

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
January 31, 2006

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

BOARD OF COMMISSIONERS

Year Ended January 31, 2006

<u>Commissioner</u>	<u>Position</u>	<u>Term Expires</u>	<u>Governmental Unit</u>
Michael Welch	Chairperson	January 31, 2007	City of Minneapolis
Bill Yaeger	Vice Chairperson	January 31, 2007	City of Minnetonka
Linda Loomis	Treasurer	January 31, 2009	City of Golden Valley
Ginny Black	Secretary	January 31, 2008	City of Plymouth
Mary Gwin-Lenth	Commissioner	January 31, 2007	City of New Hope
Richard Johnson	Commissioner	January 31, 2008	City of St. Louis Park
Pauline Langsdorf	Commissioner	January 31, 2009	City of Crystal
John O'Toole	Commissioner	January 31, 2009	City of Medicine Lake
Karla Peterson	Commissioner	February 1, 2008	City of Robbinsdale

FINANCIAL SECTION



PRINCIPALS

Kenneth W. Malloy, CPA
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bassett Creek Watershed Management Commission

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information presented has been derived from the Commission's financial statements for the year ended January 31, 2005, and in our report dated April 21, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission at January 31, 2006, and the respective changes in financial position thereof and the budgetary comparison ^{thereof} for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended January 31, 2005, from which it was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2006, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this 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 the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(continued)

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Commission has not presented the MD&A that is necessary to supplement, although not be a part of, the basic financial statements.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

April 18, 2006

BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Assets
as of January 31, 2006
(With Partial Comparative Information as of January 31, 2005)

	Governmental Activities	
	2006	2005
Assets		
Cash and investments	\$ 3,044,231	\$ 2,380,507
Delinquent taxes receivable	4,764	8,394
Prepays	1,600	1,600
Total assets	3,050,595	2,390,501
Liabilities		
Accounts payable	21,065	17,041
Unearned revenue	247,387	146,176
Total liabilities	268,452	163,217
Net assets		
Unrestricted	\$ 2,782,143	\$ 2,227,284

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
Year Ended January 31, 2006
(With Partial Comparative Information for the Year Ended January 31, 2005)

	Governmental Activities	
	2006	2005
Expenses		
Watershed management		
Administration	\$ 270,230	\$ 298,104
Improvement projects	47,417	878,278
Total expenses	317,647	1,176,382
Program revenues		
Charges for services – member assessments	367,499	376,659
Net program revenue (expense)	49,852	(799,723)
General revenues		
Property taxes	433,345	948,764
Unrestricted state aids	15,560	49,049
Investment earnings	54,788	22,578
Other	1,314	986
Total general revenues	505,007	1,021,377
Change in net assets	554,859	221,654
Net assets		
Beginning of year	2,227,284	2,005,630
End of year	\$ 2,782,143	\$ 2,227,284

As:

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of January 31, 2006
(With Partial Comparative Information as of January 31, 2005)

	General	Improvement Capital Projects	Total Governmental Funds	
			2006	2005
Assets				
Current assets				
Cash and temporary investments	\$ 389,388	\$ 2,654,843	\$ 3,044,231	\$ 2,380,507
Delinquent taxes receivable	-	4,764	4,764	8,394
Prepaid expenses	1,600	-	1,600	1,600
	<u>\$ 390,988</u>	<u>\$ 2,659,607</u>	<u>\$ 3,050,595</u>	<u>\$ 2,390,501</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 19,827	\$ 1,238	\$ 21,065	\$ 17,041
Deferred revenue	-	4,764	4,764	8,394
Unearned revenue	247,387	-	247,387	146,176
Total liabilities	<u>267,214</u>	<u>6,002</u>	<u>273,216</u>	<u>171,611</u>
Fund balances				
Unreserved				
Designated for improvements	-	2,653,605	2,653,605	2,112,035
Undesignated	123,774	-	123,774	106,855
Total fund balances	<u>123,774</u>	<u>2,653,605</u>	<u>2,777,379</u>	<u>2,218,890</u>
Total liabilities and fund balances	<u>\$ 390,988</u>	<u>\$ 2,659,607</u>		

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Certain revenues (including delinquent taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	4,764		8,394
Net assets of governmental activities	<u>\$ 2,782,143</u>		<u>\$ 2,227,284</u>

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended January 31, 2006
(With Partial Comparative Information for the Year Ended January 31, 2005)

