

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2003

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 BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

For the Year Ended December 31, 2003



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

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2003**

	<u>Term Expires</u>
Town Board	
Supervisors	
Izaak Kelley	March 2006
Michael Thompson	March 2005
Officers	
Chair	
William Andresen	March 2004
Clerk	
Janice Anderson	March 2004
Treasurer	
Judy Taft	March 2005

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Blue Hill

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Blue Hill, Sherburne County, Minnesota, as of and for the year ended December 31, 2003, 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 3.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 generally accepted accounting principles.

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 Blue Hill, as of December 31, 2003, and the respective changes in cash basis financial position thereof, and the respective budgetary comparisons for the General Fund, Road and Bridge Fund, Fire Fund, and the Agriculture and Homestead Fund for the year then ended in conformity with the cash basis of accounting described in Note 3.C. to the financial statements.

The Town of Blue Hill 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: January 25, 2005

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET CASH ASSETS
DECEMBER 31, 2003**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 221,345</u>
Net Cash Assets	
Unrestricted	<u>\$ 221,345</u>

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2003**

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursements), Receipts, and Changes in Net Cash Assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
General government	\$ 31,430	\$ 2,832	\$ 8,853	\$ (19,745)
Streets and highways	183,182	81,843	8,057	(93,282)
Public safety	21,552	-	-	(21,552)
Total governmental activities	\$ 236,164	\$ 84,675	\$ 16,910	\$ (134,579)
General Receipts				
Property taxes, levied for general purposes				\$ 186,926
Local government aid				16,804
Investment earnings				349
Total general receipts				\$ 204,079
Change in net cash assets				\$ 69,500
Cash - January 1				151,845
Cash - December 31				\$ 221,345

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	General Fund	Road and Bridge	Fire Fund	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 388,458	\$ (109,939)	\$ (57,174)	\$ 221,345
 <u>Cash Fund Balances</u>				
Unreserved, reported in				
General Fund	\$ 388,458	\$ -	\$ -	\$ 388,458
Special Revenue Funds	-	(109,939)	(57,174)	(167,113)
Total Cash Fund Balances	\$ 388,458	\$ (109,939)	\$ (57,174)	\$ 221,345

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Fire Fund</u>	<u>Agriculture and Homestead Fund</u>	<u>Total Governmental Funds</u>
Receipts					
Property taxes	\$ 61,605	\$ 124,629	\$ 692	\$ -	\$ 186,926
Licenses and permits	1,571	2,500	-	-	4,071
Intergovernmental	23,214	8,057	-	-	31,271
Charges for services	665	79,093	-	-	79,758
Fines and forfeits	572	250	-	-	822
Investment earnings	349	-	-	-	349
Contributions and donations	2,443	-	-	-	2,443
Miscellaneous	24	-	-	-	24
Total Receipts	\$ 90,443	\$ 214,529	\$ 692	\$ -	\$ 305,664
Disbursements					
Current					
General government	\$ 31,430	\$ -	\$ -	\$ -	\$ 31,430
Public safety	-	-	21,552	-	21,552
Streets and highways	-	183,182	-	-	183,182
Total Disbursements	\$ 31,430	\$ 183,182	\$ 21,552	\$ -	\$ 236,164
Excess (Deficiency) of Receipts Over Disbursements	\$ 59,013	\$ 31,347	\$ (20,860)	\$ -	\$ 69,500
Other Financing Sources (Uses)					
Transfers in	\$ 10,455	\$ -	\$ 550	\$ -	\$ 11,005
Transfers out	(550)	(3,170)	-	(7,285)	(11,005)
Total Other Financing Sources (Uses)	\$ 9,905	\$ (3,170)	\$ 550	\$ (7,285)	\$ -
Net Change in Cash Fund Balances	\$ 68,918	\$ 28,177	\$ (20,310)	\$ (7,285)	\$ 69,500
Fund Balances - January 1, 2003	319,540	(138,116)	(36,864)	7,285	151,845
Fund Balances - December 31, 2003	\$ 388,458	\$ (109,939)	\$ (57,174)	\$ -	\$ 221,345

