

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Year Ended December 31, 2004



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

		<u>Term Expires</u>
Elected		
Commissioners		
Chair	Ewald Petersen	March 2005
Supervisor	Larry Alfords	March 2006
Supervisor	Norm Leslie	March 2007
Supervisor	David Quinn	March 2007
Supervisor	James Sanford	March 2006
Appointed		
Clerk	Laura Hayes	Indefinite
Treasurer	Kenneth Warneke	Indefinite

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Big Lake

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Big Lake, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.D. to the financial statements, management does not maintain records of the Town of Big Lake's capital assets and, accordingly, has not reported depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Big Lake as of December 31, 2004, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Town of Big Lake, as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Town of Big Lake adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Big Lake's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 26, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

As management of the Town of Big Lake, we offer readers of the Town of Big Lake's financial statements this narrative overview and analysis of the financial activities of the Town of Big Lake for the fiscal year ended December 31, 2004. Because fiscal year 2004 represents the first year that the Town of Big Lake implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis does not provide government-wide comparisons with the previous year. Future reports will include comparisons.

FINANCIAL HIGHLIGHTS

- The Town's net assets increased by \$521,022 for the year. This increase was primarily due to levying for projects, but deferring the planned projects to future years.
- At the close of the fiscal year, the Town's governmental funds reported ending fund balances of \$1,975,485, of which \$1,946,448 was available for spending at the Town's discretion.
- At the close of the fiscal year, the fund balance of the General Fund represented 210 percent of total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the Town of Big Lake's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Big Lake's finances, based on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or declining.

The *statement of activities* presents information showing how the Town's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes).

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Big Lake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

The Town of Big Lake maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund.

The Town of Big Lake adopts an annual budget for its General Fund and Capital Projects Funds. Budgetary comparison statements have been provided in the required supplementary information and supplementary information sections of this report.

The basic governmental fund financial statements can be found on Exhibits 3 and 4 of this report.

Fiduciary funds. *Fiduciary funds* statements provide information about the financial relationships in which the Town acts solely as a trustee or agent for the benefit of others to whom the resources belong. We exclude these activities from the government-wide financial statements because the Town cannot use these assets to finance its operations.

The basic fiduciary fund financial statement can be found on Exhibit 5. Other supplementary information regarding the fiduciary fund can be found on Statement 3.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the exhibits in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

For the year ended December 31, 2004, the Town of Big Lake's net assets increased by \$521,022. The increase was due primarily to levying for projects, but deferring the projects to future years.

CHANGE IN NET ASSETS Governmental Activities

	<u>2004</u>
Revenues	
Program revenues	
Fees, charges, fines, and other	\$ 119,691
Operating grants and contributions	40,477
Capital grants and contributions	12,098
General revenues	
Property taxes	873,661
Gravel tax	1,682
Grants and contributions not restricted to specific programs	216,669
Investment income	39,866
Miscellaneous	2,900
Total Revenues	<u>\$ 1,307,044</u>
Expenses	
General government	\$ 240,273
Public safety	196,867
Highways and streets	327,117
Culture and recreation	9,844
Conservation of natural resources	11,921
Total Expenses	<u>\$ 786,022</u>
Increase in Net Assets	\$ 521,022
Net Assets - January 1, 2004	<u>1,471,549</u>
Net Assets - December 31, 2004	<u>\$ 1,992,571</u>

The Town of Big Lake did not restate the 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

(Unaudited)

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FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town of Big Lake uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town of Big Lake's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. The Capital Projects Funds account for costs and related funding of fire department capital acquisitions and future park acquisitions.

	<u>Revenues</u>	<u>Expenditures</u>	<u>Increase (Decrease)</u>
General Fund	\$ 1,183,312	\$ 759,012	\$ 424,300
General Capital Projects Fund	65,137	-	65,137
Fire Capital Projects Fund	41,509	27,010	14,499

- The fund balance in the General Fund increased by \$424,300 for the year, partially due to an unanticipated state grant received in 2004.
- There was minimal activity in the Capital Projects Funds for 2004. A continuing levy resulted in an increase of \$79,636 in fund balance.

CONSTRUCTION PROJECTS AND OTHER ITEMS

The following is a discussion regarding major Town expenditures and projects, with the understanding that many of the projects cover several fiscal years, including 2004.

- The Town of Big Lake is co-owner of the Big Lake Fire Department with the City of Big Lake. The Town is responsible for one-half of all department operating and capital expenditures.

