



June 24, 2026

To the 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 11-month period ended December 31, 2025. 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 OPINIONS AND FINDINGS

Based on our audit of the Commission's financial statements for the 11-month period ended, December 31, 2025:

- We have issued unmodified opinions on the Commission's basic 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. Our report also included a paragraph emphasizing the Commission's decision to change its fiscal year-end to match its member cities beginning with the current reporting period for the 11-months ended December 31, 2025. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the Commission's internal control over financial reporting that we considered to be material weaknesses. Internal controls are never perfected, and those controls which protect the Commission's funds from such things as fraud and accounting errors need to be continually reviewed by management and modified as necessary.

- 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 period.

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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 24, 2026.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, a disagreement with management is 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 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

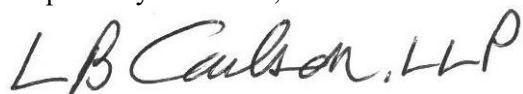
We were not engaged to report on the introductory section, which accompanies the financial statements, but is not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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 with 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.

Respectfully submitted,

A handwritten signature in black ink that reads "LB Carlson, LLP". The signature is written in a cursive, flowing style.

LB CARLSON, LLP
Minneapolis, Minnesota

June 24, 2026

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Financial Statements and
Supplemental Information

11-Month Period Ended
December 31, 2025



Certified Public Accountants Business Consultants

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

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INTRODUCTORY SECTION

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Board of Commissioners
11-Month Period Ended December 31, 2025

Commissioner	Position	Governmental Unit
Catherine Cesnik	Chairperson	City of Plymouth
Paula Pentel	Vice Chairperson	City of Golden Valley
Jodi Polzin	Secretary/Treasurer	City of Minneapolis
Joan Hauer	Commissioner	City of Crystal
Clint Carlson	Commissioner	City of Medicine Lake
Vacant	Commissioner	City of Minnetonka
Jere Gwin-Lenth	Commissioner	City of New Hope
Wayne Sicora	Commissioner	City of Robbinsdale
Richard Twiford	Commissioner	City of St. Louis Park

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners and Management
Bassett Creek Watershed Management Commission

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINIONS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bassett Creek Watershed Management Commission (the Commission) as of and for the 11-month period ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of December 31, 2025, the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

EMPHASIS OF MATTER

Change in Fiscal Year-End

The Commission elected to change its fiscal year-end to match its member cities beginning with the current fiscal reporting period, the 11-months ended December 31, 2025. The Commission will report annually on a calendar year basis thereafter.

(continued)

RESPONSIBILITIES OF MANAGEMENT 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for 12 months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

(continued)

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

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PRIOR YEAR COMPARATIVE INFORMATION

We have previously audited the Commission's financial statements for the year ended January 31, 2025, and expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated July 14, 2025. In our opinion, the partial comparative information presented herein as of and for the year ended January 31, 2025, 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 June 24, 2026 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 solely 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 effectiveness of the Commission's 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.

Respectfully submitted,


LB CARLSON, LLP
Minneapolis, Minnesota

June 24, 2026

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BASIC FINANCIAL STATEMENTS

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Net Position
as of December 31, 2025
(With Partial Comparative Information as of January 31, 2025)

	Governmental Activities	
	As of December 31, 2025	As of January 31, 2025
Assets		
Cash and temporary investments	\$ 11,007,620	\$ 9,342,531
Delinquent taxes receivable	24,509	20,785
Due from other governments	—	150,000
Prepaid items	4,187	3,910
Total assets	<u>\$ 11,036,316</u>	<u>\$ 9,517,226</u>
Liabilities		
Accounts payable	\$ 124,937	\$ 136,944
Unearned revenue	200,000	480,880
Total liabilities	<u>324,937</u>	<u>617,824</u>
Net position		
Restricted for watershed improvements	9,352,934	7,868,526
Unrestricted	1,358,445	1,030,876
Total net position	<u>10,711,379</u>	<u>8,899,402</u>
Total liabilities and net position	<u>\$ 11,036,316</u>	<u>\$ 9,517,226</u>

