

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA

FOR THE 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Introductory Section</u>		
Organization		1
<u>Financial Section</u>		
Independent Auditor's Report		2
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Cash Assets	Exhibit 1	4
Statement of Activities Arising from Cash Transactions	Exhibit 2	5
Fund Financial Statements		
Governmental Funds		
Statement of Balances Arising from Cash Transactions	Exhibit 3	6
Statement of Receipts, Disbursements, and Changes in Cash Balances	Exhibit 4	7
Budgetary Comparison Statements - Cash Basis		
General Fund	Exhibit 5	8
Road and Bridge Fund	Exhibit 6	9
Fire Fund	Exhibit 7	10
Notes to the Financial Statements		11
<u>Management and Compliance Section</u>		
Schedule of Findings and Recommendations		16
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		21

This page was left blank intentionally.

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

**ORGANIZATION
2004**

	<u>Terms Expire</u>
Town Board	
Supervisors	
Donald Schmidt	March 2007
Ralph Ordorff	March 2006
Officers	
Chair	
Colleen Ernesti	March 2005
Clerk/Treasurer	
Gordon Jans	March 2006

This page was left blank intentionally.

This page was left blank intentionally.



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

INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Buffalo

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Buffalo, Wright County, 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 described in Note 1.C., the Town's policy is to prepare its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the Town of Buffalo, as of December 31, 2004; the respective changes in cash basis financial position thereof; and the respective budgetary comparison for the General Fund, Road and Bridge Fund, and Fire Fund for the year then ended in conformity with the cash basis of accounting described in Note 1.C. to the financial statements.

The Town of Buffalo has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 3, 2005

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET CASH ASSETS
DECEMBER 31, 2004**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 325,251</u>
Net Cash Assets	
Unrestricted	<u>\$ 325,251</u>

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Functions/Programs	Disbursements	Program Receipts Fees, Fines, and Charges for Services	Net (Disbursements), Receipts, and Changes in Net Cash Assets
Governmental activities			
General government	\$ 36,232	\$ 5,927	\$ (30,305)
Conservation of natural resources	15,249	-	(15,249)
Streets and highways	248,388	-	(248,388)
Public safety	52,992	-	(52,992)
Total governmental activities	\$ 352,861	\$ 5,927	\$ (346,934)
 General Receipts			
Taxes			
Property taxes, levied for general purposes			\$ 341,637
Local government aid			43,170
Intergovernmental receipts from annexation			49,479
Intergovernmental receipts in lieu of taxes			1,116
Investment earnings			1,375
Total general receipts			\$ 436,777
Change in Net Cash Assets			\$ 89,843
Net Cash Assets - January 1			235,408
Net Cash Assets - December 31			\$ 325,251

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General Fund	Road and Bridge	Fire Fund	Total Governmental Funds
 <u>Assets</u>				
Cash and cash equivalents	\$ 95,354	\$ 205,579	\$ 24,318	\$ 325,251
 <u>Cash Fund Balances</u>				
Unreserved, reported in				
General Fund	\$ 95,354	\$ -	\$ -	\$ 95,354
Special Revenue Funds	-	205,579	24,318	229,897
 Total Cash Fund Balances	\$ 95,354	\$ 205,579	\$ 24,318	\$ 325,251

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Fire Fund</u>	<u>Total Governmental Funds</u>
Receipts				
Property taxes	\$ 39,693	\$ 238,302	\$ 63,642	\$ 341,637
Licenses and permits	3,602	-	-	3,602
Intergovernmental	53,492	35,269	5,004	93,765
Charges for services	1,050	-	-	1,050
Investment earnings	-	1,375	-	1,375
Miscellaneous	275	1,000	-	1,275
Total Receipts	\$ 98,112	\$ 275,946	\$ 68,646	\$ 442,704
Disbursements				
Current				
General government	\$ 36,232	\$ -	\$ -	\$ 36,232
Conservation of natural resources	15,249	-	-	15,249
Public safety	-	-	52,992	52,992
Streets and highways	-	248,388	-	248,388
Total Disbursements	\$ 51,481	\$ 248,388	\$ 52,992	\$ 352,861
Net Change in Cash Fund Balances	\$ 46,631	\$ 27,558	\$ 15,654	\$ 89,843
Fund Balances - January 1	48,723	178,021	8,664	235,408
Fund Balances - December 31	\$ 95,354	\$ 205,579	\$ 24,318	\$ 325,251