The costs of operating the fire department have grown due to new mandates from Homeland Security, OSHA, and the State of Minnesota. Training costs have increased substantially. Capital costs have increased for fire fighting equipment in part because of mandates, but equally due to the rapid growth in the community.

Plans were started in 2004 for a sizeable addition to the fire hall. Construction should start in 2005 with completion in 2006. Estimated cost is \$1.5 million.

- The Town of Big Lake and the City of Big Lake co-own an industrial park known as Big Lake Industrial Park East (BLIPE). Plans are to purchase land and develop another industrial park.
- Road and Bridge projects include:
 - The 225th Avenue project was engineered and approved for construction in 2003, and was constructed and black-topped in 2004.
 - The 229th Avenue project has been in the planning stage for over four years. The road will connect three county roads and will require a bridge over the St. Francis River. The bridge permit is being pursued.
 - The Town has entered into a joint powers agreement with Sherburne County for the 200th Street/CSAH 81 project. Project planning was started in 2003, engineering was started in 2004, and construction is scheduled for 2005-2006. The cost to the Town will be \$300,000 or more.
 - Planning has begun to re-route part of 201st Avenue because of significant safety issues at the intersection with CSAH 15.
- The Town has been given authorization to raise funds for a park on the east side of the Town. The search for a suitable site has been ongoing for three years.
- The Town has a regular maintenance program for approximately 80 miles of streets, including crack filling, seal-coating, and overlays.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- The unemployment rate for Sherburne County was 4.7 percent in 2004, which is consistent with the Town of Big Lake's rate.
- Inflationary trends in the Town's region compare favorably with national levels.
- Tax levies for 2005 were proposed at the Town's annual meeting in March 2004.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town of Big Lake's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Big Lake's Treasurer, 21960 County Road 5, P. O. Box 75, Big Lake, Minnesota 55309.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$ 2,004,501
Taxes receivable	
Current	56,375
Delinquent	17,086
Accounts receivable	15,086
Due from other governments	<u>7,318</u>
Total Assets	<u>\$ 2,100,366</u>

Liabilities

Accounts payable	\$ 75,753
Salaries payable	3,005
Contracts payable	<u>29,037</u>
Total Liabilities	<u>\$ 107,795</u>

Net Assets

Unrestricted	<u><u>\$ 1,992,571</u></u>
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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities					
General government	\$ 240,273	\$ 63,127	\$ -	\$ -	\$ (177,146)
Public safety	196,867	5,811	-	-	(191,056)
Highways and streets	327,117	50,753	33,215	-	(243,149)
Culture and recreation	9,844	-	7,262	-	(2,582)
Conservation of natural resources	11,921	-	-	12,098	177
Total governmental activities	\$ 786,022	\$ 119,691	\$ 40,477	\$ 12,098	\$ (613,756)
 General Revenues					
Property taxes					\$ 873,661
Gravel taxes					1,682
Grants and contributions not restricted to specific programs					216,669
Investment income					39,866
Miscellaneous					2,900
Total general revenues					\$ 1,134,778
Change in net assets					\$ 521,022
Net Assets - Beginning (Note 1.F.)					1,471,549
Net Assets - Ending					\$ 1,992,571

FUND FINANCIAL STATEMENTS

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	General Capital Projects Fund	Nonmajor Fire Capital Projects Fund	Total Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 1,627,978	\$ 295,481	\$ 81,042	\$ 2,004,501
Taxes receivable				
Current	51,761	2,464	2,150	56,375
Prior	15,207	1,127	752	17,086
Accounts receivable	15,086	-	-	15,086
Due from other governments	7,318	-	-	7,318
	\$ 1,717,350	\$ 299,072	\$ 83,944	\$ 2,100,366
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 75,753	\$ -	\$ -	\$ 75,753
Salaries payable	3,005	-	-	3,005
Contracts payable	29,037	-	-	29,037
Deferred revenue - unavailable	15,207	1,127	752	17,086
	\$ 123,002	\$ 1,127	\$ 752	\$ 124,881
Fund Balance				
Reserved for				
Encumbrances	\$ 29,037	\$ -	\$ -	\$ 29,037
Unreserved				
Designated for specific fund purpose	-	297,945	-	297,945
Undesignated	1,565,311	-	-	1,565,311
Unreserved in capital projects fund	-	-	83,192	83,192
	\$ 1,594,348	\$ 297,945	\$ 83,192	\$ 1,975,485
Total Liabilities and Fund Balance	\$ 1,717,350	\$ 299,072	\$ 83,944	\$ 2,100,366
Fund balance reported above				\$ 1,975,485
Amounts reported for governmental activities in the statement of net assets are different because:				
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.				17,086
Net assets of governmental activities (Exhibit 1)				\$ 1,992,571

