

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

For the Year Ended December 31, 2006



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

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets – Governmental Activities	Exhibit 1	4
Statement of Activities	Exhibit 2	5
Fund Financial Statements		
Balance Sheet - Governmental Funds	Exhibit 3	6
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	8
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	Exhibit 5	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	11
Statement of Fiduciary Net Assets - Fiduciary Funds	Exhibit 7	12
Notes to the Financial Statements		13
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	32
Road and Bridge Special Revenue Fund	Schedule 2	33
Fire Special Revenue Fund	Schedule 3	34
Cemetery Special Revenue Fund	Schedule 4	35
Capital Projects Special Revenue Fund	Schedule 5	36
Notes to the Required Supplementary Information		37

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Agency Funds		38
Combining Statement of Changes in Assets and Liabilities	Statement 1	39
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 6	47
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		50

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

		<u>Term Expires</u>
Elected		
Supervisors		
Chair	Bryan Lawrence	March 2010
Supervisor	Jeff Dotseth	March 2008
Supervisor	Lester Kriesel	March 2009
Supervisor	Jim Oliver	March 2010
Supervisor	Paul Vollkommer	March 2009
Appointed		
Clerk/Treasurer	Cathy Stevens	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Town Supervisors
Town of Baldwin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Baldwin, Minnesota, as of and for the year ended December 31, 2006, 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.E.3. to the financial statements, management does not maintain records of the Town of Baldwin'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 these omissions 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 Baldwin as of December 31, 2006, 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 Baldwin as of December 31, 2006, 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, except as mentioned in the third paragraph, the Town of Baldwin reports these financial statements in accordance with generally accepted accounting principles. In previous reports, the Town of Baldwin reported on a regulatory basis of accounting, essentially the cash basis.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is 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. The Town of Baldwin 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Baldwin'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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 4, 2008

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Assets

Cash and pooled investments	\$	398,363
Taxes receivable		
Current		32,212
Prior		26,248
Special assessments receivable		
Current		1,205
Prior		1,446
Accrued interest receivable		185
		<hr/>
Total Assets	\$	459,659

Liabilities

Accounts payable	\$	57,620
Salaries payable		10,690
Contracts payable		187,000
Due to other governments		260
Accrued interest payable		3,278
Long-term liabilities		
Due within one year		102,153
Due in more than one year		635,236
		<hr/>
Total Liabilities	\$	996,237

Net Assets

Unrestricted	\$	(536,578)
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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Program Revenues Fees, Charges, Fines, and Other	Net (Expense) Revenue and Changes in Net Assets
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 197,098	\$ 60,360	\$ (136,738)
Public safety	202,654	33,634	(169,020)
Highways and streets	620,746	2,756	(617,990)
Culture and recreation	13,901	-	(13,901)
Conservation of natural resources	10,172	-	(10,172)
Interest	37,768	-	(37,768)
	\$ 1,082,339	\$ 96,750	\$ (985,589)
General Revenues			
Property taxes			\$ 746,713
Grants and contributions not restricted to specific programs			155,562
Investment income			1,873
			\$ 904,148
			\$ (81,441)
			(455,137)
			\$ (536,578)

FUND FINANCIAL STATEMENTS

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 109,048	\$ 152,747
Taxes receivable		
Current	8,401	12,266
Prior	6,610	10,357
Special assessments receivable		
Current	-	1,205
Prior	-	1,429
Accrued interest receivable	-	-
	\$ 124,059	\$ 178,004
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 2,993	\$ 10,473
Salaries payable	1,074	1,213
Contracts payable	-	187,000
Due to other governments	131	129
Deferred revenue - unavailable	6,610	11,786
	\$ 10,808	\$ 210,601
Fund Balances		
Unreserved		
Undesignated	113,251	(32,597)
	\$ 124,059	\$ 178,004

