

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

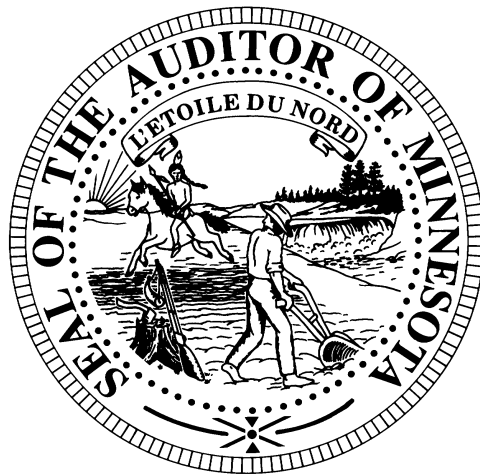
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Year Ended December 31, 2005



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

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

	<u>Term Expires</u>
Town Board	
Supervisors	
John Czanstkowski, Sr	March 2006
Alston M. Steinbach	March 2007
William G. McMullen	March 2008
Robert A. Bauman	March 2005
Officers Appointed	
Clerk-Treasurer	
Geri Hagelin	Indefinite

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Franklin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Wright County, Minnesota, as of and for the year ended December 31, 2005, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Franklin as of December 31, 2005, 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.

The Town of Franklin has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. 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 GASB. We have applied certain limited

procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 31, 2006

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Assets

Cash and pooled investments	\$	927,787
Taxes receivable		
Current		9,995
Delinquent		23,811
Special assessments receivable		
Current		2,755
Prior		10,923
Noncurrent		36,295
Accounts receivable		7,263
Due from other governments		43
Prepaid items		15,378
Capital assets		
Land		12,500
Other capital assets - net of depreciation		2,407,251
		<hr/>
Total Assets	\$	3,454,001

Liabilities

Accounts payable	\$	25,723
Salaries payable		4,890
Due to other governments		2,252
Long-term liabilities		
Compensated absences payable - due in more than one year		3,000
		<hr/>
Total Liabilities	\$	35,865

Net Assets

Invested in capital assets	\$	2,419,751
Unrestricted		998,385
		<hr/>
Total Net Assets	\$	3,418,136

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	
Functions/Programs					
Governmental activities					
General government	\$ 102,944	\$ 7,218	\$ 20,673	\$ 72	\$ (74,981)
Public safety	154,768	163,088	-	-	8,320
Highways and streets	556,901	10,647	97,414	568,470	119,630
Culture and recreation	2,500	-	-	-	(2,500)
Sanitation	25,678	-	-	-	(25,678)
Total governmental activities	\$ 842,791	\$ 180,953	\$ 118,087	\$ 568,542	\$ 24,791
 General Revenues					
Property taxes					\$ 640,419
Other taxes					4,080
Investment earnings					12,959
Total general revenues					\$ 657,458
Change in net assets					\$ 682,249
Net Assets - Beginning of Year					2,735,887
Net Assets - End of Year					\$ 3,418,136

FUND FINANCIAL STATEMENTS

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Fire Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ 75,110	\$ 823,988	\$ 28,689	\$ 927,787
Taxes receivable				
Current	1,972	8,023	-	9,995
Delinquent	4,590	19,221	-	23,811
Special assessments receivable				
Current	-	-	2,755	2,755
Delinquent	148	778	9,997	10,923
Deferred	866	35,429	-	36,295
Accounts receivable	1,214	6,049	-	7,263
Due from other governments	-	43	-	43
Prepaid items	5,373	10,005	-	15,378
Total Assets	\$ 89,273	\$ 903,536	\$ 41,441	\$ 1,034,250
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 3,596	\$ 22,127	\$ -	\$ 25,723
Salaries payable	3,467	1,423	-	4,890
Due to other governments	415	1,837	-	2,252
Deferred revenue				
Taxes	4,590	19,221	-	23,811
Special assessments	1,014	36,207	9,997	47,218
Total Liabilities	\$ 13,082	\$ 80,815	\$ 9,997	\$ 103,894
Fund Balance				
Unreserved				
Undesignated	76,191	822,721	31,444	930,356
Total Liabilities and Fund Balance	\$ 89,273	\$ 903,536	\$ 41,441	\$ 1,034,250

