

Appendix D

Financial Information

Bassett Creek Water Management Commission
2004 Budget and Levy
June 2003

The Joint and Cooperative Agreement establishing the Bassett Creek Water Management Commission sets forth the procedure required to adopt the annual budget. Article VIII, Subdivision 3, provides that each member agrees to contribute each year to a general fund to be used for administrative purposes and certain operating expenses. Half of the annual contribution of each member is based on assessed valuation of property within the watershed and the other half on the ratio of area of each member within the watershed to the total area of the Bassett Creek watershed. Subdivision 5 of Article VIII further provides: "On or before July 1 of each year, the Board shall adopt a detailed budget for the ensuing year and decide upon the total amount necessary for the general fund." Budget approval requires a two-thirds vote (six Commissioners). Further, the Secretary "shall certify the budget on or before July 1 to the clerk of each member governmental unit, together with a statement of the proportion of the budget to be provided by each member." Each of the nine members then has until August 1 to file an objection to the budget.

The budget proposal for 2004 was prepared by a Budget Committee consisting of John O'Toole (Commission and Committee Chair), David Hanson (Commission Treasurer), Michael Welch, Bill Yaeger, Elizabeth Thornton, Pauline Langsdorf, and Karla Peterson. A representative of Barr Engineering Company advised on engineering-related items.

The approved 2004 budget is enclosed. Although the flood control project is completed, budget for inspecting the project has been included. In 2001 and 2002, much of the work was directed toward preparation of the State-mandated "second generation plan." The plan will be completed in 2003. The year 2004 budget of \$376,656 was adopted by eight commissioners (city of Minnetonka not represented) voting in favor of the budget at the Commission meeting on June 19, 2003. Specific items in the budget are discussed below.

1. **Engineering** services are budgeted at \$163,000 in 2004. Many of the individual items are similar to the 2003 budgets. These are: Administrative costs (\$100,000), Attendance at Commission Meetings (\$10,000), Surveys and Studies (\$25,000), Water Quantity (\$5,000), Watershed Inspections (\$10,000), and Annual Inspections (\$8,000). Water Quality monitoring is budgeted for \$5,000. Municipal Plan Review was not budgeted for in 2004. Water Quality expenditures, which for many years have been directed at examining methods for improving water quality in Bassett Creek and its several sub-drainage basins, will now be concerned largely with monitoring water quality. The budgeted amount for 2002 was reduced mid-year and no amount was budgeted for 2003. The water quality sampling intervals are being reviewed for future monitoring.
2. **Planning** services are budgeted at \$52,000 in 2004. Tasks include submitting the Second Generation Plan (mandated by the State law) for review and approval and Plan implementation (largely water quality projects). Much of the work will be drafting, printing, and distributing the plan for review and responding to comments.
3. Routine **Legal** services are budgeted at \$13,000.
4. **Financial Management** is budgeted for \$1,000 for services provided by the Deputy Treasurer at the City of Golden Valley.

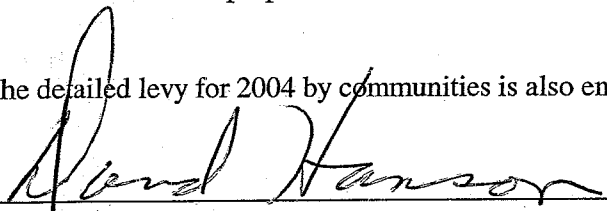
5. **Liability Insurance, Auditing and Bonding** is minimally increased to \$7,000.
6. **Secretarial** services, including mailing and copying, are budgeted at \$27,000.
7. **Public Relations** are budgeted as follows: Publications/Annual Report (\$3,000), Website improvements (\$4,000), Watershed Outlet Monitoring Program (WOMP) (\$10,000), Citizens Assisted Monitoring Program (CAMP) (\$4,000), the Hennepin Conservation District River Watch Program (\$1,500), and Watershed Partners (\$5,000).
8. **Public Communications** is not budgeted in 2004. The Commission will coordinate communications with its member cities.
9. **Demonstration Projects** was reduced to \$1,000. Criteria are being prepared for how demonstration projects will be funded.
10. **Erosion/Sediment (Maintenance Project)** is budgeted at \$25,000.
11. **Long-Term Maintenance (Flood Control Project)** is budgeted at \$25,000.
12. The **Contingency** item is budgeted at \$5,000.