	General	Improvement Capital Projects	Total Governmental Funds	
			2006	2005
Revenue				
Member contributions	\$ 367,499	\$ -	\$ 367,499	\$ 376,659
Ad valorem taxes	-	436,975	436,975	940,370
State aid	-	15,560	15,560	49,049
Other revenue				
Investment earnings	3,336	51,452	54,788	22,578
Miscellaneous	1,314	-	1,314	986
Total revenue	372,149	503,987	876,136	1,389,642
Expenditures				
Current				
Engineering	186,935	-	186,935	180,051
Second generation plan	8,096	-	8,096	52,420
Legal	14,686	-	14,686	12,193
Professional services	9,943	-	9,943	6,540
Secretarial services	45,206	-	45,206	38,362
Public communications	4,282	-	4,282	7,215
Financial management	1,000	-	1,000	1,000
Miscellaneous	82	-	82	323
Capital outlay				
Improvement projects	-	47,417	47,417	878,278
Total expenditures	270,230	47,417	317,647	1,176,382
Excess of revenue over expenditures	101,919	456,570	558,489	213,260
Other financing sources (uses)				
Transfers in	-	85,000	85,000	75,000
Transfers (out)	(85,000)	-	(85,000)	(75,000)
Total other financing sources (uses)	(85,000)	85,000	-	-
Net change in fund balances	16,919	541,570	558,489	213,260
Fund balances				
Beginning of year	106,855	2,112,035		
End of year	\$ 123,774	\$ 2,653,605		

Amounts reported for governmental activities in the Statement of Activities are different because:

Certain revenues (including delinquent taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	(3,630)	8,394
Change in net assets of governmental activities	\$ 554,859	\$ 221,654

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended January 31, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenue			
Member contributions	\$ 367,500	\$ 367,499	\$ (1)
Other revenue			
Investment earnings	6,400	3,336	(3,064)
Miscellaneous	—	1,314	1,314
Total revenue	<u>373,900</u>	<u>372,149</u>	<u>(1,751)</u>
Expenditures			
Current			
Engineering	202,500	186,935	(15,565)
Second generation plan	17,000	8,096	(8,904)
Legal	13,000	14,686	1,686
Professional services	7,000	9,943	2,943
Secretarial services	27,000	45,206	18,206
Public communications	10,000	4,282	(5,718)
Financial management	1,000	1,000	—
Miscellaneous	5,000	82	(4,918)
Total expenditures	<u>282,500</u>	<u>270,230</u>	<u>(12,270)</u>
Excess of revenue over expenditures	91,400	101,919	10,519
Other financing uses			
Transfers out	<u>(85,000)</u>	<u>(85,000)</u>	<u>—</u>
Net change in fund balances	<u>\$ 6,400</u>	<u>16,919</u>	<u>\$ 10,519</u>
Fund balances			
Beginning of year		<u>106,855</u>	
End of year		<u>\$ 123,774</u>	

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Notes to Basic Financial Statements
January 31, 2006

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Bassett Creek Watershed Management Commission (the Commission) is a joint venture of the cities of Crystal, Golden Valley, Medicine Lake, Minneapolis, Minnetonka, New Hope, Plymouth, Robbinsdale, and St. Louis Park, formed under the authority of Minnesota Statute § 471.59. The Commission's purpose is to provide for cooperative planning, usage, and improvement of the watershed drained by the nine member communities. The Commission is governed by a Board consisting of nine Commissioners, one appointed by each member city. The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

A joint venture is a legal entity resulting from a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain either an ongoing financial interest or an ongoing financial responsibility. The Commission, as described above, is considered a joint venture of the nine member cities, and is included as such in their financial statements.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Commission (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units required to be included in the Commission's financial statements.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the reporting government entity as a whole. These statements include all of the financial activities of the Commission. 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 or segment. 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 or segment, 2) operating grants and contributions, and 3) capital grants and contributions. Other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Financial Statement Presentation

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. The resources of the Commission are accounted for in two funds:

General Fund – The General Fund is the primary operating account of the Commission and is used to account for all financial resources except those required to be accounted for in another fund.

Improvement Capital Projects Fund – The Improvement Capital Projects Fund is used to account for resources set aside for the construction of improvements to the watershed. Its primary resources are a property tax levy and property tax credits paid by the state.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under this basis of accounting, transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if collected within 60 days after year-end. All significant revenue sources are considered susceptible to accrual.
2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred; however, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

E. Budget

A budget for the General Fund is adopted annually by the Commission’s Board on a modified accrual basis of accounting. Budget amounts presented are as originally adopted. Budgetary control is at the fund level. All appropriations lapse at year-end.

