

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Annual Financial Report
Year Ended
January 31, 2004

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

BOARD OF COMMISSIONERS

Year Ended January 31, 2004

<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, 2004	City of Minneapolis
David Hanson	Treasurer	January 31, 2006	City of Golden Valley
Bill Yaeger	Secretary	January 31, 2004	City of Minnetonka
Paul Anderson	Commissioner	January 31, 2005	City of St. Louis Park
Karla Peterson	Commissioner	January 31, 2005	City of Robbinsdale
Elizabeth Thornton	Commissioner	January 31, 2005	City of Plymouth
Mary Gwin-Lenth	Commissioner	January 31, 2004	City of New Hope
Pauline Langsdorf	Commissioner	January 31, 2006	City of Crystal

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. Eichren, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bassett Creek Watershed Management Commission

We have audited the accompanying general purpose financial statements of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2004. These general purpose financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commission at January 31, 2004, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2004, 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, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this audit in considering the results of our audit.

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

April 1, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Combined Balance Sheet
Governmental Fund Types
As of January 31, 2004
(with Comparative Totals as of January 31, 2003)

	General	Improvement Capital Projects	Totals (Memorandum Only)	
			2004	2003
Assets				
Current assets				
Cash and temporary investments	\$ 495,765	\$ 1,902,536	\$ 2,398,301	\$ 2,268,418
Accrued interest receivable	-	1,679	1,679	10,103
Prepaid expenses	1,600	-	1,600	1,601
	<u>1,600</u>	<u>-</u>	<u>1,600</u>	<u>1,601</u>
Total assets	<u>\$ 497,365</u>	<u>\$ 1,904,215</u>	<u>\$ 2,401,580</u>	<u>\$ 2,280,122</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 19,291	\$ -	\$ 19,291	\$ 26,824
Deferred revenue	376,659	-	376,659	301,668
	<u>395,950</u>	<u>-</u>	<u>395,950</u>	<u>328,492</u>
Fund balance				
Unreserved				
Designated for improvements	25,000	1,904,215	1,929,215	1,835,786
Undesignated	76,415	-	76,415	115,844
	<u>101,415</u>	<u>1,904,215</u>	<u>2,005,630</u>	<u>1,951,630</u>
Total liabilities and fund balance	<u>\$ 497,365</u>	<u>\$ 1,904,215</u>	<u>\$ 2,401,580</u>	<u>\$ 2,280,122</u>

See notes to financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Fund Types
Year Ended January 31, 2004
(with Comparative Totals for Year Ended January 31, 2003)

	General	Improvement Capital Projects	Totals (Memorandum Only)	
			2004	2003
Revenue				
Member contributions	\$ 358,000	\$ -	\$ 358,000	\$ 295,000
Other revenue				
Interest	361	18,429	18,790	30,574
Miscellaneous	983	-	983	12,631
Rebate from U.S. Army Corps of Engineers	-	-	-	133,285
Total revenue	359,344	18,429	377,773	471,490
Expenditures				
Current				
Engineering	153,633	-	153,633	160,171
Second generation plan	103,010	-	103,010	85,750
Legal	14,159	-	14,159	7,022
Professional services	5,998	-	5,998	5,693
Secretarial services	24,161	-	24,161	41,523
Public communications	18,062	-	18,062	15,914
Financial management	1,000	-	1,000	-
Contingencies	3,750	-	3,750	2,750
Total expenditures	323,773	-	323,773	318,823
Excess of revenue over expenditures	35,571	18,429	54,000	152,667
Other financing sources (uses)				
Operating transfers in	-	50,000	50,000	-
Operating transfers (out)	(50,000)	-	(50,000)	-
Total other financing sources sources (uses)	(50,000)	50,000	-	-
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(14,429)	68,429	54,000	152,667
Fund balance				
Beginning of year	115,844	1,835,786	1,951,630	1,798,963
End of year	\$ 101,415	\$ 1,904,215	\$ 2,005,630	\$ 1,951,630

See notes to 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, 2004
(With Comparative Actual Amounts for Year Ended January 31, 2003)

	2004		Over (Under) Budget	2003
	Budget	Actual		Actual
Revenue				
Member contributions	\$ 358,000	\$ 358,000	\$ —	\$ 295,000
Other revenue				
Interest	—	361	361	1,958
Miscellaneous	—	983	983	1,006
Total revenue	<u>358,000</u>	<u>359,344</u>	<u>1,344</u>	<u>297,964</u>
Expenditures				
Current				
Engineering	189,000	153,633	(35,367)	160,171
Second generation plan	62,000	103,010	41,010	85,750
Legal	25,000	14,159	(10,841)	7,022
Professional services	7,000	5,998	(1,002)	5,693
Secretarial services	25,000	24,161	(839)	41,523
Public communications	25,000	18,062	(6,938)	15,914
Financial management	1,000	1,000	—	—
Maintenance projects	25,000	—	(25,000)	—
Contingencies	15,000	3,750	(11,250)	2,750
Total expenditures	<u>374,000</u>	<u>323,773</u>	<u>(50,227)</u>	<u>318,823</u>
Excess (deficiency) of revenue over expenditures	(16,000)	35,571	51,571	(20,859)
Other financing uses				
Operating transfers (out)	<u>(50,000)</u>	<u>(50,000)</u>	<u>—</u>	<u>—</u>
Excess (deficiency) of revenue over expenditures and other financing uses	<u>\$ (66,000)</u>	(14,429)	<u>\$ 51,571</u>	(20,859)
Fund balance				
Beginning of year		<u>115,844</u>		<u>136,703</u>
End of year		<u>\$ 101,415</u>		<u>\$ 115,844</u>

