



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

January 11, 2010

Ms. Sue Virnig, Treasurer  
Bassett Creek Watershed Management Commission  
City of Golden Valley  
7800 Golden Valley Road  
Golden Valley, MN 55427

Dear Ms. Virnig:

Enclosed are two copies of an engagement letter which explains and confirms the basic services we expect to perform in conjunction with your upcoming audit.

Also enclosed is a copy of our most recent peer review report and letter of comment.

Assuming the letter adequately describes the services you desire, please sign both copies, return one to our office, and keep the other copy for your files.

Please do not hesitate to contact me if you believe the letter should be modified or if you have any questions.

Sincerely,

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

A handwritten signature in cursive script that reads "William J. Lauer".

William J. Lauer, CPA  
Principal

WJL:hls

Enclosures

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



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January 11, 2010

To the Board of Commissioners of the  
Bassett Creek Watershed Management Commission  
City of Golden Valley  
7800 Golden Valley Road  
Golden Valley, MN 55427

We are pleased to confirm our understanding of the services we are to provide for the Bassett Creek Watershed Management Commission (the Commission) for the year ended January 31, 2010. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, which collectively comprise the Commission's basic financial statements as of and for the year ended January 31, 2010. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A), to accompany the Commission's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Commission's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it.

Supplementary information other than RSI, such as combining and individual fund financial statements, may also accompany the Commission's basic financial statements. We will subject the supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

We will perform the required State Legal Compliance Audit conducted in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Legal Compliance Audit Guide*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, and will include such tests of the accounting records and other procedures we consider necessary to enable us to conclude that, for the items tested, the Commission has complied with the material terms and conditions of applicable legal provisions.

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 Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America established by the Auditing Standards Board, and will include tests of accounting records of the Commission and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form, or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commission and the respective changes in financial position and where applicable, cash flows, in conformity with accounting principles generally accepted in the United States of America.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about known or suspected fraud or illegal acts affecting the Commission involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Commission received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the Commission complies with applicable laws and regulations.

### **Audit Procedures – General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to Commission or to acts by management or employees acting on behalf of the Commission.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

### **Audit Procedures – Internal Control**

Our audit will include obtaining an understanding of the Commission and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

### **Audit Procedures – Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Commission's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

### **Audit Administration, Fees, and Other**

The assistance to be supplied by your personnel, including the preparation of schedules and analysis of accounts, typing all cash or other confirmations we request, and locating any invoices selected by us for testing, will be discussed and coordinated with you.

We will provide copies of our reports to the Commission; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR) and constitutes confidential information. However, we may be requested to make certain audit documentation available to a regulatory agency pursuant to authority given to it by law or regulation. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of MMKR personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to the regulatory agency. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the regulatory agency as applicable. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

William J. Lauer, CPA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. Our fees for these services will be based on the actual time spent at our standard hourly rates. We will also bill you for travel and other out-of-pocket costs such as report production, typing, and postage. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. Unless additional work is requested, or circumstances require additional work, we estimate the basic audit fees to be \$9,450.

The fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If we find that additional audit procedures are required, or if additional services are requested by the Commission, those services will be billed at our standard hourly rates. Additional audit procedures may be required for certain accounting issues or events such as new accounting or auditing standards, due to turnover of key accounting personnel, or if there is an indication of misappropriation or misuse of public funds.

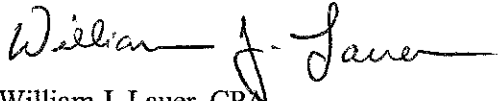
With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

If you intend to publish or otherwise reproduce the financial statements, and make reference to our firm name, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

We appreciate the opportunity to be of service to the Commission and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

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

A handwritten signature in cursive script that reads "William J. Lauer". The signature is written in black ink and is positioned above the printed name.

William J. Lauer, CPA  
Principal

WJL:hls

Response:

This letter correctly sets forth the understanding of the Bassett Creek Watershed Management Commission.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_