EXHIBIT 3

Special Revenue Funds				
Fire	Cemetery	Capital Projects	Debt Service	Total
\$ 51,716	\$ 15,776	\$ 69,035	\$ 41	\$ 398,363
7,491	43	4,011	-	32,212
6,100	43	3,138	-	26,248
-	-	-	-	1,205
17	-	-	-	1,446
-	185	-	-	185
\$ 65,324	\$ 16,047	\$ 76,184	\$ 41	\$ 459,659
\$ 43,925	\$ -	\$ 229	\$ -	\$ 57,620
8,403	-	-	-	10,690
-	-	-	-	187,000
-	-	-	-	260
6,117	43	3,138	-	27,694
\$ 58,445	\$ 43	\$ 3,367	\$ -	\$ 283,264
6,879	16,004	72,817	41	176,395
\$ 65,324	\$ 16,047	\$ 76,184	\$ 41	\$ 459,659

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS - - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	176,395
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 in the governmental funds.		27,694
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.		
Certificates of indebtedness	\$ (258,000)	
Capital leases	<u>(479,389)</u>	(737,389)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		<u>(3,278)</u>
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>536,578</u>

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Road and Bridge
Revenues		
Taxes	\$ 188,575	\$ 309,500
Special assessments	-	30,901
Licenses and permits	1,450	2,900
Intergovernmental	34,459	31,659
Charges for services	15,463	11,503
Fines and forfeits	450	-
Investment income	1,029	-
Miscellaneous	8,640	208
	\$ 250,066	\$ 386,671
Expenditures		
Current		
General government	\$ 137,229	\$ 44,980
Public safety	23,043	-
Highways and streets	17,436	557,034
Culture and recreation	11,381	-
Conservation of natural resources	9,792	380
Capital outlay	5,403	-
Debt service		
Principal	-	-
Interest	-	-
	\$ 204,284	\$ 602,394
Excess of Revenues Over (Under) Expenditures	\$ 45,782	\$ (215,723)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(69,806)	-
	\$ (69,806)	\$ -
Net Change in Fund Balances	\$ (24,024)	\$ (215,723)
Fund Balances - January 1, Note 1.F.	137,275	183,126
Fund Balances - December 31	\$ 113,251	\$ (32,597)

EXHIBIT 5

Special Revenue Funds				
Fire	Cemetery	Capital Projects	Debt Service	Total
\$ 159,483	\$ 941	\$ 90,756	\$ -	\$ 749,255
-	-	-	-	30,901
-	-	-	-	4,350
78,802	105	10,537	-	155,562
16,122	1,800	-	-	44,888
-	-	-	-	450
68	569	180	27	1,873
5,811	-	56	-	14,715
\$ 260,286	\$ 3,415	\$ 101,529	\$ 27	\$ 1,001,994
\$ 1,032	\$ 6,095	\$ 4,879	\$ -	\$ 194,215
146,286	-	4,904	-	174,233
-	-	14,813	-	589,283
-	-	-	-	11,381
-	-	-	-	10,172
28,421	-	31,463	-	65,287
-	-	-	98,051	98,051
-	-	-	38,426	38,426
\$ 175,739	\$ 6,095	\$ 56,059	\$ 136,477	\$ 1,181,048
\$ 84,547	\$ (2,680)	\$ 45,470	\$ (136,450)	\$ (179,054)
\$ -	\$ -	\$ -	\$ 136,477	\$ 136,477
(66,671)	-	-	-	(136,477)
\$ (66,671)	\$ -	\$ -	\$ 136,477	\$ -
\$ 17,876	\$ (2,680)	\$ 45,470	\$ 27	\$ (179,054)
(10,997)	18,684	27,347	14	355,449
\$ 6,879	\$ 16,004	\$ 72,817	\$ 41	\$ 176,395

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (179,054)

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

In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 27,694	
Deferred revenue - January 1	(28,790)	(1,096)

The issuance of long-term debt (bonds and leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal repayments		
General obligation bonds	\$ 58,000	
Capital leases	40,051	98,051

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable		658
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Change in Net Assets of Governmental Activities (Exhibit 2) \$ (81,441)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 61,510</u>
<u>Liabilities</u>	
Accounts payable	<u>\$ 61,510</u>

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

The financial statements of the Town of Baldwin have been prepared in conformity with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. 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 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.