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds **\$ 930,356**

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:

Land	\$	12,500	
Building, net of \$69,669 accumulated depreciation		51,984	
Roadway signs, net of \$4,520 accumulated depreciation		32,111	
Machinery and equipment, net of \$172,979 accumulated depreciation		134,176	
Vehicles, net of \$72,189 accumulated depreciation		162,628	
Infrastructure, net of \$78,238 accumulated depreciation		2,026,352	2,419,751

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 71,029

Long-term liabilities that pertain to governmental funds, including compensated absences payable, 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.

Compensated absences payable (3,000)

Total net assets of governmental activities **\$ 3,418,136**

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Fire Fund</u>	<u>Total</u>
Revenues				
Taxes	\$ 133,731	\$ 512,625	\$ -	\$ 646,356
Special assessments	1,048	9,799	162,441	173,288
Intergovernmental	20,673	97,414	-	118,087
Charges for services	6,968	9,278	-	16,246
Investment earnings	1,382	11,577	-	12,959
Miscellaneous	322	1,370	-	1,692
Total Revenues	\$ 164,124	\$ 642,063	\$ 162,441	\$ 968,628
Expenditures				
Current				
General government	\$ 100,268	\$ -	\$ -	\$ 100,268
Public safety	-	-	154,768	154,768
Highways and streets	-	439,483	-	439,483
Sanitation	25,678	-	-	25,678
Culture and recreation	2,500	-	-	2,500
Capital outlay				
General government	1,167	-	-	1,167
Highways and streets	-	16,619	-	16,619
Total Expenditures	\$ 129,613	\$ 456,102	\$ 154,768	\$ 740,483
Excess of Revenues Over (Under) Expenditures	\$ 34,511	\$ 185,961	\$ 7,673	\$ 228,145
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	18,000	-	18,000
Net Change in Fund Balance	\$ 34,511	\$ 203,961	\$ 7,673	\$ 246,145
Fund Balance - January 1	41,680	618,760	23,771	684,211
Fund Balance - December 31	\$ 76,191	\$ 822,721	\$ 31,444	\$ 930,356

**TOWN OF FRANKLIN
WRIGHT 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, 2005**

Net change in fund balances - total governmental funds **\$ 246,145**

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

Delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.

Deferred revenue - December 31, 2005	\$ 71,029	
Deferred revenue - December 31, 2004	(47,457)	23,572

Governmental funds report capital outlay as expenditures. However, in the governmental activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 17,786	
Capital outlay expenditures not resulting in capital assets	(17,276)	
Depreciation expense	(102,716)	(102,206)

Infrastructure assets contributed by developers are not reported as revenues in the governmental funds since they do not provide current financial resources. However, in the governmental activities, these developer-contributed capital assets are recognized as a long-term financial resource. 532,913

Governmental funds report only proceeds from the sale of a capital asset. In the governmental activities, the gain or loss on the sale is reported. The difference is the net book value of the assets sold. (20,936)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. During 2005, compensated absences payable decreased. 2,761

Change in net assets of governmental activities **\$ 682,249**

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2005**

Assets

Cash and pooled investments	<u><u>\$ 39,784</u></u>
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Liabilities

Due to developers	<u><u>\$ 39,784</u></u>
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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The Town of Franklin's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2005. 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 Franklin is located in Wright County, Minnesota. It is governed by an elected Board of three supervisors who reside in the Town.

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 include all component units--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.

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 reporting government as a whole. These statements include the financial activities of the overall Town government, except for fiduciary activities. The fiduciary fund is reported only in the statement of fiduciary net assets at the fund financial statement level.

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 in three parts: (1) invested in capital assets; (2) restricted net assets; and (3) 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.

The Town applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. There were no nonmajor funds reported in 2005.