See notes to financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Notes to Financial Statements
January 31, 2004

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 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 of Commissioners consisting of nine members, one appointed by each of the member cities.

The accounting policies of the organization 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. Basis of Statement Presentation

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The Commission maintains the following governmental funds:

1. **General Fund** – The General Fund is the general operating fund of the Commission, and is used to account for all financial resources except those required to be accounted for in another fund.
2. **Improvement Capital Projects Fund** – The Improvement Capital Projects Fund is used to account for financial resources to be used for capital improvement projects instituted by the Commission.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and its basis of accounting.

1. Measurement Focus

The measurement focus of a fund determines what the fund measures.

All governmental funds are accounted for using a current financial resources measurement focus. 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.

2. Basis of Accounting

A fund's basis of accounting determines when a transaction or event is recognized in the fund's operating statement.

All governmental funds use the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

- i. **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. All significant revenues are considered susceptible to accrual.
- ii. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred; however, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

E. Budget

A budget for the General Fund is adopted annually by the Commission's Board on a modified accrual basis of accounting. Budget amounts presented are as originally adopted. Budgetary control is at the fund level. Encumbrance accounting is not used, and all appropriations lapse at year-end.

F. Temporary Investments

Investments are reported at fair value.

G. Memorandum Only Columns

Because the accounting system is organized and operated on a fund basis, the columns on the combined financial statements captioned, “Totals (Memorandum Only),” are presented for informational purposes only and are not intended to represent consolidated information. Data in these columns does not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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 (LMC Trust), a public entity risk pool for its general property, casualty and other miscellaneous insurance coverages. The LMC Trust 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 LMC Trust for insurance coverage. The LMC Trust 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, 2004.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

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.

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, 2004, the carrying amount of the Commission's deposits and the balance on the bank records was \$1,402,823. 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 rate "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, 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2004 are as follows:

	Custodial Credit Risk Category			Fair Value
	1	2	3	
Negotiable certificates of deposit	\$ 396,000	\$ --	\$ --	\$ 396,000
Commercial paper	599,478	--	--	599,478
	<u>\$ 995,478</u>	<u>\$ --</u>	<u>\$ --</u>	995,478
Deposits				<u>1,402,823</u>
Total deposits and investments				<u>\$ 2,398,301</u>

NOTE 3 – RELATED PARTY TRANSACTIONS

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

Member contributions for the year ended January 31, 2004 and related deferred revenue as of January 31, 2004 were as follows:

	Contributions	Deferred Revenue
Crystal	\$ 18,565	\$ 19,490
Golden Valley	87,390	94,212
Medicine Lake	2,315	2,462
Minneapolis	22,147	22,710
Mnetonka	18,581	18,505
New Hope	19,806	21,074
Plymouth	168,734	176,929
Robbinsdale	5,453	5,806
St. Louis Park	15,009	15,471
	<u>\$ 358,000</u>	<u>\$ 376,659</u>

NOTE 4 – FUTURE REPORTING REQUIREMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments in June 1999. This is one of the most significant changes to occur in the history of governmental financial reporting. The basic financial statements, consisting of the government-wide financial statements, fund financial statements and notes to the financial statements will replace the current general purpose financial statements. The government-wide financial statements, consisting of a Statement of Net Assets and a Statement of Activities will be prepared using the economic resource measurement focus and the accrual basis of accounting. Fund financial statements will consist of a series of statements that focus on information about the Commission's major funds. Certain additional disclosures relating to GASB Statement No. 34 will be required in the notes to the financial statements. The Commission must implement GASB Statement No. 34 no later than fiscal year ending January 31, 2005.

OTHER REQUIRED REPORTS



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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 COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING 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 general purpose financial statements of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2004, and have issued our report thereon dated April 1, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

(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, Radosenick & Co., P.A.

April 1, 2004



PRINCIPALS

Kenneth W. Malloy, CPA
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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 general purpose financial statements of the Bassett Creek Watershed Management Commission (the Commission) as of and for the year ended January 31, 2004, and have issued our report thereon dated April 1, 2004.

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 State Auditor pursuant to Minnesota Statutes § 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 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.

April 1, 2004