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 5

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 40,000	\$ 40,000	\$ 39,693	\$ (307)
Licenses and permits	-	-	3,602	3,602
Intergovernmental	-	-	53,492	53,492
Charges for services	-	-	1,050	1,050
Miscellaneous	-	-	275	275
Total Receipts	\$ 40,000	\$ 40,000	\$ 98,112	\$ 58,112
Disbursements				
Current				
General government				
Board of supervisors	\$ -	\$ -	\$ 14,489	\$ (14,489)
Clerk	-	-	2,933	(2,933)
Treasurer	-	-	9,747	(9,747)
Town hall, general government buildings	-	-	2,640	(2,640)
Other general government	-	-	6,423	(6,423)
Total general government	\$ -	\$ -	\$ 36,232	\$ (36,232)
Conservation of Natural Resources				
Recycling	-	-	15,249	(15,249)
Total Disbursements	\$ -	\$ -	\$ 51,481	\$ (51,481)
Net Change in Cash Fund Balances	\$ 40,000	\$ 40,000	\$ 46,631	\$ 6,631
Cash Fund Balance - January 1	48,723	48,723	48,723	-
Cash Fund Balance - December 31	\$ 88,723	\$ 88,723	\$ 95,354	\$ 6,631

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 6

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 250,000	\$ 250,000	\$ 238,302	\$ (11,698)
Intergovernmental	-	-	35,269	35,269
Investment earnings	-	-	1,375	1,375
Miscellaneous	-	-	1,000	1,000
Total Receipts	\$ 250,000	\$ 250,000	\$ 275,946	\$ 25,946
Disbursements				
Current				
Public works				
Highways, streets, and roadways	-	-	248,388	(248,388)
Net Change in Cash Fund Balances	\$ 250,000	\$ 250,000	\$ 27,558	\$ (222,442)
Cash Fund Balance - January 1	178,021	178,021	178,021	-
Cash Fund Balance - December 31	\$ 428,021	\$ 428,021	\$ 205,579	\$ (222,442)

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 70,000	\$ 70,000	\$ 63,642	\$ (6,358)
Intergovernmental	-	-	5,004	5,004
Total Receipts	\$ 70,000	\$ 70,000	\$ 68,646	\$ (1,354)
Disbursements				
Current				
Public safety				
Fire protection	-	-	52,992	(52,992)
Net Change in Cash Fund Balances	\$ 70,000	\$ 70,000	\$ 15,654	\$ (54,346)
Cash Fund Balance - January 1	8,664	8,664	8,664	-
Cash Fund Balance - December 31	\$ 78,664	\$ 78,664	\$ 24,318	\$ (54,346)

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Buffalo is an organized township having the powers, duties, and privileges granted towns by Minn. Stat. ch. 365.

The Town of Buffalo is governed by a four-member Board, consisting of three Supervisors who are elected to three-year terms, and a Clerk/Treasurer, who is elected for a two-year term.

B. Basis of Presentation

1. Government-Wide Statements

The government-wide statements (statement of net cash assets and the statement of activities arising from cash transactions) display information about the primary government. Eliminations have been made to minimize the double counting of internal activities. All activities of the Town are reported as governmental activities which normally are supported by taxes and intergovernmental revenues.

In the government-wide statement of net cash assets, the governmental activities are presented on a consolidated basis. The Town's net cash assets are reported in two parts--restricted net cash assets and unrestricted net cash assets. The Town first utilizes restricted resources to finance qualifying activities.

The statement of activities arising from cash transactions demonstrates the degree to which direct disbursements of each function of the Town's activities are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or activity. Program receipts 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Receipts that are not classified as program revenues, including all taxes, are presented as general receipts.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds, which are all presented as governmental activities. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The Town of Buffalo reports all of its funds as major funds.

The Town reports the following major governmental funds:

The General Fund accounts for all receipts and disbursements of the Town not accounted for in other funds.

The Road and Bridge Special Revenue Fund accounts for the receipts and disbursements used to finance construction and maintenance costs of Town roads and bridges.

The Fire Special Revenue Fund accounts for the receipts and disbursements used to provide fire protection to the residents of the Town.

C. Basis of Accounting

The Town of Buffalo's accounts are maintained on a cash basis. Receipts are recorded when cash is received, and disbursements are recognized when checks are issued. These statements do not give effect to accounts receivable, accounts payable, or other accrued items and, therefore, are not presented in accordance with generally accepted accounting principles.

