BASSETT CREEK WATERSHED MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
January 31, 2007

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

MALLOY
MONTAGUE
KARNOWSKI
RADOSEVICH
& CO., P.A.

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
January 31, 2007

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

BOARD OF COMMISSIONERS

Year Ended January 31, 2007

Commissioner	Position	Governmental Unit
Michael Welch	Chairperson	City of Minneapolis
Bill Yaeger	Vice Chairperson	City of Minnetonka
Linda Loomis	Treasurer	City of Golden Valley
Ginny Black	Secretary	City of Plymouth
Mary Gwin-Lenth	Commissioner	City of New Hope
Richard Johnson	Commissioner	City of St. Louis Park
Pauline Langsdorf	Commissioner	City of Crystal
Cheri Templeman	Commissioner	City of Medicine Lake
Karla Peterson	Commissioner	City of Robbinsdale

FINANCIAL SECTION

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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, 2007, 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, 2006, and in our report dated April 18, 2006, 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, 2007, 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, 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, 2006, from which it was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007, 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)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

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.

May 11, 2007

BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Assets
as of January 31, 2007
(With Partial Comparative Information as of January 31, 2006)

	Governmental Activities	
	2007	2006
Assets		
Cash and investments	$ 3,120,008	$ 3,044,231
Accounts receivable	2,000	–
Delinquent taxes receivable	8,042	4,764
Prepaids	1,600	1,600
Total assets	3,131,650	3,050,595
Liabilities		
Accounts payable	130,418	21,065
Unearned revenue	–	247,387
Total liabilities	130,418	268,452
Net assets		
Unrestricted	$ 3,001,232	$ 2,782,143

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
Year Ended January 31, 2007
(With Partial Comparative Information for the Year Ended January 31, 2006)

	Governmental Activities 2007	Governmental Activities 2006
Expenses		
Watershed management		
Administration	$ 314,757	$ 270,230
Improvement projects	542,244	47,417
Total expenses	857,001	317,647
Program revenues		
Charges for services – member assessments	385,875	367,499
Charges for services – permit fees	58,050	–
	443,925	367,499
Net program revenue (expenses)	(413,076)	49,852
General revenues		
Property taxes	509,910	433,345
Unrestricted state aids	18,388	15,560
Investment earnings	103,061	54,788
Other	806	1,314
Total general revenues	632,165	505,007
Change in net assets	219,089	554,859
Net assets		
Beginning of year	2,782,143	2,227,284
End of year	$ 3,001,232	$ 2,782,143

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of January 31, 2007
(With Partial Comparative Information as of January 31, 2006)

	General	Improvement Capital Projects	Total Governmental Funds 2007	Total Governmental Funds 2006
Assets				
Current assets				
Cash and temporary investments	$ 197,009	$ 2,922,999	$ 3,120,008	$ 3,044,231
Accounts receivable	2,000	–	2,000	–
Delinquent taxes receivable	–	8,042	8,042	4,764
Prepaid expenses	1,600	–	1,600	1,600
Total assets	$ 200,609	$ 2,931,041	$ 3,131,650	$ 3,050,595
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 30,851	$ 99,567	$ 130,418	$ 21,065
Deferred revenue	–	8,042	8,042	4,764
Unearned revenue	–	–	–	247,387
Total liabilities	30,851	107,609	138,460	273,216
Fund balances				
Unreserved				
Designated for improvements	–	2,823,432	2,823,432	2,653,605
Undesignated	169,758	–	169,758	123,774
Total fund balances	169,758	2,823,432	2,993,190	2,777,379
Total liabilities and fund balances	$ 200,609	$ 2,931,041		

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

	2007	2006
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.	8,042	4,764
Net assets of governmental activities	$ 3,001,232	$ 2,782,143

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, 2007
(With Partial Comparative Information for the Year Ended January 31, 2006)

	General	Improvement Capital Projects	Total Governmental Funds 2007	Total Governmental Funds 2006
Revenue				
Member contributions	$ 385,875	$ –	$ 385,875	$ 367,499
Permit fees	58,050	–	58,050	–
Ad valorem taxes	–	506,632	506,632	436,975
State aid	–	18,388	18,388	15,560
Other revenue				
Investment earnings	1,010	102,051	103,061	54,788
Miscellaneous	806	–	806	1,314
Total revenue	445,741	627,071	1,072,812	876,136
Expenditures				
Current				
Engineering	245,390	–	245,390	186,935
Second generation plan	–	–	–	8,096
Legal	13,422	–	13,422	14,686
Professional services	12,341	–	12,341	9,943
Secretarial services	38,296	–	38,296	45,206
Public communications	3,840	–	3,840	4,282
Financial management	1,237	–	1,237	1,000
Miscellaneous	231	–	231	82
Capital outlay				
Improvement projects	–	542,244	542,244	47,417
Total expenditures	314,757	542,244	857,001	317,647
Excess of revenue over expenditures	130,984	84,827	215,811	558,489
Other financing sources (uses)				
Transfers in	–	85,000	85,000	85,000
Transfers (out)	(85,000)	–	(85,000)	(85,000)
Total other financing sources (uses)	(85,000)	85,000	–	–
Net change in fund balances	45,984	169,827	215,811	558,489
Fund balances				
Beginning of year	123,774	2,653,605		
End of year	$ 169,758	$ 2,823,432		

