

BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

Annual Financial Report  
Year Ended  
January 31, 2005

BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

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BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

BOARD OF COMMISSIONERS  
Year Ended January 31, 2005

<u>Commissioner</u>	<u>Position</u>	<u>Term Expires</u>	<u>Governmental Unit</u>
John O'Toole	Chairperson	January 31, 2006	City of Medicine Lake
Michael Welch	Vice Chairperson	January 31, 2007	City of Minneapolis
Linda Loomis	Treasurer	January 31, 2006	City of Golden Valley
Bill Yaeger	Secretary	January 31, 2007	City of Minnetonka
Paul Anderson	Commissioner	January 31, 2005	City of St. Louis Park
Mary Gwin-Lenth	Commissioner	January 31, 2007	City of New Hope
Pauline Langsdorf	Commissioner	January 31, 2006	City of Crystal
Karla Peterson	Commissioner	January 31, 2005	City of Robbinsdale
Elizabeth Thornton	Commissioner	January 31, 2005	City of Plymouth

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Bassett Creek Watershed Management Commission

We have audited the accompanying financial statements of the governmental activities and major funds of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2005, 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 an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the Commission at January 31, 2005, 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.

As described in Note 1, the Commission has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005, 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.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements, but is supplementary information required by GASB. The Commission has not presented the MD&A that GASB has determined is necessary to supplement, although not be a part of, the basic financial statements.

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

April 21, 2005

BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

Statement of Net Assets  
As of January 31, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 2,380,507
Delinquent taxes receivable	8,394
Prepays	<u>1,600</u>
Total assets	<u>2,390,501</u>
<b>Liabilities</b>	
Accounts payable	17,041
Unearned revenue	<u>146,176</u>
Total liabilities	<u>163,217</u>
<b>Net assets</b>	
Unrestricted	<u><u>\$ 2,227,284</u></u>

See notes to basic financial statements

BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

Statement of Activities  
Year Ended January 31, 2005

	Governmental Activities
Expenses	
Watershed management	\$ 298,104
Administration	878,278
Improvement projects	1,176,382
Total expenses	
Program revenues	
Charges for services – member assessments	376,659
Net program revenue (expense)	(799,723)
General revenues	
Property taxes	948,764
Unrestricted state aids	49,049
Investment earnings	22,578
Other	986
Total general revenues	1,021,377
Change in net assets	221,654
Net assets	
Beginning of year	2,005,630
End of year	\$ 2,227,284

See notes to basic financial statements



BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

Balance Sheet  
Governmental Funds  
As of January 31, 2005

	<u>General</u>	<u>Improvement Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash and investments	\$ 265,874	\$ 2,114,633	\$ 2,380,507
Delinquent taxes receivable		8,394	8,394
Prepays	1,600	-	1,600
<b>Total assets</b>	<b><u>\$ 267,474</u></b>	<b><u>\$ 2,123,027</u></b>	<b><u>\$ 2,390,501</u></b>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 14,443	\$ 2,598	\$ 17,041
Deferred revenue	-	8,394	8,394
Unearned revenue	146,176	-	146,176
<b>Total liabilities</b>	<b><u>160,619</u></b>	<b><u>10,992</u></b>	<b><u>171,611</u></b>
Fund balances			
Unreserved			
Designated for improvements	-	2,112,035	2,112,035
Undesignated	106,855	-	106,855
<b>Total fund balances</b>	<b><u>106,855</u></b>	<b><u>2,112,035</u></b>	<b><u>2,218,890</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 267,474</u></b>	<b><u>\$ 2,123,027</u></b>	

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.

