BASSETT CREEK WATERSHED MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
January 31, 2011

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

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<u>INTRODUCTORY SECTION</u>

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Board of Commissioners
Year Ended January 31, 2011

Commissioner	Position	Governmental Unit
Linda Loomis	Chairperson	City of Golden Valley
Ginny Black	Vice Chairperson	City of Plymouth
Michael Welch	Treasurer	City of Minneapolis
Pauline Langsdorf	Secretary	City of Crystal
Jim de Lambert	Commissioner	City of St. Louis Park
John Elder	Commissioner	City of New Hope
Bonnie Harper-Lore	Commissioner	City of Minnetonka
Ted Hoshal	Commissioner	City of Medicine Lake
Wayne Sicora	Commissioner	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
Victoria L. Holinka, 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, 2011, 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, 2010, and in our report dated May 26, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 as of January 31, 2011, and the respective changes in financial position thereof and the budgetary comparison 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. Such information 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, 2010, from which it was derived.

(continued)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2011 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 express no opinion on it.

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

May 10, 2011

BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Assets
as of January 31, 2011
(With Partial Comparative Information as of January 31, 2010)

	Governmental Activities	
	2011	2010
Assets		
Cash and investments	$ 4,420,762	$ 4,155,096
Interest receivable	6,056	7,431
Delinquent taxes receivable	15,110	34,181
Due from other governments	324,000	–
Prepaids	1,914	1,835
Total assets	4,767,842	4,198,543
Liabilities		
Accounts payable	28,549	53,156
Unearned revenue	723,475	169,502
Total liabilities	752,024	222,658
Net assets		
Unrestricted	$ 4,015,818	$ 3,975,885

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
Year Ended January 31, 2011
(With Partial Comparative Information for the Year Ended January 31, 2010)

	Governmental Activities	
	2011	2010
Expenses		
Watershed management		
Administration	$ 407,519	$ 363,522
Improvement projects	914,123	217,226
Total expenses	1,321,642	580,748
Program revenues		
Charges for services – member assessments	414,150	449,874
Charges for services – permit fees	22,000	15,000
Capital grants and contributions	6,564	43,941
Total program revenues	442,714	508,815
Net program (expenses)	(878,928)	(71,933)
General revenues		
Property taxes	881,756	794,320
Unrestricted state aids	26,136	10,122
Investment earnings	9,330	14,098
Other	1,639	1,023
Total general revenues	918,861	819,563
Change in net assets	39,933	747,630
Net assets		
Beginning of year	3,975,885	3,228,255
End of year	$ 4,015,818	$ 3,975,885

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of January 31, 2011
(With Partial Comparative Information as of January 31, 2010)

	General Fund	Improvement Capital Projects Fund	Total Governmental Funds 2011	Total Governmental Funds 2010
Assets				
Current assets				
Cash and temporary investments	$ 753,241	$ 3,667,521	$ 4,420,762	$ 4,155,096
Interest receivable	4	6,052	6,056	7,431
Delinquent taxes receivable	–	15,110	15,110	34,181
Due from other governments	–	324,000	324,000	–
Prepaids	1,914	–	1,914	1,835
Total assets	$ 755,159	$ 4,012,683	$ 4,767,842	$ 4,198,543
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 17,734	$ 10,815	$ 28,549	$ 53,156
Deferred revenue	–	15,110	15,110	34,181
Unearned revenue	399,475	324,000	723,475	169,502
Total liabilities	417,209	349,925	767,134	256,839
Fund balances				
Unreserved				
Designated for improvements	–	3,662,758	3,662,758	3,597,713
Undesignated	337,950	–	337,950	343,991
Total fund balances	337,950	3,662,758	4,000,708	3,941,704
Total liabilities and fund balances	$ 755,159	$ 4,012,683		

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

	2011	2010
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.	15,110	34,181
Net assets of governmental activities	$ 4,015,818	$ 3,975,885

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, 2011
(With Partial Comparative Information for the Year Ended January 31, 2010)

	General Fund	Improvement Capital Projects Fund	Total Governmental Funds 2011	Total Governmental Funds 2010
Revenue				
Member contributions	$ 414,150	$ –	$ 414,150	$ 449,874
Permit fees	22,000	–	22,000	15,000
Property taxes	–	900,827	900,827	775,165
State aid	–	32,700	32,700	54,063
Other revenue				
Investment earnings	314	9,016	9,330	14,098
Miscellaneous	1,639	–	1,639	1,023
Total revenue	438,103	942,543	1,380,646	1,309,223
Expenditures				
Current				
Engineering	290,708	–	290,708	265,885
Legal	17,331	–	17,331	16,464
Professional services	13,328	–	13,328	13,610
Secretarial services	42,578	–	42,578	34,145
Public relations and outreach	13,708	–	13,708	9,225
Financial management	3,000	–	3,000	3,205
Education	19,061	–	19,061	13,279
Demonstration projects	3,140	–	3,140	3,279
Miscellaneous	4,665	–	4,665	4,430
Capital outlay				
Improvement projects	–	914,123	914,123	217,226
Total expenditures	407,519	914,123	1,321,642	580,748
Excess of revenue over expenditures	30,584	28,420	59,004	728,475
Other financing sources (uses)				
Transfers in	23,375	60,000	83,375	60,000
Transfers (out)	(60,000)	(23,375)	(83,375)	(60,000)
Total other financing sources (uses)	(36,625)	36,625	–	–
Net change in fund balances	(6,041)	65,045	59,004	728,475
Fund balances				
Beginning of year	343,991	3,597,713		
End of year	$ 337,950	$ 3,662,758		
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.			(19,071)	19,155
Change in net assets of governmental activities			$ 39,933	$ 747,630