A. Financial Reporting Entity

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

The Town of Baldwin is located in Sherburne County, Minnesota. It is governed by an elected Board of five Supervisors who are elected to three-year terms. The form of government includes a Clerk/Treasurer, who is appointed.

Generally accepted accounting principles require that the Town's financial statements include all funds, departments, agencies, boards, commissions, and other organizations that are not legally separate from the Town. In addition, the Town's financial statements are to include all component units-legally separate entities for which the Town is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the Town is financially accountable.

TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the Town as a whole. These statements include the financial activities of the overall Town government, except for fiduciary activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements 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 the direct expenses of each function of the Town's governmental activities are offset by program revenues. Direct expenses are those 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, including its fiduciary 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. There were no nonmajor funds reported in 2006.

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Town reports the following major governmental funds:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund accounts for specific revenue sources legally restricted to expenditures used to finance construction and maintenance costs of Town roads and bridges.

The Fire Special Revenue Fund is used to account for proceeds of specific revenue sources legally restricted to expenditures for public safety purposes.

The Cemetery Special Revenue Fund is used to account for proceeds of specific revenue sources legally restricted to expenditures for the Town cemetery.

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

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal, interest, and related costs of the debt issuances.

Additionally, the Town reports the following fiduciary fund type:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for escrow accounts that the Town holds for others in an agent capacity.

TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and 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 considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent that they have matured.

D. Budgets

The Board of Town Supervisors determines a proposed levy for the amount of money to be raised for a given year through tax levies for Town purposes. At the Town's annual meeting in March, this proposed levy is presented to the Town's electors who may modify the proposed levy and vote to approve and authorize the levy. Once approved, the levy becomes the Town's budget. At present, the Town does not budget any other expected sources of revenues such as special assessments or grants.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The cash balances of substantially all funds are pooled and invested by the Town's Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2006. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Pooled investment earnings for 2006 were \$1,873.

TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Taxes and Special Assessments Receivable

Taxes and special assessments that remain unpaid are classified as delinquent receivables. Delinquent taxes and special assessments represent the past seven years of uncollected tax years. Revenue from delinquent property taxes and special assessments not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the Town in the current year. No allowances for uncollectible taxes and special assessments have been provided, as such amounts are not expected to be material.

3. Capital Assets

The Town records capital assets as expenditures at the time of their purchase. The Town keeps no records of its capital assets beyond a listing for insurance purposes. Capital assets include the Town hall, fire hall, maintenance building, storage garage, Town roads and related land, as well as other various assets.

4. Deferred Revenue

All Town funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

6. Interfund Transactions (Continued)

During 2006, a total of \$136,477 was transferred to the Debt Service Fund from the General Fund and the Fire Special Revenue Fund for debt service payments.

All interfund transactions are eliminated for presentation in the government-wide statements of net assets and statements of activities.

F. Restatement of Beginning Fund Balance and Net Assets

In 2006, the Town presented its financial statements using generally accepted accounting principles. Previously, the Town reported on the cash basis. Beginning fund balances and net assets were restated for the effect of those changes.

Governmental fund balances were restated to reflect accruals such as taxes and special assessments receivable, accounts payable, salaries payable, and deferred revenue. Restatement of governmental fund balances at January 1, 2006 is as follows:

<u>Fund</u>	<u>Previously Reported</u>	<u>Restatement</u>	<u>Restated Balances</u>
General	\$ 138,686	\$ (1,411)	\$ 137,275
Special Revenue			
Road and Bridge	184,286	(1,160)	183,126
Fire	14,745	(25,742)	(10,997)
Cemetery	18,684	-	18,684
Capital Projects	37,767	(10,420)	27,347
Debt Service	14	-	14
	<hr/>	<hr/>	<hr/>
Total	\$ 394,182	\$ (38,733)	\$ 355,449

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Restatement of Beginning Fund Balance and Net Assets (Continued)

Government-wide net assets were restated to convert the modified accrual basis to the full accrual basis by taking into account long-term debt and recognizing revenue for those receivables not available for expenditure in the governmental funds. Restatement of net assets at January 1, 2006 is as follows:

Fund balance, as restated above	\$	355,449
Add: deferred revenue, unavailable		28,790
Deduct		
Long-term debt		(835,440)
Accrued interest payable		(3,936)
		(835,440)
Net Assets, January 1, restated	\$	(455,137)

2. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

The Road and Bridge Special Revenue Fund has incurred expenditures in excess of revenues and available resources. This deficit will be eliminated with future tax levies.