Net assets of governmental activities

8,394
<b><u>\$ 2,227,284</u></b>

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, 2005

	General	Improvement Capital Projects	Total Governmental Funds
Revenue			
Member contributions	\$ 376,659	\$ --	\$ 376,659
Ad valorem taxes	-	940,370	940,370
State aid	-	49,049	49,049
Other revenue			
Investment earnings	899	21,679	22,578
Miscellaneous	986	-	986
Total revenue	378,544	1,011,098	1,389,642
Expenditures			
Current			
Engineering	180,051	-	180,051
Second generation plan	52,420	-	52,420
Legal	12,193	-	12,193
Professional services	6,540	-	6,540
Secretarial services	38,362	-	38,362
Public communications	7,215	-	7,215
Financial management	1,000	-	1,000
Miscellaneous	323	-	323
Capital outlay			
Improvement projects	-	878,278	878,278
Total expenditures	298,104	878,278	1,176,382
Excess of revenue over expenditures	80,440	132,820	213,260
Other financing sources (uses)			
Transfers in		75,000	75,000
Transfers (out)	(75,000)	-	(75,000)
Total other financing sources (uses)	(75,000)	75,000	-
Net change in fund balances	5,440	207,820	213,260
Fund balances			
Beginning of year	101,415	1,904,215	
End of year	\$ 106,855	\$ 2,112,035	
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.			8,394
Change in net assets of governmental activities			\$ 221,654

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, 2005

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	\$ 376,656	\$ 376,659	\$ 3
Other revenue			
Investment earnings	-	899	899
Miscellaneous	-	986	986
Total revenue	376,656	378,544	1,888
Expenditures			
Current			
Engineering	184,500	180,051	(4,449)
Second generation plan	52,000	52,420	420
Legal	13,000	12,193	(807)
Professional services	7,000	6,540	(460)
Secretarial services	27,000	38,362	11,362
Public communications	7,000	7,215	215
Financial management	1,000	1,000	-
Miscellaneous	5,000	323	(4,677)
Total expenditures	296,500	298,104	1,604
Excess (deficiency) of revenue over expenditures	80,156	80,440	284
Other financing uses			
Transfers out	(50,000)	(75,000)	(25,000)
Net change in fund balances	\$ 30,156	5,440	\$ (24,716)
Fund balances			
Beginning of year		101,415	
End of year		\$ 106,855	

See notes to basic financial statements

BASSETT CREEK WATERSHED  
MANAGEMENT COMMISSION

Notes to Basic Financial Statements  
January 31, 2005

**NOTE I – 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 Statutes § 471.59. Its 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 include 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 (i.e. the Statement of Net Assets and the 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 is 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. Property taxes are recognized as revenue in the fiscal year for which they are levied. 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 of Commissioners 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. General Fund expenditures exceeded budgeted appropriations by \$1,604 for the year ended January 31, 2005.

### 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 made 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 (the 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, 2005.

### K. Change in Accounting Principle

For the year ended January 31, 2005, the Commission has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34 creates new basic financial statements for reporting on the Commission's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for Major Individual Funds rather than by fund type, which had been the mode of presentation in previously issued financial statements.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Deposits

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

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rate "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.

At January 31, 2005, the carrying amount of the Commission's deposits was \$383,812 and the balance on the bank records was \$388,812. All deposits were insured or collateralized by securities held by the Commission's agent in the Commission's name.

**B. Investments**

The Commission may also invest idle funds as authorized by Minnesota Statutes as follows: 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 thirteen 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 investments are categorized to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Commission's name.

Deposits and investment balances at January 31, 2005 are as follows:

	Custodial Credit Risk Category			Fair Value
	1	2	3	
Commercial paper	\$ 1,996,695	\$ -	\$ -	\$ 1,996,695
Deposits				383,812
Total deposits and investments				\$ 2,380,507

**NOTE 3 – TRANSFERS**

The Commission transferred \$75,000 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 unearned revenue in the year received.

Member contributions for the year ended January 31, 2005 and related unearned revenue as of January 31, 2005 were as follows:

	<u>Contributions</u>	<u>Unearned Revenue</u>
Crystal	\$ 19,490	\$ -
Golden Valley	94,212	91,588
Medicine Lake	2,462	2,444
Minneapolis	22,710	25,124
Minnetonka	18,505	-
New Hope	21,074	20,676
Plymouth	176,929	-
Robbinsdale	5,806	6,344
St. Louis Park	15,471	-
	<u>\$ 376,659</u>	<u>\$ 146,176</u>



OTHER REQUIRED REPORTS



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

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, 2005, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 21, 2005. 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 matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

April 21, 2005