**TOWN OF FRANKLIN
WRIGHT 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 Fund is used to account for proceeds of specific revenue sources legally restricted to expenditures for the construction and maintenance of town roads.

The Fire Fund is used to account for proceeds of specific revenue sources legally restricted to expenditures for fire protection purposes.

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 to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted for the General, Road and Bridge, and Fire Funds.

Budgeted amounts are reported as originally adopted, or as amended by the Town Board. No amendments were made to the 2005 budgets. Expenditure appropriations lapse at year-end.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The cash balances of substantially all funds are pooled and invested, to the extent available, 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, 2005. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Pooled investment earnings for 2005 were \$12,959.

2. Accounts Receivable

No substantial losses are anticipated from present receivable balances; therefore, no allowances for uncollectible accounts are deemed necessary.

3. Taxes and Special Assessments Receivable

Taxes and special assessments that remain unpaid are classified as delinquent receivables. Delinquent taxes 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.

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets are capitalized at historical cost, estimated historical cost, or in the case of contributions, at their estimated fair market value at the time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are reported in the entity-wide statements, but not in the fund financial statements. Capital assets are depreciated using the straight-line method of their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for Town purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 30 years for office furnishings, office and computer equipment, vehicles and large equipment; 25 to 40 years for infrastructure; and 30 to 50 years for buildings and plants. Under the provisions for phase three implementers of GASB Statement 34, the Town has elected to record its infrastructure assets beginning with those acquired January 1, 2004, and later. Capital assets not depreciated include land and construction in progress.

5. Compensated Absences

Town employees earn vacation days based upon the number of completed years of service. The Town compensates employees for unused vacation at year-end.

Employees are entitled to sick leave pay for full-time service. The Town compensates employees for unused sick leave of up to 30 days upon termination of employment.

6. Fund Equity

In the fund financial statements, reservations of fund balance represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

Actual expenditures exceeded 2005 budgets in the following funds:

	Budget	Expenditures	Expenditures Over Budget
General Fund	\$ 128,850	\$ 129,613	\$ 763

3. 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		\$ 927,787
Fiduciary statement of net assets		
Cash - fiduciary funds		39,784
Total Cash and Pooled Investments		\$ 967,571
Deposits		
Checking account		\$ 617,571
Certificates of deposit		350,000
Total Deposits		\$ 967,571

A. 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 standard letters of credit issued by the Federal Home Loan

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

3. Deposits and Investments

A. Deposits (Continued)

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 deposit policy for custodial credit risk. As of December 31, 2005, the Town's deposits were not exposed to custodial credit risk.

B. Investments

During the year ended December 31, 2005, the Town had no investments.

4. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 12,500	\$ -	\$ -	\$ 12,500
Capital assets depreciated				
Buildings	\$ 121,653	\$ -	\$ -	\$ 121,653
Roadway signs	36,631	-	-	36,631
Vehicles	287,482	-	52,665	234,817
Machinery and equipment	307,645	510	1,000	307,155
Infrastructure	1,571,677	532,913	-	2,104,590
Total capital assets depreciated	\$ 2,325,088	\$ 533,423	\$ 53,665	\$ 2,804,846
Less: accumulated depreciation for				
Buildings	\$ 65,898	\$ 3,771	\$ -	\$ 69,669
Roadway signs	2,902	1,618	-	4,520
Vehicles	92,129	11,878	31,818	72,189
Machinery and equipment	158,742	15,148	911	172,979
Infrastructure	7,937	70,301	-	78,238
Total accumulated depreciation	\$ 327,608	\$ 102,716	\$ 32,729	\$ 397,595
Total capital assets depreciated, net	\$ 1,997,480	\$ 430,707	\$ 20,936	\$ 2,407,251
Capital Assets, Net	\$ 2,009,980	\$ 430,707	\$ 20,936	\$ 2,419,751

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

4. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	1,116
Highways and streets		101,600
Total Depreciation Expense, Governmental Activities	\$	102,716

5. Long-Term Liabilities

The following is a schedule of changes in the Town's indebtedness for the year ended December 31, 2005:

	Payable Beginning of Year	Additions	Retirements	Payable End of Year	Due Within One Year
Governmental funds					
Compensated Absences	\$ 5,761	\$ -	\$ 2,761	\$ 3,000	\$ -

6. Defined Benefit Pension Plans - Statewide

A. Plan Description

All full-time and certain part-time employees of the Town of Franklin 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 FRANKLIN
WRIGHT COUNTY, MINNESOTA**

6. Defined Benefit Pension Plans - Statewide

A. Plan Description (Continued)

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

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the 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.