At its June 19, 2003 meeting, the Commissioners also considered the assessment on the cities. The 2004 assessment was adopted by eight commissioners (city of Minnetonka not represented) voting in favor to levy \$376,656 for the 2004 fiscal year, as compared with the \$358,000 adopted in 2003, an increase based on the following:

Funding Needs:	
2004 Administrative Budget	\$346,500
2003 Budget Deficit	30,156
Total	\$376,656

Funding Source:	
Proposed 2004 Assessment	\$376,656
Assessment proposed for 2004 Medicine Lake Capital Projects (Hennepin County)	\$850,100

The detailed levy for 2004 by communities is also enclosed.



 David Hanson, Treasurer

Enclosures: 2004 Budget
 2004 Assessments

**2004 Administrative Budget
Bassett Creek Water Management Commission - June 2003**

Item	2002 Budget	Balance Year-End 1/31/03 over / (under)	Amended 2003 Budget	Balance Year- End 1/31/04 (est.) over / (under)	2004 Budget
ENGINEERING					
Administration	105,000	(1,867.03)	100,000	0.00	100,000
Commission Meetings	7,500	(209.88)	7,500	2,000.00	10,000
Surveys and Studies	25,000	6,095.13	25,000	0.00	25,000
Water Quality					
Monitoring	0	1,171.50	20,000	0.00	5,000
Subwatershed Plans	0			0.00	0
Water Quantity	7,000	(4,287.80)	7,000	0.00	5,000
Inspections					
Watershed Inspections	10,000	(3,533.01)	12,000	0.00	10,000
Annual Inspections	8,000	(5,460.40)	10,000	0.00	8,000
Municipal Plan Review	8,000	(2,267.31)	7,500	(2,000.00)	0
Subtotal Engineering	\$170,500.00	(\$10,358.80)	\$189,000.00	\$0.00	\$163,000.00
PLANNING					
2nd Generation Plan					
Engineering / Consulting	50,000	28,416.03	35,000	25,000.00	45,000
Legal	5,000	2,334.33	5,000	0.00	2,000
Administration	10,000	(10,000.00)	7,000	5,000.00	5,000
Plan Implementation	0	(10,000.00)			
Engineering / Design	10,000		15,000	0.00	0
Legal	0				0
Administration	0				0
Subtotal Planning	\$75,000.00	\$10,750.36	\$62,000.00	\$30,000.00	\$52,000.00
Legal	25,000	(17,978.10)	25,000	0.00	13,000
Financial Management			1,000		1,000
Audit, Insurance & Bond	6,500	(807.00)	7,000	0.00	7,000
Secretarial	18,000	23,522.92	25,000	0.00	27,000
Public Relations	20,000	(4,086.18)	15,000	0.00	
Publications / Annual Report					3,000
Web Site					4,000
WOMP					10,000
CAMP					4,000
River Watch Program					1,500
Watershed Partners					5,000
Public Communications			5,000	0.00	0
Demonstration Projects	10,000	(10,000.00)	5,000	0.00	1,000
Erosion/Sediment (Maintenance Project)			50,000	(25,000.00)	25,000
Long-Term Maintenance (Flood Control Project)			25,000	0.00	25,000
Contingencies	15,000	(12,250.00)	15,000	(15,000.00)	5,000
Subtotal	\$94,500.00	(\$21,598.36)	\$173,000.00	(\$40,000.00)	\$131,500.00
GRAND TOTAL	\$340,000.00	(\$21,206.80)	\$424,000.00	(\$10,000.00)	\$346,500.00

For Information (Administrative Account)

Financial Information

Audited fiscal year 2002 fund balance at 01/31/03	\$115,844
Expected income from assessments in 2003	\$358,000
Expected interest income in 2003	\$10,000
Transfer from construction account in 2003	\$0
Estimated funds available for fiscal year 2003	\$483,844
Estimated expenditures for fiscal year 2003	\$414,000
Estimated fund balance as of January 31, 2004	\$69,844
Proposed Budget Reserve	\$100,000
2004 Budget Deficit	\$30,156
2004 Budget	
Proposed 2004 Capital Projects	\$800,000
Proposed 2004 Administrative Budget	\$346,500
Proposed total 2004 Budget	\$1,146,500
2004 Assessments	
Assessment proposed for 2004 Capital Projects (Hennepin County)	\$850,100
Assessment proposed for 2004 Administrative Items	\$376,656