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 5

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 75,000	\$ 75,000	\$ 61,605	\$ (13,395)
Licenses and permits	-	-	1,571	1,571
Intergovernmental	-	-	23,214	23,214
Charges for services	-	-	665	665
Fines and forfeits	-	-	572	572
Investment earnings	-	-	349	349
Contributions and donations	-	-	2,443	2,443
Miscellaneous	-	-	24	24
Total Receipts	\$ 75,000	\$ 75,000	\$ 90,443	\$ 15,443
Disbursements				
Current				
General government				
Board of supervisors	\$ -	\$ -	\$ 3,928	\$ (3,928)
Clerk	-	-	4,366	(4,366)
Treasurer	-	-	2,614	(2,614)
Town hall, general government buildings	-	-	2,100	(2,100)
Other general government	-	-	18,422	(18,422)
Total Disbursements	\$ -	\$ -	\$ 31,430	\$ (31,430)
Excess (Deficiency) of Receipts Over Disbursements	\$ 75,000	\$ 75,000	\$ 59,013	\$ (15,987)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 10,455	\$ 10,455
Transfers out	-	-	(550)	(550)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 9,905	\$ 9,905
Net Change in Cash Fund Balances	\$ 75,000	\$ 75,000	\$ 68,918	\$ (6,082)
Cash Fund Balance - January 1	319,540	319,540	319,540	-
Cash Fund Balance - December 31	\$ 394,540	\$ 394,540	\$ 388,458	\$ (6,082)

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 6

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 151,000	\$ 151,000	\$ 124,629	\$ (26,371)
Licenses and permits	-	-	2,500	2,500
Intergovernmental	-	-	8,057	8,057
Charges for services	-	-	79,093	79,093
Fines and forfeits	-	-	250	250
Total Receipts	\$ 151,000	\$ 151,000	\$ 214,529	\$ 63,529
Disbursements				
Current				
Public works				
Highways, streets, and roadways	\$ -	\$ -	\$ 182,500	\$ (182,500)
Miscellaneous				
Other	-	-	682	(682)
Total Disbursements	\$ -	\$ -	\$ 183,182	\$ (183,182)
Excess (Deficiency) of Receipts Over Disbursements	\$ 151,000	\$ 151,000	\$ 31,347	\$ (119,653)
Other Financing Sources (Uses)				
Transfers out	-	-	(3,170)	(3,170)
Net Change in Cash Fund Balances	\$ 151,000	\$ 151,000	\$ 28,177	\$ (122,823)
Cash Fund Balance - January 1	(138,116)	(138,116)	(138,116)	-
Cash Fund Balance - December 31	\$ 12,884	\$ 12,884	\$ (109,939)	\$ (122,823)

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ -	\$ -	\$ 692	\$ 692
Disbursements				
Current				
Public safety				
Fire protection	-	-	21,552	(21,552)
Excess (Deficiency) of Receipts Over Disbursements	\$ -	\$ -	\$ (20,860)	\$ (20,860)
Other Financing Sources (Uses)				
Transfers in	-	-	550	550
Net Change in Cash Fund Balances	\$ -	\$ -	\$ (20,310)	\$ (20,310)
Cash Fund Balance - January 1	(36,864)	(36,864)	(36,864)	-
Cash Fund Balance - December 31	<u><u>\$ (36,864)</u></u>	<u><u>\$ (36,864)</u></u>	<u><u>\$ (57,174)</u></u>	<u><u>\$ (20,310)</u></u>

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT - CASH BASIS
AGRICULTURE AND HOMESTEAD SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (7,285)	\$ (7,285)
Net Change in Cash Fund Balances	\$ -	\$ -	\$ (7,285)	\$ (7,285)
Cash Fund Balance - January 1	<u>7,285</u>	<u>7,285</u>	<u>7,285</u>	<u>-</u>
Cash Fund Balance - December 31	<u>\$ 7,285</u>	<u>\$ 7,285</u>	<u>\$ -</u>	<u>\$ (7,285)</u>