B. 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 FRANKLIN
WRIGHT COUNTY, MINNESOTA**

6. Defined Benefit Pension Plans - Statewide

B. Funding Policy (Continued)

Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. The Town is required to contribute the following percentages of annual covered payroll:

In 2005

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

In 2006

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

The Town's contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003, were \$6,380, \$5,757, and \$6,191, respectively, equal to the contractually required contributions for each year as set by state statute.

7. Risk Management

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. This is a self-insurance program. Approximately 1,700 towns participate in the program. The Town has the following coverage with MATIT: public officials' errors and omissions; inland marine; general liability; automobile; and workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

The Town also carries commercial insurance for its employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. There has been no reduction in coverage from the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 141,904	\$ 129,651	\$ (12,253)
Taxes - other	-	4,080	4,080
Special assessments	1,721	1,048	(673)
Intergovernmental			
State aid and credits	-	12,965	12,965
County aid and grants	11,396	7,708	(3,688)
Other	2,275	-	(2,275)
Charges for services	-	6,968	6,968
Investment earnings	475	1,382	907
Miscellaneous	-	322	322
Total Revenues	\$ 157,771	\$ 164,124	\$ 6,353
Expenditures			
Current			
General government			
Salaries and benefits	\$ 39,600	\$ 50,004	\$ (10,404)
Administrative expenses	6,700	6,245	455
Insurance	4,600	4,539	61
Assessor	14,000	14,417	(417)
Professional services	23,650	17,658	5,992
Utilities	1,900	1,522	378
Supplies	2,950	3,294	(344)
Elections	2,100	2,589	(489)
Total general government	\$ 95,500	\$ 100,268	\$ (4,768)
Sanitation			
Waste and recycling collection	27,200	25,678	1,522
Culture and recreation			
Community activities	4,500	2,500	2,000
Capital Outlay			
General government	1,650	1,167	483
Total Expenditures	\$ 128,850	\$ 129,613	\$ (763)
Excess of Revenues Over (Under) Expenditures	\$ 28,921	\$ 34,511	\$ 5,590
Fund Balance - January 1	41,680	41,680	-
Fund Balance - December 31	\$ 70,601	\$ 76,191	\$ 5,590

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Taxes	\$ 558,097	\$ 512,625	\$ (45,472)
Special assessments	9,037	9,799	762
Intergovernmental			
State aids and credits	26,883	79,603	52,720
County aids and grants	-	4,348	4,348
Other	-	13,463	13,463
Charges for services	3,500	9,278	5,778
Interest earnings	1,900	11,577	9,677
Miscellaneous	-	1,370	1,370
	\$ 599,417	\$ 642,063	\$ 42,646
Expenditures			
Highways and streets			
Current			
Roads			
Salaries and benefits	\$ 65,600	\$ 66,725	\$ (1,125)
Dust control	70,000	66,856	3,144
Professional fees	60,100	97,306	(37,206)
Road maintenance materials	160,700	129,318	31,382
Equipment repair and supplies	31,400	18,997	12,403
Utilities	3,000	2,280	720
Insurance	9,700	9,111	589
Other	525	424	101
Snow and ice removal			
Salaries and benefits	23,950	31,832	(7,882)
Other	10,000	16,634	(6,634)
Capital outlay	141,175	16,619	124,556
	\$ 576,150	\$ 456,102	\$ 120,048
Excess of Revenues Over (Under) Expenditures	\$ 23,267	\$ 185,961	\$ 162,694
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	-	18,000	18,000
Net Change in Fund Balance	\$ 23,267	\$ 203,961	\$ 180,694
Fund Balance - January 1	618,760	618,760	-
Fund Balance - December 31	\$ 642,027	\$ 822,721	\$ 180,694

