

**GREATER BLUE EARTH RIVER
BASIN ALLIANCE**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
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FOR THE YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Greater Blue Earth River Basin Alliance
Windom, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Greater Blue Earth River Basin Alliance, Windom, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Greater Blue Earth River Basin Alliance'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 Greater Blue Earth River Basin Alliance as of December 31, 2017, and the respective changes in financial position for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5, the budgetary comparison statement on page 13, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2018, on our consideration of the Greater Blue Earth River Basin Alliance'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 Greater Blue Earth River Basin Alliance's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

July 25, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS
GREATER BLUE EARTH RIVER BASIN ALLIANCE
DECEMBER 31, 2017**

The Greater Blue Earth River Basin Alliance's discussion and analysis provides an overview of the JPB's financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the JPB as a whole and present a longer-term view of the JPB's finances. For governmental activities, financial statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the JPB's operations in more detail than the government-wide statements by providing information about the JPB's general fund. Since JPB's are single-purpose, special-purpose government units, the JPB combines the government-wide and fund financial statements into a single presentation.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the JPB's finances is, "Is the JPB as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the JPB as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the JPB's net position and changes in them. You can think of the JPB's net position — the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources — as one way to measure the JPB's financial health, or financial position. Over time, increases or decreases in the JPB's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the JPB.

In the Statement of Net Position and the Statement of Activities, the JPB presents governmental activities. All of the JPB's basic services are reported here. Appropriations from the county and state finance most activities.

Reporting the JPB's General Fund

Our analysis of the JPB's general fund is part of this report. The fund financial statements provide detailed information about the general fund—not the JPB as a whole. The JPB presents only a general fund, which is a governmental fund. All of the JPB's basic services are reported in the general fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called

modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the JPB's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the JPB's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE JPB AS A WHOLE

Our analysis focuses on the net position and change in net position of the JPB's governmental activities.

Net Position:

	Governmental Activities	
	2017	2016
Current Assets	<u>\$ 280,458</u>	<u>\$ 361,478</u>
Total Assets	<u>\$ 280,458</u>	<u>\$ 361,478</u>
Current Liabilities	<u>\$ 255,953</u>	<u>\$ 337,104</u>
Total Liabilities	<u>\$ 255,953</u>	<u>\$ 337,104</u>
Unrestricted	<u>\$ 24,505</u>	<u>\$ 24,374</u>
Total Net Position	<u>\$ 24,505</u>	<u>\$ 24,374</u>

Net position of the JPB's governmental activities increased by \$131. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$24,374 at December 31, 2016 to \$24,505 at December 31, 2017.

Change in Net Position:

	Governmental Activities	
	2017	2016
<u>Revenues</u>		
Intergovernmental	\$ 782,120	\$ 806,622
Investment Earnings	238	314
Miscellaneous	797	682
Total Revenues	<u>\$ 783,155</u>	<u>\$ 807,618</u>
<u>Expenditures</u>		
Conservation	<u>\$ 783,024</u>	<u>\$ 788,865</u>
Total Expenditures	<u>\$ 783,024</u>	<u>\$ 788,865</u>
Increase in Net Position	<u>\$ 131</u>	<u>\$ 18,753</u>

The JPB's total revenues decreased by \$24,463. The total cost of programs and services decreased by \$5,841.

THE JPB'S GENERAL FUNDS

As the JPB completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$24,505, which is above last year's total of \$24,374.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$399,881 below the final budgeted amounts. The most significant negative variance of \$665,895 occurred in State Revenue. The most significant positive variance of \$390,180 occurred in State Project Expenditures.

CONTACTING THE JPB'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the JPB's finances and to show the JPB's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Greater Blue Earth River Basin Alliance at 339 9th Street, Windom, MN 56101. The phone number is 507-831-1153 extension 3.

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
WINDOM, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017**

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 167,460	\$ -	\$ 167,460
Due from Other Governments	112,998	-	112,998
Total Assets	<u>\$ 280,458</u>	<u>\$ -</u>	<u>\$ 280,458</u>
Liabilities			
Current Liabilities:			
Unearned Revenue	\$ 229,777	\$ -	\$ 229,777
Accounts Payable	26,176	-	26,176
Total Liabilities	<u>\$ 255,953</u>	<u>\$ -</u>	<u>\$ 255,953</u>
Fund Balance/Net Position			
Fund Balance			
Unassigned	\$ 24,505	\$ (24,505)	\$ -
Total Fund Balance	<u>\$ 24,505</u>	<u>\$ (24,505)</u>	<u>\$ -</u>
Net Position			
Unrestricted		\$ 24,505	\$ 24,505
Total Net Position		<u>\$ 24,505</u>	<u>\$ 24,505</u>

Notes are an integral part of the basic financial statements.

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
WINDOM, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 782,120	\$ -	\$ 782,120
Investment Earnings	238	-	238
Miscellaneous	797	-	797
Total Revenues	<u>\$ 783,155</u>	<u>\$ -</u>	<u>\$ 783,155</u>
Expenditures/Expenses			
Conservation			
Current	\$ 783,024	\$ -	\$ 783,024
Total Expenditures/Expenses	<u>\$ 783,024</u>	<u>\$ -</u>	<u>\$ 783,024</u>
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 131	\$ -	\$ 131
Fund Balance/Net Position January 1	<u>\$ 24,374</u>	<u>\$ -</u>	<u>\$ 24,374</u>
Fund Balance/Net Position December 31	<u><u>\$ 24,505</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,505</u></u>

Notes are an integral part of the basic financial statements.

