

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**TOWN OF LIVONIA**  
**SHERBURNE 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.

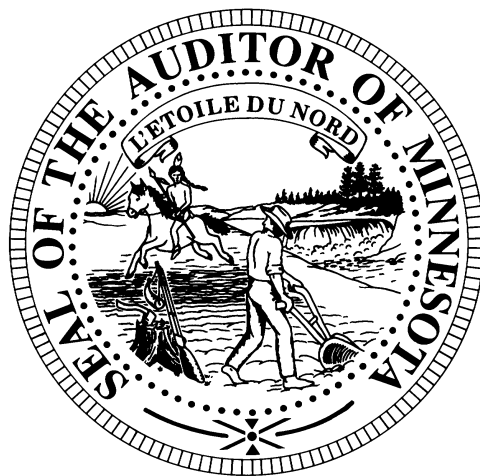
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**Year Ended December 31, 2005**



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

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2005

	<u>Term Expires</u>
Town Board	
Supervisors	
Donald Sherper	March 2008
Roger Wallin	March 2007
Chris Pensinger	March 2006
Michael Kerr	March 2007
Nancy Fordahl	March 2006
Officers	
Clerk/Treasurer	
Lila Spencer	Indefinite

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors  
Town of Livonia

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Livonia'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 17, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(Unaudited)**

As management of the Town of Livonia, Sherburne County, Minnesota, we offer readers of Livonia's financial statements this narrative overview and analysis of the financial activities of the Town of Livonia for the fiscal year ended December 31, 2005.

**FINANCIAL HIGHLIGHTS**

- The assets of the Town of Livonia exceeded its liabilities at the close of the most recent fiscal year by \$10,954,760. Of this amount, \$407,534 may be used to meet the Town's ongoing obligations to citizens and creditors in accordance with the Town's fund designations and fiscal policies.
- The Town's total net assets increased by \$492,313.
- At the close of the current fiscal year, the Town of Livonia's governmental funds reported a combined ending fund balance of \$513,946, a decrease of \$39,689 in comparison with the prior year. Of the \$513,946, \$383,976 is available for spending at the Town's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$155,284.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Town of Livonia's basic financial statements. Livonia's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Livonia's finances in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements report functions of the Town of Livonia that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town of Livonia include general government, public safety, highways and streets, culture and recreation, cemetery, and conservation of natural resources.

The government-wide financial statements can be found on pages 13 and 14 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The Town of Livonia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental functions and governmental activities.

The Town of Livonia maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Landfill Mitigation Fund, and Fire Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

### Fiduciary Funds

Fiduciary funds are agency funds used to account for assets held by a governmental unit in a trustee capacity or as an agent. The Town of Livonia maintains an Escrow Agency Fund. The agency fund financial statement can be found on page 19. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the government-wide financial statements because those resources are not available to support the Town's programs.

### **Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 33 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information demonstrating the Town of Livonia's compliance with its adopted budgets for the General Fund and major special revenue funds. These budgetary comparison schedules can be found on pages 34 through 37 of this report.

The combining statements referred to earlier in conjunction with nonmajor governmental funds are presented immediately following the required supplementary information on the budgetary comparison schedules. Combining and individual fund statements can be found on pages 39 through 44.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Livonia, assets exceeded liabilities by \$10,954,760 at the close of the most recent fiscal year.

By far the largest portion of the Town of Livonia’s net assets, 95.2 percent, reflects its investment in capital assets (land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets still outstanding. The Town of Livonia uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Assets  
Governmental Activities**

	2005	2004
<b>Assets</b>		
Current assets	\$ 574,401	\$ 614,849
Capital assets	10,627,941	10,150,747
Total Assets	\$ 11,202,342	\$ 10,765,596
<b>Liabilities</b>		
Long-term debt outstanding	\$ 200,123	\$ 253,261
Other liabilities	47,459	49,888
Total Liabilities	\$ 247,582	\$ 303,149
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 10,427,818	\$ 9,897,486
Restricted	119,408	135,780
Unrestricted	407,534	429,181
Total Net Assets	\$ 10,954,760	\$ 10,462,447

The remaining balance of the Town of Livonia’s net assets are restricted net assets (1.1 percent) that can be used only for landfill mitigation and debt service; unrestricted net assets (3.7 percent) may be used to meet the Town’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Livonia is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental funds.