D. Capital Assets

The Town records capital assets as disbursements at the time of their purchase.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Budgets

The Town's electors vote to authorize the amount of money to be raised for a given year through tax levies for Town purposes in accordance with Minn. Stat. §§ 365.10 and 365.431. This vote occurs at the Town's annual meeting in March. At present, the Town does not budget any other expected sources of receipts such as special assessments or grants.

2. Stewardship, Compliance, and Accountability

A. Disbursements Over Budget

The General Fund had disbursements in excess of the tax levy for the year ended December 31, 2004:

<u>Disbursements</u>	<u>Tax Levy</u>	<u>Excess</u>
\$ 51,481	\$ 40,000	\$ 11,481

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Township 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 Buffalo's bank deposits were \$325,454. The book value of these deposits was \$325,251.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

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

	<u>2004</u>
Covered deposits	
Insured or collateralized with securities held by the Town or its agents in the Town's name	\$ 100,000
Collateralized with securities held by the pledging financial institution's agent in the Town's name	225,454
	<hr/>
Total	\$ <u>325,454</u>

Following is a summary of the carrying values of the Town of Buffalo's deposits at December 31, 2004:

	<u>2004</u>
Checking account	\$ 52,702
Savings account	272,549
	<hr/>
Total	\$ <u>325,251</u>

B. Property Taxes

Taxes are billed by Wright County to individual property owners within the Town of Buffalo 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. Wright County is the collecting agent for these levies and remits the collections to the Town three times a year. Tax collections are ordinarily recorded in the Town's receipts register when received.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

4. Risk Management

The Town of Buffalo is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to the Town's officers and employees; and natural disasters. All risks of loss are insured by the purchase of commercial insurance. 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.

5. Related Party Transactions

One Supervisor contracts with the Town for road maintenance. The total amount paid under this contract for the year ended December 31, 2004, was \$9,591.

This page was left blank intentionally.

This page was left blank intentionally.

**TOWN OF BUFFALO
WRIGHT COUNTY, MINNESOTA**

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

I. INTERNAL CONTROLS

04-1 Segregation of Duties

Due to the limited number of office personnel within the Town of Buffalo, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the Town of Buffalo; however, the Board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Client's Response:

We will begin the process to have Supervisors verify the account reconciliation with the bank statement each month and instruct them to scrutinize the monthly reports more closely because the segregation of duties is difficult with a limited number of personnel.

04-2 Policy Manual

Presently, the Town does not have a policy manual to address financial practices. These practices would include the receipt and disbursement of funds, types of documents accepted for payment of claims, credit card usage allowed, recording of financial transactions, maintenance of bank accounts, and interim and annual financial reporting. Including such information in a policy manual would provide a guide for those involved with these activities and also help to create accountability.

We recommend that the Board establish policies that set forth financial practices for the Town.

Client's Response:

We will consider creating policies that would establish practices for financial accountability. We would appreciate recommendations of towns that have established policies in place.

04-3 Bank Reconciliations

Our audit found that none of the bank reconciliations for the year contained initials or dates of the preparer. Initials and dates of the preparer help identify responsibility and timeliness of the reconciliations, which strengthens internal controls that provide for the detection and correction of errors and irregularities.

We recommend that the individual preparing bank reconciliations initial and date the forms. We also recommend that reconciliations be reviewed by a Board member.

Client's Response:

Going forward, the preparer of the bank reconciliations will initial and date them as well as have the reconciliations be reviewed by a Board member.

04-4 Disbursement Process

Our review of the Town's disbursements for the year found several instances in which neither the invoices nor voucher forms contained initials and dates indicating approved for payment. Also, none of the invoices or voucher forms had been marked with the general ledger coding for posting purposes. These practices are necessary in order to show that proper controls have been applied to the Town's disbursement process.

We recommend that procedures be established to ensure that all invoices contain the initials and dates of individuals approving the payments. We also recommend that invoices contain the general ledger coding for posting transactions to the Town's ledger.

Client's Response:

The invoices will be initialed and dated when approved and the general ledger coding will be recorded on them.

II. MINNESOTA LEGAL COMPLIANCE

04-5 Annual Budgets

In accordance with Minn. Stat. §§ 365.10 and 365.431, the Town's electors vote to authorize the amount of money to be raised for a given year through tax levies for town purposes. This vote is to occur at the Town's annual meeting in March. The Town's Board may not spend more than the amount approved for the levy at the annual meeting without approval from a majority of the electors, in accordance with Minn. Stat. § 365.43, subd. 1, nor may the Town spend money from one fund on projects outside the activities of that fund without unanimous approval from the Town Board, in accordance with Minn. Stat. § 366.04.

