

May 10, 2016

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, 2016, 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, 2016:

- 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. Our opinion on the Commission's basic financial statements is not affected by this missing information.
- 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. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

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.

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.

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.

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 May 10, 2016.

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 FINDINGS OR ISSUES

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 MATTERS

We were not engaged to report on the introductory section, which accompanies the financial statements but is not required supplementary information. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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
May 10, 2016

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**BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION**

Financial Statements and
Supplemental Information
Year Ended
January 31, 2016

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

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INTRODUCTORY SECTION

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Board of Commissioners
Year Ended January 31, 2016

<u>Commissioner</u>	<u>Position</u>	<u>Governmental Unit</u>
Jim de Lambert	Chairperson	City of St. Louis Park
Guy Mueller	Vice Chairperson	City of Crystal
Stacy Hoschka	Treasurer	City of Golden Valley
Jacob Millner	Secretary	City of Minnetonka
Clint Carlson	Commissioner	City of Medicine Lake
Michael Welch	Commissioner	City of Minneapolis
John Elder	Commissioner	City of New Hope
Ginny Black	Commissioner	City of Plymouth
Wayne Sicora	Commissioner	City of Robbinsdale

FINANCIAL SECTION

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PRINCIPALS

Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners and Management
Bassett Creek Watershed Management Commission

REPORT ON THE FINANCIAL STATEMENTS

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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of January 31, 2016, the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Comparative Information

We have previously audited the Commission's financial statements for the year ended January 31, 2015, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated April 21, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended January 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
May 10, 2016

BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Position
as of January 31, 2016
(With Partial Comparative Information as of January 31, 2015)

	Governmental Activities	
	2016	2015
Assets		
Cash and temporary investments	\$ 5,454,328	\$ 5,259,329
Interest receivable	4,088	1,167
Delinquent taxes receivable	9,658	4,604
Due from other governments	108,750	1,000
Prepays	1,326	1,157
	<u>\$ 5,578,150</u>	<u>\$ 5,267,257</u>
Liabilities		
Accounts payable	\$ 207,264	\$ 107,151
Unearned revenue	269,370	139,676
Total liabilities	<u>476,634</u>	<u>246,827</u>
Net position		
Restricted for watershed improvements	4,746,010	4,632,224
Unrestricted	355,506	388,206
Total net position	<u>5,101,516</u>	<u>5,020,430</u>
	<u>\$ 5,578,150</u>	<u>\$ 5,267,257</u>

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
Year Ended January 31, 2016
(With Partial Comparative Information for the Year Ended January 31, 2015)

	Governmental Activities	
	2016	2015
Expenses		
Watershed management		
Administration	\$ 556,970	\$ 511,349
Improvement projects	1,119,889	157,214
Total expenses	1,676,859	668,563
Program revenues		
Watershed management		
Charges for services – member assessments	490,342	490,344
Charges for services – permit fees	55,700	45,500
Capital grants and contributions	188,750	13,000
Total program revenues	734,792	548,844
Net program revenue (expense)	(942,067)	(119,719)
General revenues		
Property taxes	1,006,799	873,596
Unrestricted state aids	2	2
Investment earnings	10,133	9,171
Other	6,219	1,021
Total general revenues	1,023,153	883,790
Change in net position	81,086	764,071
Net position		
Beginning of year	5,020,430	4,256,359
End of year	\$ 5,101,516	\$ 5,020,430

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of January 31, 2016
(With Partial Comparative Information as of January 31, 2015)

	General Fund	Improvement Capital Projects Fund	Total Governmental Funds	
			2016	2015
Assets				
Cash and temporary investments	\$ 700,860	\$ 4,753,468	\$ 5,454,328	\$ 5,259,329
Interest receivable	-	4,088	4,088	1,167
Delinquent taxes receivable	-	9,658	9,658	4,604
Due from other governments	-	108,750	108,750	1,000
Prepays	1,326	-	1,326	1,157
	<u>\$ 702,186</u>	<u>\$ 4,875,964</u>	<u>\$ 5,578,150</u>	<u>\$ 5,267,257</u>
Liabilities				
Accounts payable	\$ 77,310	\$ 129,954	\$ 207,264	\$ 107,151
Unearned revenue	269,370	-	269,370	139,676
Total liabilities	<u>346,680</u>	<u>129,954</u>	<u>476,634</u>	<u>246,827</u>
Deferred inflows of resources				
Unavailable revenue – property taxes	-	9,658	9,658	4,604
Fund balances				
Nonspendable for prepaids	1,326	-	1,326	1,157
Restricted for watershed improvements	-	4,736,352	4,736,352	4,627,620
Unassigned	354,180	-	354,180	387,049
Total fund balances	<u>355,506</u>	<u>4,736,352</u>	<u>5,091,858</u>	<u>5,015,826</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 702,186</u>	<u>\$ 4,875,964</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>9,658</u>	<u>4,604</u>
Net position of governmental activities	<u>\$ 5,101,516</u>	<u>\$ 5,020,430</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, 2016
(With Partial Comparative Information for the Year Ended January 31, 2015)