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	General Capital Projects Fund	Nonmajor Fire Capital Projects Fund	Total Governmental Funds
Revenues				
Taxes	\$ 768,082	\$ 53,916	\$ 36,259	\$ 858,257
Special assessments	12,098	-	-	12,098
Licenses and permits	23,817	-	-	23,817
Intergovernmental	241,377	4,851	3,656	249,884
Charges for services	95,874	-	-	95,874
Gifts and contributions	7,262	-	-	7,262
Investment income	31,902	6,370	1,594	39,866
Miscellaneous	2,900	-	-	2,900
Total Revenues	\$ 1,183,312	\$ 65,137	\$ 41,509	\$ 1,289,958
Expenditures				
Current				
General government	\$ 240,273	\$ -	\$ -	\$ 240,273
Public safety	169,857	-	-	169,857
Highways and streets	327,117	-	-	327,117
Culture and recreation	9,844	-	-	9,844
Conservation of natural resources	11,921	-	-	11,921
Capital outlay				
Public safety	-	-	27,010	27,010
Total Expenditures	\$ 759,012	\$ -	\$ 27,010	\$ 786,022
Net Change in Fund Balances	\$ 424,300	\$ 65,137	\$ 14,499	\$ 503,936
Fund Balance - January 1	1,170,048	232,808	68,693	1,471,549
Fund Balance - December 31	\$ 1,594,348	\$ 297,945	\$ 83,192	\$ 1,975,485
Net change in fund balances reported above				\$ 503,936
In the funds, under the modified accrual basis, revenues not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The increase (decrease) in deferred revenue is the adjustment to revenue between the fund statements and the government-wide statements.				17,086
Change in net assets of governmental activities (Exhibit 2)				\$ 521,022

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2004**

<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 159,324</u></u>
<u>Liabilities</u>	
Accounts payable	<u><u>\$ 159,324</u></u>

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The Town of Big Lake's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Town are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the Town's overall financial position and results of operation.
- Financial statements prepared using full accrual accounting for all of the Town's activities.
- A change in the fund financial statements to focus on major funds.

A. Financial Reporting Entity

The Town of Big Lake is an organized township having urban powers granted towns by Minn. Stat. § 368.01, subd. 1.

The Town of Big Lake is governed by a five-member Board of Supervisors who are elected to four-year terms. The form of government includes a Treasurer and Clerk who are appointed.

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the Town. These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported as unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which direct expenses of each function of the Town's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements.

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation

2. Fund Financial Statements (Continued)

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.

The General Capital Projects Fund is used to account for the financial resources to be used for acquisition of capital assets, or the construction or improvement of major capital facilities.

Additionally, the Town reports the following funds:

The Fire Capital Projects Fund is used to account for the financial resources to be used for acquisition of capital assets relating to the fire department.

The Agency Fund is custodial in nature and does not present results of operations. This fund is used to account for assets that the Town holds for others in an agent capacity.

C. Basis of Accounting

The government-wide and fiduciary fund 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The Town of Big Lake considers all revenues to be *available* if collected within 60 days after the end of

TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA

1. Summary of Significant Accounting Policies

C. Basis of Accounting (Continued)

the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

D. Capital Assets

The Town keeps no records of its capital assets. Capital assets include the Town hall, a portion of the fire hall, park land, and Town roads and related land.

E. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Conversion to Accrual and Prior Period Adjustment

In 2004, the Town adopted the reporting presentation required by GASB Statement 34. In 2003, the General Fund included land for resale of \$165,690. The Town did not realize any money from the land, and the governmental activities net assets were restated to remove the land from the statement of net assets.

Converting Fund Balance to Net Assets at January 1, 2004	
Governmental funds fund balance	\$ 1,471,549
Add back deferred revenue	<u>165,690</u>
Governmental activities net assets	\$ 1,637,239
Restatement to remove land for resale	<u>(165,690)</u>
Governmental Activities Net Assets, Restated	<u>\$ 1,471,549</u>

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budgets

The Board of Supervisors adopts budgets for its governmental funds. Appropriations lapse at the end of the year to the extent not expended or encumbered. The following fund had expenditures in excess of appropriations.