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended January 31, 2011

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	$ 414,150	$ 414,150	$ –
Permit fees	48,850	22,000	(26,850)
Other revenue			
Investment earnings	–	314	314
Miscellaneous	1,000	1,639	639
Total revenue	464,000	438,103	(25,897)
Expenditures			
Current			
Engineering	281,000	290,708	9,708
Legal	18,500	17,331	(1,169)
Professional services	15,000	13,328	(1,672)
Secretarial services	45,000	42,578	(2,422)
Public relations and outreach	15,500	13,708	(1,792)
Financial management	3,000	3,000	–
Education	15,000	19,061	4,061
Demonstration projects	5,000	3,140	(1,860)
Miscellaneous	5,000	4,665	(335)
Total expenditures	403,000	407,519	4,519
Excess of revenue over expenditures	61,000	30,584	(30,416)
Other financing sources (uses)			
Transfers in	–	23,375	23,375
Transfers out	(60,000)	(60,000)	–
Total other financing sources (uses)	(60,000)	(36,625)	23,375
Net change in fund balances	$ 1,000	(6,041)	$ (7,041)
Fund balances			
Beginning of year		343,991	
End of year		$ 337,950	

See notes to basic financial statements

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. It 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 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. Taxes and 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. Property taxes are recognized as revenue in the fiscal year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Commission applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

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 and other aid 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 of Commissioners on a modified accrual basis of accounting. Budgetary control is at the fund level. For the year ended January 31, 2011, General Fund expenditures exceeded appropriations by $4,519. 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

Under Minnesota Statute § 103B.251, the Commission is authorized to certify to Hennepin County , the costs of capital projects that are included in the capital improvement program in the Commission's watershed management plan. Project costs are certified to the county before October 1. The county is required by Minnesota Statute § 103B.251, Subd. 6 to provide funds for the cost of such improvements. The county has elected to levy an ad valorem property tax on taxable properties within the watershed to provide such funds. 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 funds 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. 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 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, 2011.

K. Net Assets and Fund Balances

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation, or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	201,819
Investments		4,218,943
Total cash and investments	$	4,420,762

B. Deposits

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

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 $210,819 and the balance on the bank records was $0. At January 31, 2011, deposits were fully covered by federal depository insurance or by collateral held by the Commission's agent in the Commission's name.

C. Investments

The Commission has the following investments at year-end:

	Credit Risk		Interest Risk – Maturity in Years		
Investment Type	Rating	Agency	Less Than 1	1 to 5	Total
U.S. agencies	AAA	S&P	$ –	$ 1,010,620	$ 1,010,620
Repurchase agreement (U.S. agency underlying security)	AAA	S&P	$ 3,208,323	$ –	3,208,323
Total investments					$ 4,218,943

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 does not have an investment policy that further addresses 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 does not have an investment policy that limits the concentration of investments. At January 31, 2011, the Commission's portfolio includes the following percentages of specific issuers:

U.S. agencies	
Federal Home Loan Bank	12.1%
Federal National Mortgage Association	11.9%
Repurchase Agreement – Wells Fargo	76.0%

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.

NOTE 3 – TRANSFERS

The following interfund transfers were made during the year ended January 31, 2011.

Transfers Out	Transfers In: General Fund	Transfers In: Improvement Capital Projects Fund	Total
General Fund	$ –	$ 60,000	$ 60,000
Improvement Capital Projects Fund	23,375	–	23,375
	$ 23,375	$ 60,000	$ 83,375

Transfers are used to finance certain improvement projects or allocate revenues between funds. 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 unearned revenue in the year received.

Member contributions, unearned revenue, and permit revenue for the year ended January 31, 2011 were as follows:

	Contributions	Unearned Revenue	Permit Fees Revenue
Crystal	$ 22,131	$ 23,433	$ –
Golden Valley	103,256	109,230	–
Medicine Lake	3,090	–	–
Minneapolis	30,216	–	–
Minnetonka	21,510	22,558	–
New Hope	22,605	23,840	–
Plymouth	188,453	196,201	4,000
Robbinsdale	7,417	7,672	–
St. Louis Park	15,472	16,541	–
	$ 414,150	$ 399,475	$ 4,000

OTHER REQUIRED REPORTS

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
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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, 2011, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 10, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(continued)

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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*.

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

May 10, 2011

MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

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Victoria L. Holinka, CPA

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, 2011, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 10, 2011.

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 Political Subdivisions*, 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing, because the Commission does not utilize tax increment financing.

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

May 10, 2011

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