The following summary shows the fund balance as of December 31, 2006.

Fund Revenues	\$	386,671
Fund Expenditures		(602,394)
Fund Balance - January 1, 2006		183,126
		183,126
Fund Balance (Deficit)	\$	(32,597)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Expenditures in Excess of Budget

Actual expenditures exceeded 2006 budgets in the following funds:

	Actual	Final Budget	Excess
General Fund	\$ 204,284	\$ 201,626	\$ 2,658
Special Revenue Funds			
Road and Bridge	602,394	300,000	302,394
Cemetery	6,095	1,000	5,095

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

Reconciliation of the Town's total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

Government-wide statement of net assets	
Cash and pooled investments - governmental activities	\$ 398,363
Fiduciary statement of net assets	
Cash - fiduciary funds	61,510
Total Cash and Pooled Investments	\$ 459,873
Deposits	
Checking account	\$ 37,370
Savings accounts	407,158
Investments	
Negotiable certificates of deposit	9,918
Money market account with broker	5,427
Total Deposits and Investments	\$ 459,873

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

1. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Town to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the Town's deposits may not be returned to it. The Town does not have a policy for custodial credit risk, other than complying with the requirements of Minnesota statutes. As of December 31, 2006, none of the Town's deposits totaling \$444,528 (bank balance) were exposed to custodial credit risk.

2. Investments

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 BALDWIN
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

2. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Town's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2006, none of the Town's investments were rated.

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

2. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Town does not have a policy on custodial credit risk. At December 31, 2006, none of the Town's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Town's investment in a single issuer. It is the Town's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

The following table presents the Town's deposit and investment balances at December 31, 2006, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Concentration Risk Over 5 Percent of Portfolio</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Money market account with broker	35.37%	Various	\$ 5,427
Negotiable certificates of deposit		02/11/2008 02/10/2009	\$ 4,968 4,950
Total negotiable certificates of deposit	64.63%		\$ 9,918
Total investments			\$ 15,345
Deposits			444,528
Total Cash and Investments			\$ 459,873

**TOWN OF BALDWIN
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 Baldwin 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.

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

C. Interfund Transfers

The following is a summary of transfers to/from other funds at December 31, 2006:

	Transfers From	Transfers To
General Fund	\$ 69,806	\$ -
Fire Special Revenue Fund	66,671	-
Debt Service Fund	-	136,477
Total Transfers To/From Other Funds	\$ 136,477	\$ 136,477

The transfer of funds to the Debt Service Fund from the General Fund is for certificate of indebtedness principal and interest payments. The transfer of funds to the Debt Service Fund from the Fire Special Revenue Fund is for capital lease principal and interest payments.

D. Payables

The following is a summary of payables at December 31, 2006:

	Governmental Activities	Fiduciary Funds
Accounts	\$ 57,620	\$ 61,510
Salaries	10,690	-
Contracts	187,000	-
Due to other governments	260	-
Total Payables	\$ 255,570	\$ 61,510

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

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

E. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable that are not collected soon enough after year-end to pay liabilities of the current period. Deferred revenue at December 31, 2006, is summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Total</u>
Governmental Funds			
General	\$ 6,610	\$ -	\$ 6,610
Road and Bridge Special Revenue	10,357	1,429	11,786
Fire Special Revenue	6,100	17	6,117
Cemetery Special Revenue	43	-	43
Capital Projects Special Revenue	3,138	-	3,138
	<u>\$ 26,248</u>	<u>\$ 1,446</u>	<u>\$ 27,694</u>
Deferred revenue Unavailable	<u>\$ 26,248</u>	<u>\$ 1,446</u>	<u>\$ 27,694</u>