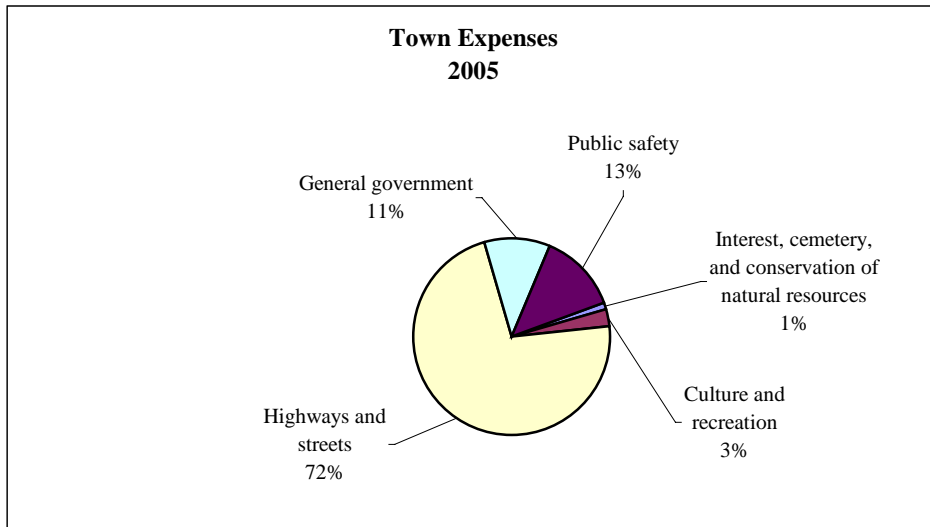
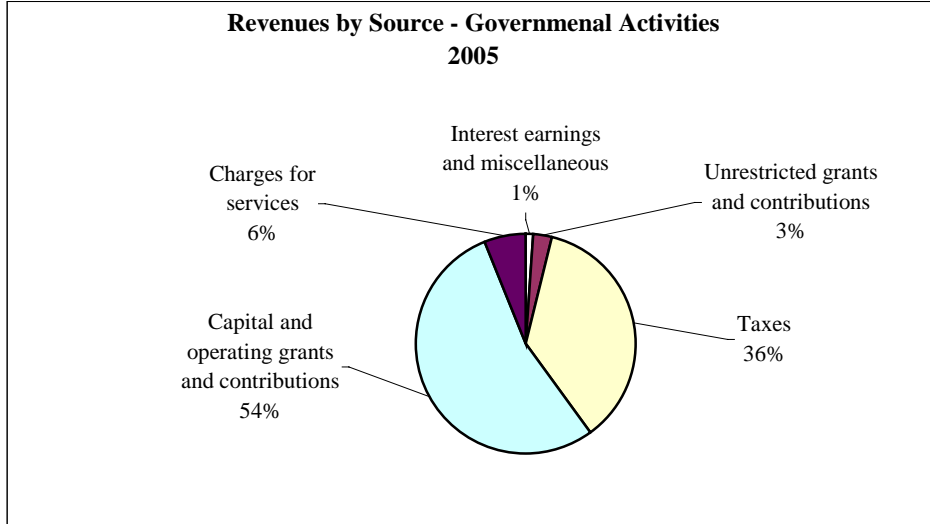
Governmental activities increased the Town of Livonia’s net assets by \$492,313. The most significant change in governmental net assets is due to the effect of accounting for net assets under the full accrual basis. Under full accrual accounting, current year outlay for infrastructure will be expensed over the useful life of the infrastructure. This capital outlay for the infrastructure is budgeted for during the current year.