AGENCY FUNDS

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
AGENCY FUND
DECEMBER 31, 2003**

	<u>Developers' Deposits</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u><u>123,985</u></u>
<u>Cash Fund Balances</u>	
Reserved for development	\$ <u><u>123,985</u></u>

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 10

**STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH BALANCES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Developers' Deposits</u>
Additions	
Deposits from developers	\$ 39,500
Investment earnings	244
Total Additions	<u>\$ 39,744</u>
Deductions	
Current	
Payments to town	\$ 56,470
Payments to developers	246
Total Deductions	<u>\$ 56,716</u>
Net Change in Cash Balances	\$ (16,972)
Cash Balances - January 1	<u>140,957</u>
Cash Balances - December 31	<u><u>\$ 123,985</u></u>

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

The Town of Blue Hill is governed by a five-member Board consisting of three Supervisors who are elected to three-year terms and a Clerk and Treasurer who are elected for two-year terms.

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 Town. 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 BLUE HILL
SHERBURNE 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 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 Blue Hill 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.

The Agriculture and Homestead Special Revenue Fund accounts for the receipts and disbursements of local government aids. This fund was closed in 2003.

Additionally, the Town reports the following fiduciary fund:

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the Town holds for others in an agent capacity. Assets consist of deposits received from developers. Assets are used to reimburse the Town for costs of development, with the unused portion being returned to developers at the end of the project.

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Town of Blue Hill'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.

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 following funds had disbursements in excess of the tax levy for the year ended December 31, 2003:

	Disbursements	Tax Levy	Excess
Road and Bridge Fund	\$ 183,182	\$ 151,000	\$ 32,182
Fire Fund	21,552	-	21,552

B. Deficit Cash Balances

At December 31, 2003, the following funds had deficit cash balances:

Road and Bridge Fund	\$ 109,939
Fire Fund	57,174

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

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, 2003, the Town of Blue Hill's bank deposits were \$224,406. The book value of these deposits was \$221,345.

Following is a summary of the December 31, 2003, bank deposits covered by insurance or collateral:

	2003
Covered deposits	
Insured or collateralized with securities held by the Town or its agents in the Town's name	\$ 100,000
Uninsured and uncollateralized	245,330
Total	\$ 345,330

Following is a summary of the carrying values of the Town of Blue Hill's deposits at December 31, 2003:

	2003
Checking account	\$ 180,393
Savings account	164,937
Total	\$ 345,330

Cash balances are shown on the financial statements as:

Governmental activities	\$ 221,345
Agency Fund	123,985
Total	\$ 345,330

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts (Continued)

B. Property Taxes

Taxes are billed by Sherburne County to individual property owners within the Town of Blue Hill 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 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.

C. Interfund Transfers

Interfund transfers consisted of the following:

	Transfers In		Total
	General Fund	Fire Fund	
Transfers out			
General Fund	\$ -	\$ 550	\$ 550
Road and Bridge Fund	3,170	-	3,170
Agriculture and Homestead Fund	7,285	-	7,285
	\$ 10,455	\$ 550	\$ 11,005
Total	\$ 10,455	\$ 550	\$ 11,005

4. Employee Retirement Systems and Pension Plans

Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan. Established by the Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services, the plan has been expanded to include elected local government officials, except elected county sheriffs.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

Defined Contribution Plan (Continued)

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The Town's contributions for the years ended December 31, 2001, 2002, and 2003, were \$782, \$902, and \$1,036, respectively, equal to the contractually required contributions for each year as set by statute.

5. Risk Management

The Town of Blue Hill 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.

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**TOWN OF BLUE HILL
SHERBURNE COUNTY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003**

I. INTERNAL CONTROLS

03-1 Segregation of Duties

Due to the limited number of office personnel within the Town of Blue Hill, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of Blue Hill; 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:

The Board is aware of limited personnel and will be more aware and ask more questions.

03-2 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, 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:

At this time, we do not have a policy manual. We will work towards this in 2005.