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the Greater Blue Earth River Basin Alliance conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Financial Reporting Entity

The Greater Blue Earth River Basin Alliance was organized through a joint powers agreement on July 1, 2003 under the provisions of the Minnesota Statute 471.59. The purpose of the organization is to protect and enhance the land and water resources in the Greater Blue Earth River Basin. This is accomplished by coordination implementation programs and activities through grant awards from federal, state, and local entities. Grant applications are submitted on a competitive basis to various sources for land and water conservation activities. The JPB's three revenue sources are member dues, grant awards, and investment earnings. Grant awards represent the majority of the JPB's revenue and expenditures.

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 JPB does not have any component units.

Government-Wide 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 JPB.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

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 cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the General Fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

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 JPB 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 are recorded when a liability is incurred under accrual accounting.

GREATER BLUE EARTH RIVER BASIN ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Budget Information

The JPB adopts an estimated revenues and expenditures budget for the general fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require Board approval. Appropriations lapse at year-end. The JPB does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect: the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities, and Net Position

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis and short-term money market investments, which are stated at amortized cost.

Receivables are collectible within one year.

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, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

GREATER BLUE EARTH RIVER BASIN ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the JPB is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the JPB intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the Board Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The JPB applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Subsequent Events

In preparing these financial statements, the JPB has evaluated events and transactions for potential recognition or disclosure through July 25, 2018, the date the financial statements were available to be issued

Vacation and Sick Leave

Under the JPB’s personnel policies, all employee time is contracted with participating counties or soil and water conservation districts. Employee benefits are paid and accrued by the counties and soil and water conservation districts.

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Risk Management

The JPB is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The JPB retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The JPB pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 2 - Detailed Notes

Line of Credit

On February 22, 2017 the JPB signed a line of credit agreement for \$60,000. As of December 31, 2017 the organization had no outstanding balance. The note has an interest rate of 4.00% and matures on February 22, 2018.

Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2017, consists of the following: Clean Water Partnership \$31,378; Clean Water Funds \$185,260; Hydro Conditioning Grants \$13,139; Total \$229,777.

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the JPB to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all JPB deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, the market value of collateral pledged shall be at least ten percent more than the amount on deposit (plus accrued interest) at the close of the financial institution's banking day.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the 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.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the JPB's deposits may not be returned to it. The JPB does not have a deposit policy for custodial credit risk. As of December 31, 2017, the JPB's deposits were not exposed to custodial credit risk.

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 3 - Operating Leases

The Cottonwood Soil and Water Conservation JPB provides office space for the JPB.

Note 4 - Commitments and Contingencies

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

Note 5 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, January 1	\$ 24,374
Less: Excess of Expenditures Over Revenues	<u>131</u>
Governmental Fund Balance, December 31	<u><u>\$ 24,505</u></u>
 Net Position	 <u><u>\$ 24,505</u></u>

Note 6 - Reconciliation of Change in Fund Balance to Change in Net Position

Change in Fund Balance	<u>\$ 131</u>
Change in Net Position	<u><u>\$ 131</u></u>

**GREATER BLUE EARTH RIVER BASIN ALLIANCE
WINDOM, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
Local	\$ 42,244	\$ 42,244	\$ -
State	1,405,771	739,876	(665,895)
Total Intergovernmental	<u>\$ 1,448,015</u>	<u>\$ 782,120</u>	<u>\$ (665,895)</u>
Miscellaneous			
Interest Earnings	\$ 400	\$ 238	\$ (162)
Other	600	797	197
Total Miscellaneous	<u>\$ 1,000</u>	<u>\$ 1,035</u>	<u>\$ 35</u>
 Total Revenues	 <u>\$ 1,449,015</u>	 <u>\$ 783,155</u>	 <u>\$ (665,860)</u>
Expenditures			
District Operations			
Contracted Services	\$ 93,000	\$ 80,430	\$ 12,570
Other Services and Charges	4,100	6,421	(2,321)
Supplies	-	548	(548)
Total District Operations	<u>\$ 97,100</u>	<u>\$ 87,399</u>	<u>\$ 9,701</u>
Project Expenditures			
State	<u>\$ 1,085,805</u>	<u>\$ 695,625</u>	<u>\$ 390,180</u>
Total Project Expenditures	<u>\$ 1,085,805</u>	<u>\$ 695,625</u>	<u>\$ 390,180</u>
 Total Expenditures	 <u>\$ 1,182,905</u>	 <u>\$ 783,024</u>	 <u>\$ 399,881</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 266,110</u>	<u>\$ 131</u>	<u>\$ (265,979)</u>
Fund Balance - January 1	\$ 24,374	\$ 24,374	\$ -
Fund Balance - December 31	<u>\$ 290,484</u>	<u>\$ 24,505</u>	<u>\$ (265,979)</u>

Notes are an integral part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Supervisors
Greater Blue Earth River Basin Alliance
Windom, 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 Greater Blue Earth River Basin Alliance of Windom, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Greater Blue Earth River Basin Alliance's basic financial statements, and have issued our report thereon dated July 25, 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 public indebtedness. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the JPB is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Greater Blue Earth River Basin Alliance failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining the knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Greater Blue Earth River Basin Alliance'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

July 25, 2018

**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 Supervisors
Greater Blue Earth River Basin Alliance
Windom, 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 Greater Blue Earth River Basin Alliance, Windom, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Greater Blue Earth River Basin Alliance's basic financial statements, and have issued our report thereon dated July 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Greater Blue Earth River Basin Alliance'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 Greater Blue Earth River Basin Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of Greater Blue Earth River Basin Alliance'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 Greater Blue Earth River Basin Alliance's 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*.

Greater Blue Earth River Basin Alliance's Response to Findings

Greater Blue Earth River Basin Alliance's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Greater Blue Earth River Basin Alliance'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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control 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

July 25, 2018

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 JPB 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 JPB 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 Supervisors.