F. Long-Term Liabilities

1. Components of Long-Term Debt

<u>Description</u>	<u>Initial Amount Issued</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Outstanding Principal</u>
2005 Certificates of Indebtedness	<u>\$ 316,000</u>	09/01/2010	3.40 to 4.10	<u>\$ 258,000</u>
Capital Lease Obligation	<u>\$ 628,000</u>	12/18/2012 to 12/18/2014	5.03 to 5.46	<u>\$ 479,389</u>

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

F. Long-Term Liabilities

1. Components of Long-Term Debt (Continued)

a. Certificates of Indebtedness

General Obligation Certificates of Indebtedness, Series 2005A, were issued September 1, 2005, for \$316,000 to purchase equipment and make improvements to the Town hall and maintenance building, including a well and a septic system. Principal is payable annually on September 1, and interest is payable semi-annually on March 1 and September 1.

Minimum annual principal and interest payments required to retire the certificates of indebtedness are as follows:

Year	2005 Certificates of Indebtedness		
	Principal	Interest	Total
2007	\$ 60,000	\$ 8,784	\$ 68,784
2008	63,000	6,568	69,568
2009	66,000	4,116	70,116
2010	69,000	1,415	70,415
Total	\$ 258,000	\$ 20,883	\$ 278,883

b. Capital Lease Obligation

The Town entered into two capital lease agreements to finance various fire building and equipment improvements. Principal and interest payments are payable semi-annually on June 18 and December 18.

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

F. Long-Term Liabilities

1. Components of Long-Term Debt

b. Capital Lease Obligation (Continued)

Minimum annual principal and interest payments required to retire the capital lease obligations are as follows:

<u>Year</u>	<u>Capital Lease Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 42,153	\$ 24,518	\$ 66,671
2008	44,366	22,304	66,670
2009	46,696	19,975	66,671
2010	49,148	17,523	66,671
2011	51,729	14,941	66,670
2012 - 2015	245,297	16,997	262,294
Total	<u>\$ 479,389</u>	<u>\$ 116,258</u>	<u>\$ 595,647</u>

2. Changes in Long-Term Debt

The following is a schedule of changes in the Town's indebtedness for the year ended December 31, 2006:

	<u>Payable Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Payable End of Year</u>	<u>Due Within One Year</u>
Certificates of indebtedness	\$ 316,000	\$ -	\$ 58,000	\$ 258,000	\$ 60,000
Capital lease obligation	519,440	-	40,051	479,389	42,153
Total	<u>\$ 835,440</u>	<u>\$ -</u>	<u>\$ 98,051</u>	<u>\$ 737,389</u>	<u>\$ 102,153</u>

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

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

G. Operating Lease

During 2006, the Town entered into an operating lease for a copier. The lease is for a five-year term with payments of \$555 paid quarterly. Total payments made under the lease during 2006 were \$2,220. The following schedule presents the future minimum rental payments under this lease:

Year Ending December 31	Amount
2007	\$ 2,220
2008	2,220
2009	2,220
2010	2,220
Total Minimum Payments Required	\$ 8,880

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

Plan Description

All full-time and certain part-time employees of the Town of Baldwin are covered by defined benefit pension 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 BALDWIN
SHERBURNE COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

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 internet at www.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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from 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

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plans

Funding Policy (Continued)

Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2006. The Town is required to contribute the following percentages of annual covered payroll:

In 2006

Public Employees Retirement Fund

Basic Plan members	11.78%
Coordinated Plan members	6.00

In 2007

Public Employees Retirement Fund

Basic Plan members	11.78%
Coordinated Plan members	6.25

The Town's contributions for the year ending December 31, 2006, were \$3,420, equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for elected local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D.

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 employee who decides to participate contributes five percent of salary, which is matched by the employer.

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 employee's account is distributed to the employee or another qualified plan.

TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The Town's contributions for the years ended December 31, 2006 and 2005, were \$948 and \$1,028, respectively, equal to the contractually required contributions for each year as set by statute.