The following chart summarizes the changes in net assets

**Changes in Net Assets  
Governmental Activities**

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 90,297	\$ 38,260
Operating grants and contributions	8,732	263,770
Capital grants and contributions	24,430	1,780
Developers' contributions	829,292	657,351
General revenues		
Property taxes	536,955	482,519
Payment in lieu of taxes	173	188
Other taxes	28,500	21,643
Lease revenues	-	158,979
Rent	-	8,956
Grants and contributions not restricted	56,130	55,808
Unrestricted investment earnings	7,171	7,275
Miscellaneous	1,545	34,784
Total Revenues	<u>\$ 1,583,225</u>	<u>\$ 1,731,313</u>
Expenses		
General government	\$ 114,690	\$ 113,572
Public safety	140,800	134,395
Highways and streets	781,744	508,770
Culture and recreation	37,625	62,558
Conservation of natural resources	4,760	12,751
Cemetery	1,735	1,189
Interest on long-term debt	9,558	16,629
Total Expenses	<u>\$ 1,090,912</u>	<u>\$ 849,864</u>
Increase in Net Assets	\$ 492,313	\$ 881,449
Net Assets - Beginning of Year	<u>10,462,447</u>	<u>9,580,998</u>
Net Assets - End of Year	<u>\$ 10,954,760</u>	<u>\$ 10,462,447</u>

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



**FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS**

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

## **Governmental Funds**

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

As of the end of the current fiscal year, the Town of Livonia's governmental funds reported combined ending fund balances of \$513,946. Of that amount, \$383,976 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service--\$19,408; (2) for landfill mitigation--\$100,000; and (3) reserved for road and bridge encumbrances--\$10,562.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$155,284. The fund balance of the Town's General Fund increased by \$39,698 during the current fiscal year. Overall, the General Fund revenues were above the budget primarily due to an increase in intergovernmental aids and grants and charges for services.

The Road and Bridge Fund balance was \$130,105 at the end of the current fiscal year, of which \$119,543 was unreserved and \$10,562 was reserved. The Road and Bridge Fund balance decreased by \$92,072 during the current fiscal year due to increased highways and streets expenditures.

The Landfill Mitigation Fund balance was \$100,000 at the end of the current fiscal year, with the full amount being reserved. The Landfill Mitigation Fund balance decreased by \$35,780 during the current fiscal year.

The Fire Fund balance was \$29,365 at the end of the current fiscal year, all of which was unreserved. The Fire Fund balance increased by \$2,140 during the fiscal year.

### **General Fund Budgetary Highlights**

No amendments to the original budget were made during the year; the original budget and the final amended budget were the same.

Revenues were \$16,640 over budget primarily due to an increase in intergovernmental aids and grants and charges for services. Expenditures came in under the budgeted amounts by \$23,058 due to decreased spending in general government.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Town of Livonia's investment in capital assets for its governmental funds as of December 31, 2005, amounts to \$10,627,941 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and furniture, vehicles, machinery and equipment, other capital assets, and infrastructure. Most of the Town's increase within the governmental activities can be found in the addition of constructed streets and equipment purchases.

	<b>Capital Assets</b>	
	<b>(Net of Depreciation)</b>	
	Governmental Activities	
	2005	2004
Land	\$ 621,950	\$ 621,950
Buildings and improvements	385,082	391,797
Equipment	131,261	133,159
Infrastructure	9,489,648	9,003,841
Total Capital Assets	\$ 10,627,941	\$ 10,150,747

### Long-Term Debt

At the end of the current fiscal year, the Town of Livonia had total long-term debt outstanding of \$200,123. This amount is supported through tax levy. All outstanding debt carries the general obligation backing for which the Town is liable in the event of default by the property owners subject to the specific taxes, special assessments, or revenues pledged to the retirement of the debt.

	<b>Outstanding Debt</b>	
	2005	2004
Certificates of indebtedness	\$ 200,123	\$ 245,329
Capital lease	-	7,932
Total Indebtedness	\$ 200,123	\$ 253,261

At the beginning of the current fiscal year, total Town indebtedness was \$253,261. Of this amount, \$53,138 was retired during 2005, leaving total indebtedness of \$200,123 at the close of the current fiscal year. The indebtedness is supported by tax levy.



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Based on Sherburne County statistics, 106 new homes were built in Livonia Township during 2005 for a valuation of \$16,607,000. There were 111 other miscellaneous building permits issued for a valuation of \$1,074,000. The 2005 population estimate for the Town is 5,354.
- In 2005, the Town of Livonia recommended approval of 11 new plats. The 11 new plats consist of 358 acres which created 77 new lots. At the end of 2005, 15,098 acres remain unplatted within the township. The number of acres remaining unplatted in 2005 increased from 2004 due to County reporting methods.
- The 2006 levy was certified at \$639,495, which represents an increase of approximately 9 percent from 2005. The 2006 net tax capacity for Livonia Township is \$4,455,058, and the tax rate is 15.977 percent.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the the Town of Livonia's finances for all of those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Clerk/Treasurer, Town of Livonia, P. O. Box 388, Zimmerman, Minnesota 55398.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**EXHIBIT 1**