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Activities
11-Month Period Ended December 31, 2025
(With Partial Comparative Information for the Year Ended January 31, 2025)

	Governmental Activities	
	Period Ended December 31, 2025	Year Ended January 31, 2025
Expenses		
Watershed management		
Administration	\$ 819,926	\$ 991,541
Improvement projects	705,948	1,329,088
Total expenses	<u>1,525,874</u>	<u>2,320,629</u>
Program revenues		
Watershed management		
Charges for services – member assessments	662,888	622,500
Charges for services – permit fees	52,906	61,226
Operating grants and contributions	7,930	18,163
Capital grants and contributions	–	300,000
Total program revenues	<u>723,724</u>	<u>1,001,889</u>
Net program revenue (expense)	(802,150)	(1,318,740)
General revenues		
Property taxes	2,236,426	2,177,623
Investment earnings	377,701	387,369
Total general revenues	<u>2,614,127</u>	<u>2,564,992</u>
Change in net position	1,811,977	1,246,252
Net position		
Beginning of year	<u>8,899,402</u>	<u>7,653,150</u>
End of year	<u>\$ 10,711,379</u>	<u>\$ 8,899,402</u>

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Balance Sheet
Governmental Funds
as of December 31, 2025
(With Partial Comparative Information as of January 31, 2025)

			Total Governmental Funds	
			As of	As of
	General Fund	Improvement Capital Projects Fund	December 31, 2025	January 31, 2025
Assets				
Cash and temporary investments	\$ 1,417,860	\$ 9,589,760	\$ 11,007,620	\$ 9,342,531
Delinquent taxes receivable	—	24,509	24,509	20,785
Due from other governments	—	—	—	150,000
Prepaid items	4,187	—	4,187	3,910
	<u>4,187</u>	<u>—</u>	<u>4,187</u>	<u>3,910</u>
Total assets	<u>\$ 1,422,047</u>	<u>\$ 9,614,269</u>	<u>\$ 11,036,316</u>	<u>\$ 9,517,226</u>
Liabilities				
Accounts payable	\$ 63,602	\$ 61,335	\$ 124,937	\$ 136,944
Unearned revenue	—	200,000	200,000	480,880
Total liabilities	<u>63,602</u>	<u>261,335</u>	<u>324,937</u>	<u>617,824</u>
Deferred inflows of resources				
Unavailable revenue – property taxes	—	24,509	24,509	20,785
Fund balances				
Nonspendable for prepaid items	4,187	—	4,187	3,910
Restricted for watershed improvements	—	9,328,425	9,328,425	7,847,741
Assigned for subsequent year's budget	53,530	—	53,530	—
Unassigned	1,300,728	—	1,300,728	1,026,966
Total fund balances	<u>1,358,445</u>	<u>9,328,425</u>	<u>10,686,870</u>	<u>8,878,617</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,422,047</u>	<u>\$ 9,614,269</u>	<u>\$ 11,036,316</u>	<u>\$ 9,517,226</u>

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

Fund balances – governmental funds	\$ 10,686,870	\$ 8,878,617
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>24,509</u>	<u>20,785</u>
Net position of governmental activities	<u>\$ 10,711,379</u>	<u>\$ 8,899,402</u>

BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
11-Month Period Ended December 31, 2025
(With Partial Comparative Information for the Year Ended January 31, 2025)