5. Risk Management

The Town of Baldwin 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. The Town participates in the Minnesota Association of Township Insurance and Bond Trust (MATIT) program, a joint powers organization under Minn. Stat. § 471.59, to provide insurance and risk management programs to eligible towns. The Town has the following coverage with MATIT: public officials' errors and omissions, workers' compensation, employee health and accident, automobile, general liability, inland marine, property, and liability coverage. 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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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes			\$ 188,575	
Licenses and permits			1,450	
Intergovernmental			34,459	
Charges for services			15,463	
Fines and forfeits			450	
Investment income			1,029	
Miscellaneous			8,640	
Total Revenues	\$ 201,626	\$ 201,626	\$ 250,066	\$ 48,440
Expenditures				
Current				
General government			\$ 137,229	
Public safety			23,043	
Highways and streets			17,436	
Culture and recreation			11,381	
Conservation of natural resources			9,792	
Capital outlay				
General government			2,883	
Culture and recreation			2,520	
Total Expenditures	\$ 201,626	\$ 201,626	\$ 204,284	\$ (2,658)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 45,782	\$ 45,782
Other Financing Sources (Uses)				
Transfers out	-	-	(69,806)	(69,806)
Net Change in Fund Balance	\$ -	\$ -	\$ (24,024)	\$ (24,024)
Fund Balance - January 1	137,275	137,275	137,275	-
Fund Balance - December 31	\$ 137,275	\$ 137,275	\$ 113,251	\$ (24,024)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes			\$ 309,500	
Special assessments			30,901	
Licenses and permits			2,900	
Intergovernmental			31,659	
Charges for services			11,503	
Miscellaneous			208	
Total Revenues	\$ 300,000	\$ 300,000	\$ 386,671	\$ 86,671
Expenditures				
Current				
General government			\$ 44,980	
Highways and streets			557,034	
Conservation of natural resources			380	
Total Expenditures	\$ 300,000	\$ 300,000	\$ 602,394	\$ (302,394)
Net Change in Fund Balance	\$ -	\$ -	\$ (215,723)	\$ (215,723)
Fund Balance - January 1	183,126	183,126	183,126	-
Fund Balance - December 31	\$ 183,126	\$ 183,126	\$ (32,597)	\$ (215,723)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes			\$ 159,483	
Intergovernmental			78,802	
Charges for services			16,122	
Investment income			68	
Miscellaneous			5,811	
Total Revenues	\$ 185,000	\$ 185,000	\$ 260,286	\$ 75,286
Expenditures				
Current				
General government			\$ 1,032	
Public safety			146,286	
Capital outlay				
Public safety			28,421	
Total Expenditures	\$ 185,000	\$ 185,000	\$ 175,739	\$ 9,261
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 84,547	\$ 84,547
Other Financing Sources (Uses)				
Transfers out	-	-	(66,671)	(66,671)
Net Change in Fund Balance	\$ -	\$ -	\$ 17,876	\$ 17,876
Fund Balance - January 1	(10,997)	(10,997)	(10,997)	-
Fund Balance - December 31	\$ (10,997)	\$ (10,997)	\$ 6,879	\$ 17,876

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
CEMETERY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes			\$ 941	
Intergovernmental			105	
Charges for services			1,800	
Investment income			569	
Total Revenues	\$ 1,000	\$ 1,000	\$ 3,415	\$ 2,415
Expenditures				
Current				
General government	1,000	1,000	6,095	(5,095)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,680)	\$ (2,680)
Fund Balance - January 1	18,684	18,684	18,684	-
Fund Balance - December 31	\$ 18,684	\$ 18,684	\$ 16,004	\$ (2,680)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes			\$ 90,756	
Intergovernmental			10,537	
Investment income			180	
Miscellaneous			56	
Total Revenues	\$ 100,000	\$ 100,000	\$ 101,529	\$ 1,529
Expenditures				
Current				
General government			\$ 4,879	
Public safety			4,904	
Highways and streets			14,813	
Capital outlay				
Highways and streets			31,463	
Total Expenditures	\$ 100,000	\$ 100,000	\$ 56,059	\$ 43,941
Net Change in Fund Balance	\$ -	\$ -	\$ 45,470	\$ 45,470
Fund Balance - January 1	27,347	27,347	27,347	-
Fund Balance - December 31	\$ 27,347	\$ 27,347	\$ 72,817	\$ 45,470

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

The Board of Town Supervisors determines a proposed levy for the amount of money to be raised for a given year through tax levies for Town purposes. At the Town's annual meeting in March, this proposed levy is presented to the Town's electors who may modify the proposed levy and vote to approve and authorize the levy. Once approved, the levy becomes the Town's budget. At present, the Town does not budget any other expected sources of revenues such as special assessments or grants.

2. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2006:

	<u>Actual</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 204,284	\$ 201,626	\$ 2,658
Special Revenue Funds			
Road and Bridge	602,394	300,000	302,394
Cemetery	6,095	1,000	5,095

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SUPPLEMENTARY INFORMATION

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

AGENCY FUNDS

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

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>DEVELOPERS ACCOUNT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 290	\$ 544	\$ -	\$ 834
<u>Liabilities</u>				
Accounts payable	\$ 290	\$ 544	\$ -	\$ 834
<u>BALDWIN COVE ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,264	\$ 65	\$ 5,329	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 5,264	\$ 65	\$ 5,329	\$ -
<u>BALDWIN FOREST ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,961	\$ 97	\$ 230	\$ 6,828
<u>Liabilities</u>				
Accounts payable	\$ 6,961	\$ 97	\$ 230	\$ 6,828
<u>RUM RIVER BLUFFS ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 105	\$ -	\$ -	\$ 105
<u>Liabilities</u>				
Accounts payable	\$ 105	\$ -	\$ -	\$ 105

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>DEER TRAIL 1ST ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,161	\$ -	\$ 3,161	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 3,161	\$ -	\$ 3,161	\$ -
<u>DEER TRAIL 2ND ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 268	\$ -	\$ 268	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 268	\$ -	\$ 268	\$ -
<u>LENCIONI ESTATES ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,552	\$ -	\$ 3,552	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 3,552	\$ -	\$ 3,552	\$ -
<u>PRAIRIE CREEK ESTATES ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,785	\$ 197	\$ 7,982	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 7,785	\$ 197	\$ 7,982	\$ -

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PRAIRIE HILL LAKE MEADOWS ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,878	\$ 24	\$ 400	\$ 1,502
<u>Liabilities</u>				
Accounts payable	\$ 1,878	\$ 24	\$ 400	\$ 1,502
<u>SOUTHERN PINES ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 165	\$ 165	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 165	\$ 165	\$ -
<u>WHITETAIL CROSSING ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,139	\$ 30	\$ -	\$ 2,169
<u>Liabilities</u>				
Accounts payable	\$ 2,139	\$ 30	\$ -	\$ 2,169
<u>PRESERVE AT BALDWIN ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,530	\$ -	\$ 233	\$ 5,297
<u>Liabilities</u>				
Accounts payable	\$ 5,530	\$ -	\$ 233	\$ 5,297

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COUNTRY PINES 1ST ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,174	\$ 29	\$ 233	\$ 1,970
<u>Liabilities</u>				
Accounts payable	\$ 2,174	\$ 29	\$ 233	\$ 1,970
<u>HIGHLAND FARMS ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,474	\$ 4,050	\$ 620	\$ 6,904
<u>Liabilities</u>				
Accounts payable	\$ 3,474	\$ 4,050	\$ 620	\$ 6,904
<u>BALDWIN ESTATES ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137	\$ -	\$ -	\$ 137
<u>Liabilities</u>				
Accounts payable	\$ 137	\$ -	\$ -	\$ 137
<u>HIDDEN HOLLOW ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,549	\$ -	\$ 232	\$ 9,317
<u>Liabilities</u>				
Accounts payable	\$ 9,549	\$ -	\$ 232	\$ 9,317

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STONE SHEEP ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 785	\$ 62	\$ 847	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 785	\$ 62	\$ 847	\$ -
 <u>HEATHER RIDGE ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,256	\$ -	\$ 263	\$ 3,993
<u>Liabilities</u>				
Accounts payable	\$ 4,256	\$ -	\$ 263	\$ 3,993
 <u>PRESERVE AT BALDWIN 2 ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,566	\$ -	\$ 135	\$ 2,431
<u>Liabilities</u>				
Accounts payable	\$ 2,566	\$ -	\$ 135	\$ 2,431
 <u>DEER PATH 2ND ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,401	\$ -	\$ 200	\$ 5,201
<u>Liabilities</u>				
Accounts payable	\$ 5,401	\$ -	\$ 200	\$ 5,201