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
Fire Capital Projects Fund	<u>\$ 15,000</u>	<u>\$ 27,010</u>	<u>\$ 12,010</u>

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Town to deposit its cash in financial institutions designated by the Board. Minnesota statutes require all of the Town’s deposits to be covered by insurance, surety bond, or collateral.

At December 31, 2004, the Town of Big Lake’s bank deposits were \$1,448,163. The book value of these deposits was \$1,432,181.

Following is a summary of the December 31, 2004, bank deposits covered by insurance or collateral:

Covered deposits	
Insured, or collateralized with securities held by the Town or its agents in the Town’s name	<u>\$ 1,448,163</u>

Minnesota statutes authorize the following types of investments that are available to the Town:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, as identified by statutes, repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

- (a) insured or registered, or securities held by the Town or its agent in the Town's name;
- (b) uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the Town's name; and
- (c) uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the Town's name.

The following is a summary of the fair values of the Town's investments categorized into the aforementioned levels of custodial credit risk at December 31, 2004:

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

	Category			Fair Value
	a	b	c	
Investments				
Money market account with broker	\$ 731,644	\$ -	\$ -	\$ 731,644
Deposits				
Checking accounts				39,269
Savings accounts				238,246
Certificates of deposit				1,154,666
Total Cash and Pooled Investments				\$ 2,163,825
Primary Government				
Cash and pooled investments				\$ 2,004,501
Fiduciary Funds				
Agency Fund				
Cash and pooled investments				159,324
Total Cash and Pooled Investments				\$ 2,163,825

B. Property Taxes

Taxes are billed by Sherburne County to individual property owners within the Town of Big Lake annually and, for the most part, are due and payable in January, but may be paid in two equal installments on or before May 15 and October 15 without penalty. Sherburne County is the collecting agency for these levies and remits the collections to the Town three times a year.

C. Deferred Revenue

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate current liabilities. Deferred revenue consists of taxes receivable, and is summarized below by fund at December 31, 2004:

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

C. Deferred Revenue (Continued)

Governmental Funds	
General	\$ 15,207
General Capital Projects	1,127
Fire Capital Projects	<u>752</u>
Total	<u>\$ 17,086</u>

D. Contract Commitments

The Town has entered into a contract commitment for a road project that has not been completed as of December 31, 2004. The amount to be completed on this project was \$29,037 at year-end.

4. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Town of Big Lake are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

4. Defined Benefit Pension Plan

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088, or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Town makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Town is required to contribute the following percentages of annual covered payroll:

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

4. Defined Benefit Pension Plan

B. Funding Policy (Continued)

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Town's contributions for the years ending December 31, 2004, 2003, and 2002, were \$4,947, \$5,668, and \$5,813, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to officers and employees; or natural disasters. The Town participates in the Minnesota Association of Townships Insurance and Bond Trust (MATIT), a joint powers organization under Minn. Stat. § 471.59, to provide insurance and risk management programs to eligible townships. The Town has the following coverage with MATIT: property, general liability, automobile, inland marine, and crime. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

6. Joint Powers Agreement

During 1997, the Town entered into a Joint Powers Agreement with the City of Big Lake for purposes of organizing, planning, developing, and selling property for industrial development in the Big Lake Industrial Park. Each member is responsible for 50 percent of all costs of development, including infrastructure, and each member shares the revenue from sales and taxes on an equal basis. The Agreement continues in effect until all parcels are sold and no further expansion is possible, but it can be terminated by the two-thirds vote of the members, the dissolution of a member body, or the buyout of the other party's debt.

REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 812,000	\$ 812,000	\$ 768,082	\$ (43,918)
Special assessments	9,000	9,000	12,098	3,098
Licenses and permits	15,000	15,000	23,817	8,817
Intergovernmental	99,000	99,000	241,377	142,377
Charges for services	39,000	39,000	95,874	56,874
Gifts and contributions	-	-	7,262	7,262
Investment income	12,000	12,000	31,902	19,902
Miscellaneous	1,500	1,500	2,900	1,400
Total Revenues	\$ 987,500	\$ 987,500	\$ 1,183,312	\$ 195,812
Expenditures				
Current				
General government	\$ 425,500	\$ 425,500	\$ 240,273	\$ 185,227
Public safety	132,500	132,500	169,857	(37,357)
Highways and streets	392,000	392,000	327,117	64,883
Culture and recreation	12,000	12,000	9,844	2,156
Conservation of natural resources	23,000	23,000	11,921	11,079
Total Expenditures	\$ 985,000	\$ 985,000	\$ 759,012	\$ 225,988
Net Change in Fund Balance	\$ 2,500	\$ 2,500	\$ 424,300	\$ 421,800
Fund Balance - January 1	1,170,048	1,170,048	1,170,048	-
Fund Balance - December 31	\$ 1,172,548	\$ 1,172,548	\$ 1,594,348	\$ 421,800

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Budgetary Information

The Board of Supervisors adopts a budget for the General Fund. Appropriations lapse at the close of the fiscal year to the extent they have not been expended or encumbered. Expenditures should not exceed budgets at the function level.