03-3 Bank Reconciliations

Our audit found that only 2 of 12 bank reconciliations for the year contained initials of the preparer. Initials and dates of the preparer help identify responsibility and timeliness of the reconciliations, which strengthens internal control that provides 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:

Reconciliations will be brought in to Board meetings, signed by the Treasurer, and made available for the Board to look at.

03-4 Timeliness of Bank Deposits

Except for two months in 2003, bank deposits were made only once during the month. Deposits should be made more frequently to provide greater security for the funds and earn additional interest when possible.

We recommend that the Town's collections be deposited at least weekly.

Client's Response:

Individual amounts over \$100 will be deposited weekly. Individual amounts under \$100 will be deposited monthly.

03-5 Documentation for Disbursements

We found that several payments to vendors lacked documentation. For 13 checks (totaling \$31,124) out of 230 checks written for the year, no vendor invoices or voucher forms were provided to us. For another 28 voucher forms selected for review, no invoices or store receipts were available to support the payment. These voucher forms represented disbursements for office supplies, telephone charges, paint contractor, and earthwork contractor, for which receipts or invoices should be available. Payment to the earthwork contractor was \$88,603.

Having adequate support for payments is a fundamental requirement of a sound accounting system. It is the primary evidence to explain the nature of the organization's cash outlays.

We recommend that procedures be established to ensure that all payments are properly supported and that the documentation be filed and secured.

Client's Response:

Written documentation will be asked from all persons requesting money from the Town, and the same documentation will be attached to the voucher form.

03-6 Approval Process for Cash Disbursements

We found that vendor invoices did not contain indications of approval prior to payment. Voucher forms contained initials evidencing approval, but they were not dated. It is our understanding that the bills are reviewed by Board members at monthly meetings. However, each claim should be fully reviewed for appropriateness and accuracy prior to the Board meeting. This review should be evidenced by initialing and dating the invoices.

We recommend that all vendor invoices be reviewed prior to Board meetings and that they be initialed and dated by the reviewer. For instances when vendors are unable to submit invoices, a voucher form could be prepared, with the initials and date on the form of the Town official approving it. We also recommend that invoices be marked with the check number and payment date to avoid duplicate payments. A "PAID" stamp could be used to record the check number and payment date.

Client's Response:

The Clerk will review all bills prior to Board meetings and initial them. We will be acquiring a "PAID" stamp and utilizing it.

03-7 General Accounting

We found that the accounting information provided to us did not include a detailed record of receipts and disbursements in sufficient form to produce timely accounting and reporting of the Town's activities. This condition necessitated a significant amount of time by us to arrive at the Town's financial statements. The Office of the State Auditor (OSA) has developed the City and Township Accounting System (CTAS). This system provides detailed ledgers for receipts and disbursements. It also includes a payroll function and links to the annual state reporting form required by the OSA. We believe this system would be a useful tool for the Town of Blue Hill, and it is offered at no charge. The OSA also provides training and ongoing assistance as required.

We recommend that the Town of Blue Hill acquire the CTAS system to account for its financial transactions.

Client's Response:

The Town of Blue Hill has purchased a computer and will have its books on CTAS, starting with 2004.

03-8 Developers' Deposits

The Town receives deposits from developers doing business within the Town's boundaries. When projects are completed, the deposits are either disbursed to the Town for related project costs or returned to the developer. We found no fund was established in the Town's ledger to account for these development transactions. Though the Town is holding these funds in a fiduciary capacity, a fund should still be established to account for the activity.

We recommend that the Town establish a fund in its ledger to account for the receipt and disbursement of developer deposits.

Client's Response:

We will add an escrow fund with a column for each development, starting in 2005.

II. MINNESOTA LEGAL COMPLIANCE

03-9 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 2003, the Town disbursed more money from its Road and Bridge Fund and its Fire Fund than was levied. In the Road and Bridge Fund, the disbursements were covered by other revenues received in 2003 and amounts carried forward from the prior year.

The Town was not in strict compliance with the statutes, but the OSA believes that the statute needs revision. A bill, supported by the OSA, has been introduced in the 2005 Legislature to revise Minn. Stat. § 365.43, subd. 1. The proposed bill would limit a town's spending to "total revenue," which includes the tax levy, revenues from other sources, and amounts carried forward from the prior year. The Town's current practices would conform to the proposed statutory language.