			Total Governmental Funds	
	General Fund	Improvement Capital Projects Fund	Period Ended December 31, 2025	Year Ended January 31, 2025
Revenue				
Member contributions	\$ 662,888	\$ —	\$ 662,888	\$ 622,500
Permit fees	52,906	—	52,906	61,226
Property taxes	—	2,232,702	2,232,702	2,179,144
Intergovernmental	6,653	—	6,653	317,808
Investment earnings	377,701	—	377,701	387,369
Refunds and reimbursements	1,277	—	1,277	355
Total revenue	1,101,425	2,232,702	3,334,127	3,568,402
Expenditures				
Current				
Engineering and monitoring	640,067	—	640,067	821,203
Legal	20,191	—	20,191	22,810
Professional services	22,797	—	22,797	26,517
Administrative services	74,868	—	74,868	65,401
Public relations and outreach	9,910	—	9,910	2,958
Financial management	19,348	—	19,348	16,610
Education	32,745	—	32,745	36,042
Capital outlay				
Improvement projects	—	705,948	705,948	1,329,088
Total expenditures	819,926	705,948	1,525,874	2,320,629
Excess of revenue over expenditures	281,499	1,526,754	1,808,253	1,247,773
Other financing sources (uses)				
Transfers in	46,070	—	46,070	55,950
Transfers (out)	—	(46,070)	(46,070)	(55,950)
Total other financing sources (uses)	46,070	(46,070)	—	—
Net change in fund balances	327,569	1,480,684	1,808,253	1,247,773
Fund balances				
Beginning of year	1,030,876	7,847,741	8,878,617	7,630,844
End of year	\$ 1,358,445	\$ 9,328,425	\$ 10,686,870	\$ 8,878,617

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

Net change in fund balances – governmental funds	\$ 1,808,253	\$ 1,247,773
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.	3,724	(1,521)
Change in net position of governmental activities	\$ 1,811,977	\$ 1,246,252

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
11-Month Period Ended December 31, 2025

	Original and Final Budget	Actual	Over (Under) Budget
Revenue			
Member contributions	\$ 662,888	\$ 662,888	\$ —
Permit fees	70,600	52,906	(17,694)
Intergovernmental	5,000	6,653	1,653
Investment earnings	44,000	377,701	333,701
Refunds and reimbursements	—	1,277	1,277
Total revenue	<u>782,488</u>	<u>1,101,425</u>	<u>318,937</u>
Expenditures			
Current			
Engineering and monitoring	589,250	640,067	50,817
Legal	24,300	20,191	(4,109)
Professional services	22,000	22,797	797
Administrative services	98,803	74,868	(23,935)
Public relations and outreach	14,500	9,910	(4,590)
Financial management	18,150	19,348	1,198
Education	41,850	32,745	(9,105)
Total expenditures	<u>808,853</u>	<u>819,926</u>	<u>11,073</u>
Excess (deficiency) of revenue over expenditures	(26,365)	281,499	307,864
Other financing sources			
Transfers in	<u>46,070</u>	<u>46,070</u>	<u>—</u>
Net change in fund balances	<u>\$ 19,705</u>	<u>327,569</u>	<u>\$ 307,864</u>
Fund balances			
Beginning of year		<u>1,030,876</u>	
End of year		<u>\$ 1,358,445</u>	

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BASSETT CREEK WATERSHED
MANAGEMENT COMMISSION

Notes to Basic Financial Statements
December 31, 2025

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Bassett Creek Watershed Management Commission (the Commission) is a joint venture of the cities of Crystal, Golden Valley, Medicine Lake, Minneapolis, Minnetonka, New Hope, Plymouth, Robbinsdale, and St. Louis Park, formed under the authority of Minnesota Statutes § 471.59. 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 self-balancing accounting entity. Separate fund financial statements are provided for governmental funds, with major individual governmental funds reported in separate columns. The Commission reports the following major governmental 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 include a property tax levy and state grants.

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. Grant advances received for which not all eligibility requirements have been met are reported as unearned revenue at 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

The Commission’s Board adopts an annual budget for the General Fund on the modified accrual basis of accounting. Budgetary control is at the fund level. All appropriations lapse at year-end. Actual expenditures for the period ended December 31, 2025, exceeded General Fund appropriations by \$11,073.

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. Cash and Investments

Cash and investments balances from all funds are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the General Fund based on the Commission’s investment policy. Investment pools are valued at amortized cost, while all other investments are reported at fair value.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the Commission's recurring fair value measurements at year-end.

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. Taxes receivable is the only receivable not expected to be collected within one year.

I. Prepaid Items

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 drainage system improvements within the watershed area. The improvements are on land belonging to the Commission's member communities and are not capitalized by the Commission.