**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FIRE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues			
Special assessments	\$ 163,352	\$ 162,441	\$ (911)
Expenditures			
Public safety			
Current			
Fire protection	163,352	154,768	8,584
Excess of Revenues Over (Under)			
Expenditures	\$ -	\$ 7,673	\$ 7,673
Fund Balance - January 1	<u>23,771</u>	<u>23,771</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 23,771</u>	<u>\$ 31,444</u>	<u>\$ 7,673</u>

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**TOWN OF FRANKILIN
WRIGHT COUNTY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

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

2. Legal Compliance - Budgets

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In January, the Town Clerk-Treasurer prepares and assembles a proposed budget for approval by the Board.
2. Public hearings are conducted and a final tax levy and budget are adopted at the first town meeting in March.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Road and Bridge Fund, and Fire Fund.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles. No amendments were made to the original adopted budget.

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SUPPLEMENTARY INFORMATION

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

AGENCY FUND

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

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Statement 1

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ESCROWS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,768	\$ 63,564	\$ 26,548	\$ 39,784
Due from developers	3,388	-	3,388	-
Total Assets	\$ 6,156	\$ 63,564	\$ 29,936	\$ 39,784
<u>Liabilities</u>				
Due to developers	\$ 6,156	\$ 63,564	\$ 29,936	\$ 39,784

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**TOWN OF FRANKLIN
WRIGHT COUNTY, MINNESOTA**

Schedule 4

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

05-1 Segregation of Duties

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

Client's Response:

We are aware of this, and we continue to take steps whenever possible to provide for segregation of duties. We will continue to do our best to maintain internal control as much as possible.

05-2 Accounting Policies and Procedures

The Town does not have any formalized accounting policies and procedures. Written policies and procedures should exist to set forth requirements to account for such matters as the receipt and deposit of funds; purchase of goods and services; approval and payment of bills, record keeping for payroll activities, reconciliation of bank accounts, and accounting for capital assets. Without written policies and procedures to follow, there can be no assurance that accounting records will be maintained as intended and consistent from year to year.

We recommend that the Town develop written policies and procedures for its financial activities and that they be adopted by the Board of Supervisors.

Client's Response:

We will develop written policies and procedures for our financial records, for the Board to adopt, to ensure consistency from year to year.

05-3 Cash Disbursement Procedures

Our review of cash disbursement procedures found the following:

- Vendor invoices do not contain initials and dates of individuals approving the invoices for payment. Initials of an authorized official of the Town would indicate a review for the appropriateness of the invoice has occurred.
- Vendor invoices are not canceled to indicate payment has been made. This should be done to avoid a second payment from occurring for the same invoice. This procedure can be accomplished by marking each invoice with the check number and date the invoice was paid.

We recommend that the Town implement procedures to include written approvals and cancellations on the invoices.

Client's Response:

The Clerk-Treasurer will initial each page of each invoice to indicate approval for payment. Once payment has been made, the Clerk-Treasurer will stamp each page of each invoice with a paid stamp.

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-4 Open Store Accounts

The Town maintains an open store account with a local merchant. However, no written policies exist that set forth requirements for using this account. Written policies would provide guidance for current and future staff, as well as Board members.

We recommend that the Board of Supervisors adopt a policy for the use of open store accounts.

Client's Response:

By resolution, the Board will adopt a policy at its May 1, 2006, meeting, addressing what the Phillips 66 credit card is to be used for and specifying who can use it.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Town Board of Supervisors
Town of Franklin

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Franklin as of and for the year ended December 31, 2005, and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

In planning and performing our audit, we considered the Town of Franklin'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 an opinion 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. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 05-1 through 05-3.

A material weakness is a reportable 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 caused by error or fraud 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 item 05-1 to be a material weakness.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

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

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 31, 2006