

April 11, 2014

Board of Commissioners and Management
Bassett Creek Watershed Management Commission

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board of Commissioners, administration, or those charged with governance of the Bassett Creek Watershed Management Commission (the Commission).

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities and each major fund of the Commission as of and for the year ended January 31, 2014, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Commission's financial statements for the year ended January 31, 2014:

- We have issued an unmodified opinion on the Commission's financial statements. The Commission has elected not to present management's discussion and analysis, which accounting principles generally accepted in the United States of America have determined necessary to supplement, although not required to be a part of, the basic financial statements.
- We reported no deficiencies in the Commission's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the Commission's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 of the notes to basic financial statements.

We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated April 11, 2014.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Commission’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no consultations with other accountants.

OTHER AUDIT MATTERS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission’s basic financial statements. Other information, including the introductory section, accompanying the basic financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. With respect to the introductory section accompanying the financial statements, our procedures were limited to reading this other information, and in doing so we did not identify any material inconsistencies with the audited financial statements.

CLOSING

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Commission, management, and those who have responsibility for oversight of the financial reporting process required communications related to our audit process. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
April 11, 2014

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Position
as of January 31, 2014
(With Partial Comparative Information as of January 31, 2013)

	Governmental Activities	
	2014	2013
Assets		
Cash and temporary investments	\$ 4,501,767	\$ 5,293,244
Interest receivable	1,606	3,405
Delinquent taxes receivable	9,157	9,175
Due from other governments	4,500	36,000
Prepays	1,438	1,595
Total assets	<u>\$ 4,518,468</u>	<u>\$ 5,343,419</u>
Liabilities		
Accounts payable	\$ 56,212	\$ 254,745
Unearned revenue	205,897	435,829
Total liabilities	<u>262,109</u>	<u>690,574</u>
Net position		
Restricted for watershed improvements	3,869,743	4,320,910
Unrestricted	386,616	331,935
Total net position	<u>4,256,359</u>	<u>4,652,845</u>
Total liabilities and net position	<u>\$ 4,518,468</u>	<u>\$ 5,343,419</u>

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
Year Ended January 31, 2014
(With Partial Comparative Information for the Year Ended January 31, 2013)

	Governmental Activities	
	2014	2013
Expenses		
Watershed management		
Administration	\$ 493,362	\$ 524,278
Improvement projects	1,458,237	376,396
Total expenses	<u>1,951,599</u>	<u>900,674</u>
Program revenues		
Watershed management		
Charges for services – member assessments	515,046	461,045
Charges for services – permit fees	51,600	41,600
Capital grants and contributions	5,295	144,750
Total program revenues	<u>571,941</u>	<u>647,395</u>
Net program revenue (expense)	(1,379,658)	(253,279)
General revenues		
Property taxes	977,600	754,027
Unrestricted state aids	14	845
Investment earnings	4,477	5,099
Other	1,081	1,736
Total general revenues	<u>983,172</u>	<u>761,707</u>
Change in net position	(396,486)	508,428
Net position		
Beginning of year	<u>4,652,845</u>	<u>4,144,417</u>
End of year	<u>\$ 4,256,359</u>	<u>\$ 4,652,845</u>

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of January 31, 2014
(With Partial Comparative Information as of January 31, 2013)

	General Fund	Improvement Capital Projects Fund	Total Governmental Funds	
			2014	2013
Assets				
Cash and temporary investments	\$ 635,337	\$ 3,866,430	\$ 4,501,767	\$ 5,293,244
Interest receivable	–	1,606	1,606	3,405
Delinquent taxes receivable	–	9,157	9,157	9,175
Due from other governments	4,500	–	4,500	36,000
Prepays	1,438	–	1,438	1,595
Total assets	<u>\$ 641,275</u>	<u>\$ 3,877,193</u>	<u>\$ 4,518,468</u>	<u>\$ 5,343,419</u>
Liabilities				
Accounts payable	\$ 48,762	\$ 7,450	\$ 56,212	\$ 254,745
Unearned revenue	205,897	–	205,897	435,829
Total liabilities	<u>254,659</u>	<u>7,450</u>	<u>262,109</u>	<u>690,574</u>
Deferred inflows of resources				
Unavailable revenue – property taxes	–	9,157	9,157	9,175
Fund balances				
Nonspendable for prepaids	1,438	–	1,438	1,595
Restricted for watershed improvements	–	3,860,586	3,860,586	4,311,735
Unassigned	385,178	–	385,178	330,340
Total fund balances	<u>386,616</u>	<u>3,860,586</u>	<u>4,247,202</u>	<u>4,643,670</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 641,275</u>	<u>\$ 3,877,193</u>		