K. Property Taxes

Under Minnesota Statutes § 103B.251, the Commission is authorized to certify to Hennepin County the costs of capital projects 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 Statutes § 103B.251, Subd. 6 to provide funds for the cost of such improvements. The Commission 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. 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 current period.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets 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.

N. Net Position Classifications and Flow Assumptions

In the government-wide financial statements, net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources; and is displayed in the following 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 does 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 and Flow Assumptions

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 consisting of amounts intended to be used by the Commission for specific purposes that 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, the Commission first uses restricted resources and then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, the Commission uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

P. Prior Period Comparative Information/Reclassification

The financial statements include partial prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended January 31, 2025, from which such partial information was derived. Certain prior year information presented has been reclassified to conform to the current year presentation.

Q. Change in Fiscal Year-End

The Commission elected to change its fiscal year-end to match its member cities beginning with the current fiscal reporting period, the 11-months ended December 31, 2025. The Commission will report annually on a calendar year basis thereafter.

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.

Through the use of sweep accounts, the carrying amount and the balance on the bank records of the Commission's deposits was \$0 at the end of the current period. All the Commission's deposits were fully covered by federal deposit insurance or collateral held by the Commission's agent in the Commission's name at the end of the current period.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The Commission has the following investments on December 31, 2025:

Investment Type	Fair Value Measurement	Credit Risk		Interest Risk	Total
		Rating	Agency		
Investment pools/mutual funds					
4M Fund	Amortized Cost	AAA	S&P	No Maturity	\$ 6,906,636
4M Plus Fund	Amortized Cost	AAA	S&P	No Maturity	4,100,984
					<u>\$ 11,007,620</u>

The Minnesota Municipal Money Market (4M) Fund and 4M Plus Fund are external investment pools regulated by Minnesota Statutes that are not registered with the Securities and Exchange Commission (SEC), but follow the regulatory rules of the SEC. The Commission's investments in these funds are measured at the value per share provided by the pool, which are based on an amortized cost method that approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Fund. The 4M Plus Fund requires an initial 14-day investment period, subject to a penalty equal to 7 days of interest on funds withdrawn prior to the 14-day restriction period.

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 policy addressing this risk but typically limits its exposure by purchasing insured or registered investments or controlling who holds the securities.

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 a formal policy that further restricts investing in specific financial instruments.

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 a formal policy that limits the concentration of investments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 a formal policy limiting the duration of investments.

NOTE 3 – INTERFUND TRANSFERS

The Commission transferred \$46,070 from the Improvement Capital Projects Fund to the General Fund during the period to allocate a portion of the Commission's property tax levy to finance administrative costs.

Transfers reported in the fund financial statements 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 period ended December 31, 2025, were as follows:

	Member Contributions
Crystal	\$ 35,181
Golden Valley	166,502
Medicine Lake	4,851
Minneapolis	47,195
Minnetonka	37,498
New Hope	35,470
Plymouth	298,710
Robbinsdale	10,654
St. Louis Park	26,827
	<u>\$ 662,888</u>

Member cities charge the Commission for expenditures incurred or services performed on the Commission's behalf. Expenditures paid to the member cities for the period ended December 31, 2025, included \$138,364 paid to the City of Golden Valley for capital outlay spending. The Commission also paid the City of Plymouth \$18,864 for financial reporting services.

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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

To the 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 11-month period ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 24, 2026.

REPORT ON 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

(continued)

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not the 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.

Respectfully submitted,

A handwritten signature in black ink that reads "LB Carlson, LLP". The signature is written in a cursive, flowing style.

LB CARLSON, LLP
Minneapolis, Minnesota

June 24, 2026



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the 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 11-month period ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 24, 2026.

MINNESOTA LEGAL COMPLIANCE

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 depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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.

Respectfully submitted,

A handwritten signature in dark ink that reads 'LB Carlson, LLP'.

LB CARLSON, LLP
Minneapolis, Minnesota

June 24, 2026

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