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

**Assets**

Cash and pooled investments	\$	509,690
Taxes receivable		
Current		22,905
Delinquent		15,827
Accounts receivable		4,043
Interest receivable		782
Due from other governments		11,164
Prepaid items		9,990
Capital assets		
Land		621,950
Other capital assets, net of depreciation		10,005,991
		10,005,991
<b>Total Assets</b>	<b>\$</b>	<b>11,202,342</b>

**Liabilities**

Accounts payable	\$	10,324
Salaries payable		7,446
Contracts payable		8,011
Deposits payable		18,847
Interest payable		2,831
Certificate of indebtedness payable - due within one year		47,058
Certificate of indebtedness payable - due in more than one year		153,065
		153,065
<b>Total Liabilities</b>	<b>\$</b>	<b>247,582</b>

**Net Assets**

Invested in capital assets, net of related debt	\$	10,427,818
Restricted for		
Landfill mitigation		100,000
Debt service		19,408
Unrestricted		407,534
		407,534
<b>Total Net Assets</b>	<b>\$</b>	<b>10,954,760</b>

**TOWN OF LIVONIA  
SHERBURNE 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
<b>Functions/Programs</b>				
<b>Governmental activities</b>				
General government	\$ 114,690	\$ 35,588	\$ 8,732	\$ (70,370)
Public safety	140,800	-	-	(140,800)
Highways and streets	781,744	28,998	-	100,976
Culture and recreation	37,625	22,761	-	(14,864)
Cemetery	1,735	2,950	-	1,215
Conservation of natural resources	4,760	-	-	(4,760)
Interest on long-term debt	9,558	-	-	(9,558)
<b>Total governmental activities</b>	<b><u>\$ 1,090,912</u></b>	<b><u>\$ 90,297</u></b>	<b><u>\$ 8,732</u></b>	<b><u>\$ (138,161)</u></b>
 <b>General Revenues</b>				
Property taxes				\$ 536,955
Payments in lieu of tax				173
Other taxes				28,500
Grants and contributions not restricted for a specific purpose				56,130
Investment earnings				7,171
Miscellaneous				1,545
<b>Total general revenues</b>				<b><u>\$ 630,474</u></b>
<b>Change in net assets</b>				<b><u>\$ 492,313</u></b>
<b>Net Assets - Beginning of Year</b>				<b><u>10,462,447</u></b>
<b>Net Assets - End of Year</b>				<b><u>\$ 10,954,760</u></b>



**FUND FINANCIAL STATEMENTS**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**EXHIBIT 3**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Landfill Mitigation</u>	<u>Fire Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 141,690	\$ 146,583	\$ 100,000	\$ 23,283	\$ 98,134	\$ 509,690
Taxes receivable						
Current	6,653	10,337	-	5,151	764	22,905
Delinquent	3,961	6,298	-	3,244	2,324	15,827
Accounts receivable	3,941	34	-	-	68	4,043
Accrued interest receivable	679	-	-	-	103	782
Due from other governments	4,047	6,047	-	931	139	11,164
Prepaid items	4,778	5,212	-	-	-	9,990
<b>Total Assets</b>	<b>\$ 165,749</b>	<b>\$ 174,511</b>	<b>\$ 100,000</b>	<b>\$ 32,609</b>	<b>\$ 101,532</b>	<b>\$ 574,401</b>
<b><u>Liabilities and Fund Balance</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,108	\$ 7,213	\$ -	\$ -	\$ 3	\$ 10,324
Salaries payable	3,196	4,237	-	-	13	7,446
Contracts payable	-	8,011	-	-	-	8,011
Deposits payable						
Hall	200	-	-	-	-	200
Construction	-	1,100	-	-	-	1,100
Right-of-way utilities	-	359	-	-	-	359
Signs	-	16,413	-	-	-	16,413
Driveway	-	775	-	-	-	775
Deferred revenue - delinquent taxes	3,961	6,298	-	3,244	2,324	15,827
<b>Total Liabilities</b>	<b>\$ 10,465</b>	<b>\$ 44,406</b>	<b>\$ -</b>	<b>\$ 3,244</b>	<b>\$ 2,340</b>	<b>\$ 60,455</b>
<b>Fund Balance</b>						
Reserved for						
Encumbrances	\$ -	\$ 10,562	\$ -	\$ -	\$ -	\$ 10,562
Landfill mitigation	-	-	100,000	-	-	100,000
Debt service	-	-	-	-	19,408	19,408
Unreserved						
Undesignated	155,284	119,543	-	29,365	-	304,192
Reported in nonmajor Special revenue funds	-	-	-	-	79,784	79,784
<b>Total Fund Balance</b>	<b>\$ 155,284</b>	<b>\$ 130,105</b>	<b>\$ 100,000</b>	<b>\$ 29,365</b>	<b>\$ 99,192</b>	<b>\$ 513,946</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 165,749</b>	<b>\$ 174,511</b>	<b>\$ 100,000</b>	<b>\$ 32,609</b>	<b>\$ 101,532</b>	<b>\$ 574,401</b>