2. Excess of Expenditures Over Budget

The following function had expenditures in excess of budget for the year ended December 31, 2004:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Current			
Public safety	\$ 132,500	\$ 169,857	\$ 37,357

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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Statement 1

**BUDGETARY COMPARISON STATEMENT
GENERAL CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 54,000	\$ 54,000	\$ 53,916	\$ (84)
Intergovernmental	5,000	5,000	4,851	(149)
Interest on investments	-	-	6,370	6,370
Total Revenues	\$ 59,000	\$ 59,000	\$ 65,137	\$ 6,137
Expenditures				
Capital outlay				
Public safety	-	-	-	-
Net Change in Fund Balance	\$ 59,000	\$ 59,000	\$ 65,137	\$ 6,137
Fund Balance - January 1	232,808	232,808	232,808	-
Fund Balance - December 31	\$ 291,808	\$ 291,808	\$ 297,945	\$ 6,137

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Statement 2

**BUDGETARY COMPARISON STATEMENT
FIRE CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 36,000	\$ 36,000	\$ 36,259	\$ 259
Intergovernmental	4,000	4,000	3,656	(344)
Interest on investments	1,000	1,000	1,594	594
Total Revenues	\$ 41,000	\$ 41,000	\$ 41,509	\$ 509
Expenditures				
Capital outlay				
Public safety	15,000	15,000	27,010	(12,010)
Net Change in Fund Balance	\$ 26,000	\$ 26,000	\$ 14,499	\$ (11,501)
Fund Balance - January 1	68,693	68,693	68,693	-
Fund Balance - December 31	\$ 94,693	\$ 94,693	\$ 83,192	\$ (11,501)

**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

AGENCY FUND

To account for assets held by the Town as an agent for other governmental units, individuals, private organizations, or other funds.

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Statement 3

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Assets</u>				
Cash and pooled investments	\$ <u>83,499</u>	\$ <u>282,211</u>	\$ <u>206,386</u>	\$ <u>159,324</u>
<u>Liabilities</u>				
Accounts payable	\$ <u>83,499</u>	\$ <u>282,211</u>	\$ <u>206,386</u>	\$ <u>159,324</u>

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**TOWN OF BIG LAKE
SHERBURNE COUNTY, MINNESOTA**

Schedule 2

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 **Capital Assets**

The Town of Big Lake does not maintain a complete record of all capital assets, including the detail of acquisitions and dispositions, as required under current accounting standards. Complete capital asset records increase internal control over Town property and provide a guide to capital assets for insurance purposes. Governmental Accounting Standards Board (GASB) Statement 34 requires governments to report capital assets, including infrastructure assets, on the statement of net assets and to report depreciation expenses for those assets on the statement of activities. Capital outlay expenditures in a governmental fund's statement of revenues and expenditures are eliminated on the statement of activities.

To comply with GASB Statement 34, the Town must establish accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. Capital assets, as defined by GASB Statement 34, include: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets used in operations and that have initial useful lives extending beyond a reporting period. The Town must evaluate its capital asset accounting system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34. Information needed for reporting includes capital assets by major asset category, capital outlay expenditures by department and major expenditure function, and depreciation expense by department and major expenditure function.

We strongly recommend that the Town Board of Supervisors take steps to establish formal policies and procedures for accounting and reporting the Town's capital assets (including infrastructure). This includes providing staff with the resources and training necessary to implement and maintain such a system.

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Town Board of Supervisors
Town of Big Lake

We have audited the financial statements of the Town of Big Lake as of and for the year ended December 31, 2004, and have issued our report thereon dated May 26, 2005. In our report, we issued an adverse opinion on the governmental activities because the Town did not report capital assets or depreciation expense. Our opinion on each of the major funds and aggregate remaining fund information was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Town of Big Lake is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Town of Big Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over

financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 04-1 to be a material weakness.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Town of Big Lake carries no long-term debt.

The results of our tests indicate that, for the items tested, the Town of Big Lake complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Supervisors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 26, 2005