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>HUDAK ESTATES ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 411	\$ -	\$ 162	\$ 249
<u>Liabilities</u>				
Accounts payable	\$ 411	\$ -	\$ 162	\$ 249
<u>CANTLIN HEIGHTS ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (362)	\$ 362	\$ -	\$ -
<u>Liabilities</u>				
Accounts payable	\$ (362)	\$ 362	\$ -	\$ -
<u>COUNTRY VIEW RIDGE ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,782	\$ -	\$ 650	\$ 5,132
<u>Liabilities</u>				
Accounts payable	\$ 5,782	\$ -	\$ 650	\$ 5,132
<u>WILDERNESS SHORES 2 ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (600)	\$ 3,725	\$ 3,725	\$ (600)
<u>Liabilities</u>				
Accounts payable	\$ (600)	\$ 3,725	\$ 3,725	\$ (600)

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>NORDWALL (PH 2) ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,051	\$ -	\$ 1,485	\$ 5,566
<u>Liabilities</u>				
Accounts payable	\$ 7,051	\$ -	\$ 1,485	\$ 5,566
<u>BELMONT RIDGE ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 465	\$ 13,615	\$ 9,798	\$ 4,282
<u>Liabilities</u>				
Accounts payable	\$ 465	\$ 13,615	\$ 9,798	\$ 4,282
<u>HORSESHOE RIDGE ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 600	\$ 1,328	\$ 1,928	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 600	\$ 1,328	\$ 1,928	\$ -
<u>PHEASANT ESCROW</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,759	\$ 2,566	\$ 193
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 2,759	\$ 2,566	\$ 193

**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 78,622	\$ 27,052	\$ 44,164	\$ 61,510
<u>Liabilities</u>				
Accounts payable	\$ 78,622	\$ 27,052	\$ 44,164	\$ 61,510

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**TOWN OF BALDWIN
SHERBURNE COUNTY, MINNESOTA**

Schedule 6

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 **Internal Control/Segregation of Duties**

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Town of Baldwin and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Town of Baldwin. This decision was based on the availability of the Town's staff and the cost benefit of using our expertise.

During our audit, we proposed all adjustments to convert the Town's financial records, which are on a cash basis, to the financial statements as reported using the accrual basis of accounting for the government-wide statements and the modified accrual basis of accounting for the fund financial statements.

We recommend the Board of Town Supervisors be mindful that limited staffing causes inherent risks in safeguarding the Town's assets and the proper reporting of its financial activity. We recommend the Board of Town Supervisors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

06-2 Capital Assets

The Town of Baldwin does not maintain a complete record of all capital assets, including the detail of acquisitions and dispositions, as required under current accounting standards, beyond a listing for insurance purposes. 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 expense function.

We strongly recommend that the Board of Town 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.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM PREVIOUSLY REPORTED BY ANOTHER AUDITOR RESOLVED

Public Purpose Expenditures

In 2005, the Board of Town Supervisors approved a firefighter appreciation dinner, and the Town paid for the food served at the Fire Department banquet. Also, the Town paid for flowers and a card for an individual. The Town was advised to refrain from these types of purchases to remain compliant with Attorney General Opinions 442a-17, January 17, 1938; 59a-22, November 23, 1966; and 270-D, August 12, 1977.

Resolution

During the current audit, no such expenditures were noted during disbursement testing. The Town has refrained from paying for expenditures that do not have a public purpose.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Town Supervisors
Town of Baldwin

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Baldwin as of and for the year ended December 31, 2006, and have issued our report thereon dated January 4, 2008. 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

In planning and performing our audit, we considered the Town of Baldwin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are 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 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.

The results of our tests indicate that, for the items tested, the Town of Baldwin 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 Town Supervisors, management, and others within the Town of Baldwin, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 4, 2008