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

	2007	2006
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.	3,278	(3,630)
Change in net assets of governmental activities	$ 219,089	$ 554,859

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, 2007

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	$ 385,875	$ 385,875	$ –
Permit fees	30,000	58,050	28,050
Other revenue			
Investment earnings	1,500	1,010	(490)
Miscellaneous	–	806	806
Total revenue	417,375	445,741	28,366
Expenditures			
Current			
Engineering	236,500	245,390	8,890
Contingencies	33,000	–	(33,000)
Legal	13,500	13,422	(78)
Professional services	7,500	12,341	4,841
Secretarial services	27,000	38,296	11,296
Public communications	10,000	3,840	(6,160)
Financial management	1,200	1,237	37
Miscellaneous	1,000	231	(769)
Total expenditures	329,700	314,757	(14,943)
Excess of revenue over expenditures	87,675	130,984	43,309
Other financing uses			
Transfers out	(85,000)	(85,000)	–
Net change in fund balances	$ 2,675	45,984	$ 43,309
Fund balances			
Beginning of year		123,774	
End of year		$ 169,758	

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. 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. 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, 2007.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$ 2,121,038
Investments	998,970
Total cash and investments	$ 3,120,008

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 $2,121,038, while the balance on the bank records was $2,127,289. At January 31, 2007, 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, 2007, the Commission had $998,970 invested in commercial paper issued by Beethoven Funding Corporation, rated A-1 by Standard and Poor's, maturing February 14, 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 unearned revenue in the year received.

Member contributions and permit revenue for the year ended January 31, 2007 were as follows:

	Contributions	Permit Revenue
Crystal	$ 21,291	$ –
Golden Valley	96,734	2,000
Medicine Lake	2,621	–
Minneapolis	27,090	–
Minnetonka	18,196	–
New Hope	21,596	–
Plymouth	177,410	–
Robbinsdale	6,744	1,250
St. Louis Park	14,193	–
	$ 385,875	$ 3,250

OTHER REQUIRED REPORTS

MMKR
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ACCOUNTANTS

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Kenneth W. Malloy, 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, 2007, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 11, 2007. 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 Commissions' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

(continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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 11, 2007

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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, 2007, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 11, 2007.

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, Radosevich & Co., P.A.

May 11, 2007

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May 11, 2007

Board of Commissioners
Bassett Creek Watershed Management Commission

In connection with our audit of Bassett Creek Watershed Management Commission (the Commission) for the year ended January 31, 2007, we submit the following for your information and consideration.

REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 61, "Communication With Audit Committees," requires the auditor to ensure that certain matters related to the conduct of an audit are communicated to those who have responsibility for oversight of the financial reporting process. This letter constitutes our communication of such matters.

THE AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our audit, conducted in accordance with auditing standards generally accepted in the United States of America, is designed to provide reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. These financial statements are the responsibility of management and it is our responsibility to express an opinion on these financial statements based on our audit results.

SIGNIFICANT ACCOUNTING POLICIES

The Commission's accounting policies follow accounting principles generally accepted in the United States of America, as explained in detail in Note 1 of the notes to basic financial statements. During the year ended January 31, 2007, the Commission made no significant changes to its accounting policies.

AUDIT ADJUSTMENTS

Our audit of the year ended January 31, 2007 financial statements resulted in the following proposed adjustments to the Commission's financial records categorized by type:

Year-end accounting adjustments:

> These are adjustments which we may propose while assisting your finance staff in the closing of the year-end accounting records. These types of adjustments, if any, are not considered to be "audit adjustments."

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

Audit adjustments which we considered significant enough to prevent the financial statements from being misleading:

Those which were recorded by the Commission:

None.

Those not recorded by the Commission:

None.

Audit adjustments which the Commission's management did not consider significant enough to cause the financial statements from being misleading:

Those which were recorded by the Commission:

None.

Those not recorded by the Commission:

None.

OTHER MATTERS

Statement on Auditing Standards No. 61 also requires communications to the Board of Commissioners in the following areas:

- Accounting estimates and management judgments
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultations with other accountants
- Major issues discussed with management prior to retention as auditors
- Difficulties encountered in performing the audit

During our audit, we did not encounter any circumstances and we are unaware of any items in any of these areas which require discussion with those who have responsibility for oversight of the financial reporting process.

This report is intended solely for the information and use of those who have responsibility for oversight of the financial reporting process.

Sincerely,

MALLOY, MONTAGUE, KARNOWSKI, RADOSEVICH & CO., P.A.

William J. Lauer

William J. Lauer, CPA
Principal

WJL:lmb