03-10 Collateral for Public Funds

Minn. Stat. § 118A.03 requires local governments to obtain a corporate surety bond or pledged collateral to the extent that funds on deposit exceed available federal deposit insurance, \$100,000 for demand deposits. The Town of Blue Hill's deposits exceeded \$100,000 throughout the year. The amount of collateral must be ten percent more than the amount on deposit plus accrued interest at the close of the banking day.

We recommend that the Board obtain sufficient collateral from its financial institution to be compliant with Minnesota statutes.

Client's Response:

Bremer Bank has assured us all our accounts are fully insured; will follow through by asking for a safekeeping receipt.

03-11 Timely Payment of Bills

Minn. Stat. § 471.425 requires bills of the Town be paid within 35 days of the date of receipt. Failure to do so could result in interest being charged on the bills. Since the Town's bills are paid only once a month, it is possible that some payments may be made after the 35-day period, depending on the date of the Board meeting.

We recommend that the Board comply with Minn. Stat. § 471.425 when paying the Town's bills.

Client's Response:

Every attempt will be made to pay bills within 35 days of receipt of bill.

03-12 Annual Reporting of Financial Information

Minn. Stat. § 6.74 requires the Town to submit financial information annually to the Office of the State Auditor (OSA). We found that this information had not been submitted to the State Auditor for several years. However, during our audit, financial information for the year ended December 31, 2003, was submitted by the Town.

We recommend that annual reporting to the OSA continue in the future.

Client's Response:

Now that the audit is done on 2003, and the Board members are assured that the figures are accurate, we will be reporting annually in a timely fashion, by March 31 of each year.

III. MANAGEMENT PRACTICES

03-13 Deficit Cash Balances

Our audit disclosed the following cash deficits:

- The Road and Bridge Fund's ending cash balance for 2003 was a deficit of \$109,939. It appears this condition could be caused by not recording a sufficient amount of tax settlements in this fund as they are received from the county.
- The Fire Fund's ending cash balance for 2003 was a deficit of \$57,174. Again, it appears that taxes levied for the Town's Fire Fund are actually being settled to the General Fund, while the Fire Fund is recording disbursements related to fire protection.

We recommend that the Board authorize the transfer of cash from the General Fund to the Road and Bridge Fund and the Fire Fund, sufficient to eliminate current deficits in these funds. We also recommend that future settlements of taxes to these funds be in proportion to the levy amounts approved by the Board.

Client's Response:

We will zero out ending deficit balances on the Road and Bridge and Fire Funds.

03-14 Board Minutes

Our review of Board minutes found the following:

- None of the minutes were signed by a Board member or the preparer. Minutes should be signed to indicate they are the official meeting minutes of the Town.
- Minutes did not indicate which Supervisors and other Town officials were present at the meetings.
- Minutes did not provide specific details as to the disbursements approved for the month.
- The Town's depositories were not approved 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 chairperson upon adoption of the minutes by the Board.

Client's Response:

Minutes will be signed and Supervisors and town officials will be listed. Specific details on dollar amount approved will be in the minutes.

03-15 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 disbursement budgets approved by the Board be included in the minutes.

Client's Response:

We will attempt to have a budget set up for year 2006.

03-16 Issuance of 1099 Forms

During our audit, we found that 1099 forms had not been issued to two individuals for 2003. Federal regulations require these forms to be issued to individuals who provide services to the Town.

We recommend that the Town examine their payments at year-end to determine if any 1099 forms should be issued.

Client's Response:

We will give out 1099's starting in 2005.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Town Board of Supervisors
Town of Blue Hill

We have audited the cash basis financial statements of the Town of Blue Hill as of and for the year ended December 31, 2003, and have issued our report thereon dated January 25, 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 Blue Hill 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 Blue Hill'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 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 03-1 through 03-8.

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 03-1 and 03-4 through 03-8 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 Blue Hill complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 03-9 through 03-12.

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: January 25, 2005