In 2004, the Town disbursed more money from its General Fund than was levied. These disbursements were covered by other revenues received in 2004 and amounts carried forward from the prior year.

The Town was not in strict compliance with the statutes, but the Office of the State Auditor believes that the statute needs revision. The 2005 Legislature is considering a bill to revise Minn. Stat. § 365.43, subd. 1, to limit a town's spending to total revenue, including amounts carried forward from the prior year.

Client's Response:

Hopefully, the bill will pass and we will be in compliance.

04-6 Potential Conflict of Interest

We found a Supervisor provided services to the Town in 2004, paid through the Road and Bridge Fund. It appears the services were not above the dollar level requiring competitive bids. Minn. Stat. §§ 365.37 and 471.87 generally prohibit town supervisors from having an interest in town contracts and payments voted on by the town board. Minn. Stat. § 471.88 allows the Board to contract for goods and services with an interested officer only by unanimous vote. In addition to the unanimous vote, one of the statutory exceptions contained in Minn. Stat. § 471.88 must apply. Minn. Stat. § 471.88, subd. 5, sets out an exception for contracts for which competitive bids are not required by law. A contract made pursuant to this exception is void unless the town board adopts a resolution determining that the contract price is as low as or lower than the price that could be obtained elsewhere and the interested officer files an affidavit with the town clerk to the same effect, including specified information, both pursuant to Minn. Stat. § 471.89.

We recommend that any future contracts with interested officers be entered into only as authorized in Minn. Stat. §§ 471.88 and 471.89.

Client's Response:

This was bid in 2003 for a three-year contract and our Board member was the low bidder. We will have approval of these invoices be noted in the Board minutes each month.

III. MANAGEMENT PRACTICES

04-7 Board Minutes

Our review of Board minutes found the following:

- Minutes were signed only by the preparer; they were not signed by the Board's Chair. Once approved by the Board, minutes should be signed and dated by the Chair, or a designee, to indicate they are the official meeting minutes of the Town.
- Minutes did not provide specific details as to the disbursements approved for the month.
- Minutes did not indicate annual approval of the Town's depositories or the authorized check signers. We recommend these approvals occur annually or bi-annually.

We recommend that the Board minutes include the items noted above. We also recommend that minutes be signed and dated by the preparer and the Chair, or designee, upon adoption of the minutes by the Board.

Client's Response:

Minutes will be signed and dated by the Chairman and Clerk when approved by the Board. Minutes will provide specific details as to the disbursements being approved each month.

04-8 Budgeting

We did not note any discussion in the Board minutes regarding a budget for annual disbursements on a fund basis. A disbursement budget would demonstrate the need for the amount of the tax levy. Budgets are essential in establishing a financial plan for the Town. All sources of receipts, including funds on hand, must be evaluated against planned disbursements to arrive at a final budget.

We recommend that, prior to the electors taking action on the annual tax levy, a disbursement budget for each fund be discussed by the Board and be made available to the electors. This will provide the essential financial information for an informed vote on the tax levy. We also recommend that budgets for receipts and disbursements approved by the Board be included in the minutes.

Client's Response:

We will work towards creating a budget that can be presented to the electors at the annual meeting.

04-9 Recordkeeping for Capital Assets

We found that the Town does have a listing of its capital assets. However, additional information would provide a more complete record on the assets.

We recommend that the Town's records on capital assets include the following:

- A capitalization policy approved by the Board that establishes the dollar threshold for recognizing items as capital assets.
- Capital asset records that include date of purchase, description, serial number, purchase price, and estimated useful life.

Client's Response:

We will create a list of capital assets that includes date of purchase; description; serial number; purchase price; and estimated useful life.

This page was left blank intentionally.



PATRICIA ANDERSON
STATE AUDITOR

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)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Town Board of Supervisors
Town of Buffalo

We have audited the cash basis financial statements of the Town of Buffalo as of and for the year ended December 31, 2004, and have issued our report thereon dated February 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. The financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the Town of Buffalo 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 cash basis financial statements.

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 Buffalo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 04-1 through 04-4.

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, of the reportable conditions listed above, we consider items 04-1 and 04-4 to be material weaknesses.

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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Town had no indebtedness, and we did not test for miscellaneous provisions because they do not apply to Towns.

The results of our tests indicate that, for the items tested, the Town of Buffalo complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-5 and 04-6.

This report is intended for the information of the Town Board of Supervisors, its management, and the Town's electors 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: February 3, 2005