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

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

	<u>9,157</u>	<u>9,175</u>
Net position of governmental activities	<u>\$ 4,256,359</u>	<u>\$ 4,652,845</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, 2014
(With Partial Comparative Information for the Year Ended January 31, 2013)

	General Fund	Improvement Capital Projects Fund	Total Governmental Funds	
			2014	2013
Revenue				
Member contributions	\$ 515,046	\$ —	\$ 515,046	\$ 461,045
Permit fees	51,600	—	51,600	41,600
Property taxes	—	977,618	977,618	758,390
State aid	4,500	809	5,309	145,595
Investment earnings	128	4,349	4,477	5,099
Miscellaneous	1,081	—	1,081	1,736
Total revenue	<u>572,355</u>	<u>982,776</u>	<u>1,555,131</u>	<u>1,413,465</u>
Expenditures				
Current				
Engineering	336,845	—	336,845	432,400
Legal	17,571	—	17,571	16,196
Professional services	13,157	—	13,157	12,927
Administrative services	79,467	—	79,467	32,784
Public relations and outreach	16,773	—	16,773	9,889
Financial management	3,119	—	3,119	3,000
Education	22,996	—	22,996	14,347
Miscellaneous	2,396	1,038	3,434	2,735
Capital outlay				
Improvement projects	—	1,458,237	1,458,237	376,396
Total expenditures	<u>492,324</u>	<u>1,459,275</u>	<u>1,951,599</u>	<u>900,674</u>
Excess (deficiency) of revenue over expenditures	80,031	(476,499)	(396,468)	512,791
Other financing sources (uses)				
Transfers in	24,650	50,000	74,650	79,050
Transfers (out)	(50,000)	(24,650)	(74,650)	(79,050)
Total other financing sources (uses)	<u>(25,350)</u>	<u>25,350</u>	<u>—</u>	<u>—</u>
Net change in fund balances	54,681	(451,149)	(396,468)	512,791
Fund balances				
Beginning of year	<u>331,935</u>	<u>4,311,735</u>		
End of year	<u>\$ 386,616</u>	<u>\$ 3,860,586</u>		

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

Certain revenues (including delinquent taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	(18)	(4,363)
Change in net position of governmental activities	<u>\$ (396,486)</u>	<u>\$ 508,428</u>

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, 2014

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	\$ 515,046	\$ 515,046	\$ —
Permit fees	48,000	51,600	3,600
State aid	—	4,500	4,500
Investment earnings	—	128	128
Miscellaneous	—	1,081	1,081
Total revenue	<u>563,046</u>	<u>572,355</u>	<u>9,309</u>
Expenditures			
Current			
Engineering	319,250	336,845	17,595
Legal	18,500	17,571	(929)
Professional services	15,225	13,157	(2,068)
Administrative services	90,000	79,467	(10,533)
Public relations and outreach	24,500	16,773	(7,727)
Financial management	3,045	3,119	74
Education	29,775	22,996	(6,779)
Miscellaneous	2,751	2,396	(355)
Total expenditures	<u>503,046</u>	<u>492,324</u>	<u>(10,722)</u>
Excess of revenue over expenditures	60,000	80,031	20,031
Other financing sources (uses)			
Transfers in	—	24,650	24,650
Transfers out	(60,000)	(50,000)	10,000
Total other financing sources (uses)	<u>(60,000)</u>	<u>(25,350)</u>	<u>34,650</u>
Net change in fund balances	<u>\$ —</u>	54,681	<u>\$ 54,681</u>
Fund balances			
Beginning of year		<u>331,935</u>	
End of year		<u>\$ 386,616</u>	

See notes to basic financial statements