	<u>General Fund</u>	<u>Improvement Capital Projects Fund</u>	<u>Total Governmental Funds</u>	
			<u>2016</u>	<u>2015</u>
Revenue				
Member contributions	\$ 490,342	\$ -	\$ 490,342	\$ 490,344
Permit fees	55,700	-	55,700	45,500
Property taxes	-	1,001,745	1,001,745	878,149
State aid	5,000	183,752	188,752	13,002
Investment earnings	74	10,059	10,133	9,171
Miscellaneous	6,219	-	6,219	1,021
Total revenue	<u>557,335</u>	<u>1,195,556</u>	<u>1,752,891</u>	<u>1,437,187</u>
Expenditures				
Current				
Engineering	380,732	-	380,732	344,873
Legal	12,969	-	12,969	22,269
Professional services	13,012	-	13,012	12,657
Administrative services	89,238	-	89,238	76,679
Public relations and outreach	31,290	-	31,290	17,388
Financial management	3,200	-	3,200	2,971
Education	23,530	-	23,530	31,392
Miscellaneous	1,783	1,216	2,999	3,120
Capital outlay				
Improvement projects	15,881	1,104,008	1,119,889	157,214
Total expenditures	<u>571,635</u>	<u>1,105,224</u>	<u>1,676,859</u>	<u>668,563</u>
Excess (deficiency) of revenue over expenditures	(14,300)	90,332	76,032	768,624
Other financing sources (uses)				
Transfers in	31,600	50,000	81,600	89,375
Transfers (out)	(50,000)	(31,600)	(81,600)	(89,375)
Total other financing sources (uses)	<u>(18,400)</u>	<u>18,400</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(32,700)	108,732	76,032	768,624
Fund balances				
Beginning of year	<u>388,206</u>	<u>4,627,620</u>		
End of year	<u>\$ 355,506</u>	<u>\$ 4,736,352</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.	<u>5,054</u>	<u>(4,553)</u>
Change in net position of governmental activities	<u>\$ 81,086</u>	<u>\$ 764,071</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, 2016

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	\$ 490,345	\$ 490,342	\$ (3)
Permit fees	60,000	55,700	(4,300)
State aid	5,000	5,000	-
Investment earnings	-	74	74
Miscellaneous	-	6,219	6,219
Total revenue	555,345	557,335	1,990
Expenditures			
Current			
Engineering	352,000	380,732	28,732
Legal	18,500	12,969	(5,531)
Professional services	18,000	13,012	(4,988)
Administrative services	94,000	89,238	(4,762)
Public relations and outreach	36,000	31,290	(4,710)
Financial management	3,200	3,200	-
Education	32,500	23,530	(8,970)
Miscellaneous	2,500	1,783	(717)
Capital outlay			
Improvement projects	20,000	15,881	(4,119)
Total expenditures	576,700	571,635	(5,065)
Excess (deficiency) of revenue over expenditures	(21,355)	(14,300)	7,055
Other financing sources (uses)			
Transfers in	35,000	31,600	(3,400)
Transfers (out)	(50,000)	(50,000)	-
Total other financing sources (uses)	(15,000)	(18,400)	(3,400)
Net change in fund balances	\$ (36,355)	(32,700)	\$ 3,655
Fund balances			
Beginning of year		388,206	
End of year		\$ 355,506	

See notes to basic financial statements

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Notes to Basic Financial Statements
January 31, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Bassett Creek Watershed Management Commission (the Commission) is a joint venture of the cities of Crystal, Golden Valley, Medicine Lake, Minneapolis, Minnetonka, New Hope, Plymouth, Robbinsdale, and St. Louis Park, formed under the authority of Minnesota Statute § 471.59. The Commission's purpose is to provide for cooperative planning, usage, and improvement of the watershed drained by the nine member communities. It is governed by a board consisting of nine commissioners, one appointed by each member city. The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

A joint venture is a legal entity resulting from a contractual agreement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain either an ongoing financial interest or an ongoing financial responsibility. The Commission, as described above, is considered a joint venture of the nine member cities, and is included as such in their financial statements.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Commission (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units required to be included in the Commission's financial statements.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the Commission. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) operating grants and contributions; and 3) capital grants and contributions. Taxes and 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. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. 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, deferred inflows of resources, 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 state aids.