**Bassett Creek Water Management Commission
2004 Assessment
June 2003**

Community	2003-2004 Adjusted Tax Capacity	2004 Percent of Valuation	Current Area Watershed in Acres	Percent of Area	2004 Average Percent	2003 Assessment \$358,000	2004 Assessment \$376,656
Crystal	\$5,105,000 (b)	5.26	1,264	5.09	5.17	\$18,565	\$19,490
Golden Valley	\$22,705,000 (a)	23.40	6,615	26.63	25.01	\$87,390	\$94,212
Medicine Lake	\$490,000 (a)	0.50	199	0.80	0.65	\$2,315	\$2,460
Minneapolis	\$5,100,160 (b)	5.26	1,690	6.80	6.03	\$22,147	\$22,710
Minnetonka	\$5,207,000 (a)	5.37	1,108	4.46	4.91	\$18,581	\$18,505
New Hope	\$5,968,000 (a)	6.15	1,252	5.04	5.59	\$19,806	\$21,074
Plymouth	\$45,783,000 (a)	47.18	11,618	46.77	46.97	\$168,734	\$176,929
Robbinsdale	\$1,644,000 (b)	1.69	345	1.39	1.54	\$5,453	\$5,806
St. Louis Park	\$5,034,000 (a)	5.19	752	3.03	4.11	\$15,009	\$15,471
TOTAL	\$97,036,160	100.00	24,843	100.00	100.00	\$358,000	\$376,656

a Values obtained from Hennepin County (adjusted tax capacity)

b Values obtained from City

Summary of Pre-Funded Flood Control Project Items
(From Remaining Flood Control Project Funds)
August 2002

Funding Item	Total Allocation from Flood Control Project	Annual Allocations				Annual Assessments 2003-2013
		2003	2004	2005	2006	
Flood Control Project (1)	\$700,000	\$100,000	\$200,000	\$300,000	\$100,000	\$0
Flood Control Emergency Repair Project	\$500,000	NA	NA	NA	(2)	\$0
Flood Control Project Long Term Maintenance	\$335,000	NA	NA	NA	(2)	\$25,000

- (1) Monies to be used for flood proofing of homes included in the original Flood Control Project.
(2) As needed.

**BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION**

Annual Financial Report
Year Ended
January 31, 2005

BASSETT CREEK WATERSHIED
MANAGEMENT COMMISSION

TABLE OF CONTENTS

	Page
BOARD OF COMMISSIONERS	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	2
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet – Governmental Funds	5
Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds	6
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	7
Notes to Basic Financial Statements	8-12
OTHER REQUIRED REPORTS	
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	13-14
Independent Auditor's Report on Compliance with Minnesota State Laws and Regulations	15

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

	<u>Governmental Activities</u>
Expenses	
Watershed management	
Administration	\$ 298,104
Improvement projects	878,278
Total expenses	<u>1,176,382</u>
Program revenues	
Charges for services – member assessments	<u>376,659</u>
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	<u>1,021,377</u>
Change in net assets	221,654
Net assets	
Beginning of year	<u>2,005,630</u>
End of year	<u>\$ 2,227,284</u>

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	<u>1,600</u>	<u>-</u>	<u>1,600</u>
Total assets	<u>\$ 267,474</u>	<u>\$ 2,123,027</u>	<u>\$ 2,390,501</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 14,443	\$ 2,598	\$ 17,041
Deferred revenue	-	8,394	8,394
Unearned revenue	<u>146,176</u>	<u>-</u>	<u>146,176</u>
Total liabilities	<u>160,619</u>	<u>10,992</u>	<u>171,611</u>
Fund balances			
Unreserved			
Designated for improvements	-	2,112,035	2,112,035
Undesignated	<u>106,855</u>	<u>-</u>	<u>106,855</u>
Total fund balances	<u>106,855</u>	<u>2,112,035</u>	<u>2,218,890</u>
Total liabilities and fund balances	<u>\$ 267,474</u>	<u>\$ 2,123,027</u>	

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

Certain revenues (including delinquent taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.

	<u>8,394</u>
Net assets of governmental activities	<u>\$ 2,227,284</u>

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended January 31, 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 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	<u>\$ 1,996,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,996,695</u>
Deposits				<u>383,812</u>
Total deposits and investments				<u>\$ 2,380,507</u>

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, Radoszewski & Co., P.A.

April 21, 2005

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 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, 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, 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 Governments* promulgated by the Office of 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 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