Authorized Representatives:** The following persons will be the primary contacts for all matters concerning this Agreement:

Middle St. Croix Watershed Management Organization
Mikael Isensee
Administrator
455 Hayward Avenue
Oakdale, MN 55128
misensee@mnwcd.org
651-330-8220

IN TESTIMONY WHEREOF the Parties have duly executed this agreement by their duly authorized officers.

PARTNER: Organization

APPROVED:

BY: _____ Date: _____
Brian Zeller, Chair

BY: _____ Date: _____

Mikael Isensee, Administrator

APPROVED AS TO FORM

BY: _____ Date: _____
Attorney