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, current liabilities, and deferred inflows/outflows of resources 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 fund balances. 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. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met. 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. Budgetary control is at the fund level. All appropriations lapse at year-end.

F. Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, required management to make estimates that affect the amounts reported. Actual results could differ from these estimates.

G. Investments

Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Receivables

The Commission utilizes an allowance for uncollectible accounts to value its receivables; however, it considers all of its current receivables to be collectible.

I. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids, which are recorded as expenditures/expenses at the time of consumption.

J. Capital Assets

The Commission has no capital assets. The Improvement Capital Projects Fund is used to construct holding ponds and other improvements to the drainage system within the watershed district. The improvements are to land belonging to the Commission's member communities, and are not capitalized by the Commission.

K. Property Taxes

Under Minnesota Statute § 103B.251, the Commission is authorized to certify to Hennepin County the costs of capital projects that are included in the capital improvement program in the Commission's watershed management plan. Project costs are certified to the county before October 1. The county is required by Minnesota Statute § 103B.251, Subd. 6 to provide funds for the cost of such improvements. The county has elected to levy an ad valorem property tax on taxable properties within the watershed to provide such funds. 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 inflows of resources on the governmental funds financial statements if not collected within 60 days after year-end.

L. 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. 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 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, 2016.

M. Deferred Inflows of Resources

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has only one type of item, which arises under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Position

In the government-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The Commission applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

O. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board of Commissioners. Those committed amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the Commission’s policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the Commission’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

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, including checking and savings accounts.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the Commission’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The Commission has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the Commission’s deposits and the balance on the bank records was \$0. The Commission maintains a checking account with Wells Fargo Bank, the balance of which is swept into an overnight repurchase agreement at the end of each business day. At January 31, 2016, deposits were fully covered by federal depository insurance.

B. Investments

The Commission has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity in Years		Total
	Rating	Agency	Less Than 1	1 to 5	
Negotiable certificates of deposit	Not Rated		\$ –	\$ 992,486	\$ 992,486
Repurchase agreement (U.S. agency underlying security)	AA-	S&P	\$ 4,461,842	\$ –	<u>4,461,842</u>
Total investments					<u>\$ 5,454,328</u>

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the Commission would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by controlling who holds the securities.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the Commission’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The Commission does not have an investment policy that further addresses credit risk.

Concentration Risk – This is the risk associated with investing a significant portion of the Commission’s investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The Commission does not have an investment policy that limits the concentration of investments. At January 31, 2016, the Commission’s portfolio includes the following percentages of specific issuers:

U.S. agencies	
Repurchase Agreement – FNMA	82.0%

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Commission does not have an investment policy limiting the duration of investments.

NOTE 3 – TRANSFERS

The following interfund transfers were made during the year ended January 31, 2016:

Transfers Out	Transfers In		
	General Fund	Improvement Capital Projects Fund	Total
General Fund	\$ –	\$ 50,000	\$ 50,000
Improvement Capital Projects Fund	31,600	–	31,600
	<u>\$ 31,600</u>	<u>\$ 50,000</u>	<u>\$ 81,600</u>

Transfers are used to finance certain improvement projects or allocate revenues between funds. 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, unearned revenue, and permit fees revenue for the year ended January 31, 2016 were as follows:

	<u>Contributions</u>	<u>Unearned Revenue</u>	<u>Permit Fees Revenue</u>
Crystal	\$ 25,868	\$ 25,771	\$ –
Golden Valley	121,964	127,675	1,100
Medicine Lake	3,543	3,600	–
Minneapolis	33,235	32,885	1,100
Minnetonka	28,121	27,536	–
New Hope	25,681	25,627	–
Plymouth	225,159	–	2,200
Robbinsdale	7,587	7,843	1,100
St. Louis Park	19,184	18,433	1,100
	<u>\$ 490,342</u>	<u>\$ 269,370</u>	<u>\$ 6,600</u>

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OTHER REQUIRED REPORTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners and Management
Bassett Creek Watershed Management Commission

We have audited, 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 10, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota

May 10, 2016

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners and Management
Bassett Creek Watershed Management Commission

We have audited, 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, the basic 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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 10, 2016.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance in tax increment financing, because the Commission does not utilize tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
May 10, 2016

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