F. Investments

Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

G. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids. Prepaids are recorded as expenditures/expenses at the time of consumption.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

The Commission has no capital assets. The Improvement Capital Projects Fund is used to construct holding ponds and other improvements to the drainage system within the watershed district. The improvements are to land belonging to the Commission's member communities, and are not capitalized by the Commission.

I. Property Taxes

Property tax levies are set by the Commission in December, and are certified to Hennepin County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the Commission on that date. Property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. The county provides tax settlements to all taxing districts several times a year. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, and are offset by deferred revenue on the governmental fund financial statements.

A portion of the property taxes levied is paid by the state of Minnesota through various tax credits, which are included in state aid revenue in the financial statements.

J. Risk Management

The Commission is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The Commission participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property, casualty, and other miscellaneous insurance coverages. The LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The Commission pays an annual premium to the LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage during the year ended January 31, 2006.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 2,545,166
Investments	<u>499,065</u>
Total cash and investments	<u>\$ 3,044,231</u>

B. Deposits

In accordance with applicable Minnesota Statutes, the Commission maintains deposits at depository banks authorized by its Board, including checking and savings accounts.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. 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. The Commission has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the Commission's deposits was \$2,545,166, while the balance on the bank records was \$2,553,166. At January 31, 2006, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the Commission's agent in the Commission's name.

C. Investments

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the Commission would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by controlling who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the Commission's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The Commission's investment policies do not further address credit risk.

Concentration Risk – This is the risk associated with investing a significant portion of the Commission's investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as Treasuries), investment pools, and mutual funds. The Commission's investment policies do not limit the concentration of investments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Commission does not have an investment policy limiting the duration of investments.

At January 31, 2006, the Commission had \$499,065 invested in commercial paper issued by Dollar Thrifty Funding, rated A-1 by Standard and Poor's, maturing February 16, 2007, which represented 100 percent of the Commission's investment portfolio.

NOTE 3 – TRANSFERS

The Commission transferred \$85,000 from the General Fund to the Improvement Capital Projects Fund to finance certain improvement projects. Interfund transfers are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

NOTE 4 – RELATED PARTY TRANSACTIONS

The nine member cities support the Commission through annual contributions, which are computed using a formula based on the net tax capacity of all property within the watershed and the total area of each member city within the watershed as compared to the total area within the watershed. Contributions are assessed on a fiscal year basis. Contributions received in advance of the year to which they pertain are reported as deferred revenue in the year received.

Member contributions for the year ended January 31, 2006 and related unearned revenue as of January 31, 2006 were as follows:

	<u>Contributions</u>	<u>Unearned Revenue</u>
Crystal	\$ 20,149	\$ 21,291
Golden Valley	91,588	–
Medicine Lake	2,444	–
Minneapolis	25,124	27,090
Minnetonka	17,627	–
New Hope	20,676	21,596
Plymouth	169,929	177,410
Robbinsdale	6,344	–
St. Louis Park	13,618	–
	<u>\$ 367,499</u>	<u>\$ 247,387</u>

OTHER REQUIRED REPORTS

PRINCIPALS

Kenneth W. Malloy, CPA
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Paul A. Radosevich, CPA
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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

Board of Commissioners
Bassett Creek Watershed Management Commission

We have audited the financial statements of the governmental activities and each major fund of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

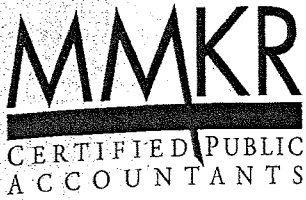
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

(continued)

This report is intended solely for the information and use of the Board of Commissioners and management of the Commission, its member cities, and the State of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karowski, Radosevich & Co., P.A.

April 18, 2006



PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH MINNESOTA STATE LAWS AND REGULATIONS

Board of Commissioners
Bassett Creek Watershed Management Commission

We have audited the financial statements of the governmental activities and each major fund of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 18, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Governments* covers 6 main categories of compliance to be tested: contracting and bidding; deposits and investments; conflicts of interest; public indebtedness; claims and disbursements; and miscellaneous provisions. Our study included all of the applicable listed categories.

The results of our tests indicate that, for the items tested, the Commission complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners of the Commission, its member cities, and the State of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosевич & Co., P.A.

April 18, 2006