**TOWN OF LIVONIA  
SHERBURNE 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** **\$ 513,946**

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	\$	621,950	
Buildings and improvements, net of \$31,292 accumulated depreciation		385,082	
Office equipment and other equipment, net of \$175,461 accumulated depreciation		131,261	
Infrastructure, net of \$5,400,305 accumulated depreciation		9,489,648	10,627,941

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 15,827

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for certificates of indebtedness is included in the statement of net assets. (2,831)

Long-term liabilities that pertain to governmental funds, including certificates of indebtedness, 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 payable (200,123)

**Total net assets of governmental activities** **\$ 10,954,760**

**TOWN OF LIVONIA  
SHERBURNE 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>Landfill Mitigation</u>	<u>Fire Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 140,137	\$ 217,741	\$ -	\$ 108,500	\$ 73,543	\$ 539,921
Gravel tax	-	15,476	-	-	-	15,476
Special assessments	1,420	-	-	-	-	1,420
Intergovernmental	26,643	52,427	-	13,735	2,038	94,843
Charges for services	5,269	28,998	-	-	46,073	80,340
Investment earnings	6,483	-	63	-	626	7,172
Cable franchise fees	11,885	-	-	-	-	11,885
Hall rent	400	-	-	-	-	400
Miscellaneous	193	-	-	-	1,110	1,303
<b>Total Revenues</b>	<b>\$ 192,430</b>	<b>\$ 314,642</b>	<b>\$ 63</b>	<b>\$ 122,235</b>	<b>\$ 123,390</b>	<b>\$ 752,760</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 103,988	\$ -	\$ -	\$ -	\$ -	\$ 103,988
Public safety	20,705	-	-	120,095	-	140,800
Highways and streets	6,279	375,250	30,440	-	-	411,969
Culture and recreation	17,000	-	-	-	20,625	37,625
Cemetery	-	-	-	-	1,735	1,735
Conservation of natural resources	4,760	-	-	-	-	4,760
<b>Capital outlay</b>						
General government	-	-	5,403	-	-	5,403
Highways and streets	-	22,977	-	-	-	22,977
<b>Debt service</b>						
Principal retirement	-	7,932	-	-	45,206	53,138
Interest	-	555	-	-	9,499	10,054
<b>Total Expenditures</b>	<b>\$ 152,732</b>	<b>\$ 406,714</b>	<b>\$ 35,843</b>	<b>\$ 120,095</b>	<b>\$ 77,065</b>	<b>\$ 792,449</b>
<b>Excess of Revenues Over (Under ) Expenditures</b>	<b>\$ 39,698</b>	<b>\$ (92,072)</b>	<b>\$ (35,780)</b>	<b>\$ 2,140</b>	<b>\$ 46,325</b>	<b>\$ (39,689)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 596	\$ 596
Transfers out	-	-	-	-	(596)	(596)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 39,698</b>	<b>\$ (92,072)</b>	<b>\$ (35,780)</b>	<b>\$ 2,140</b>	<b>\$ 46,325</b>	<b>\$ (39,689)</b>
<b>Fund Balance - January 1</b>	<b>115,586</b>	<b>222,177</b>	<b>135,780</b>	<b>27,225</b>	<b>52,867</b>	<b>553,635</b>
<b>Fund Balance - December 31</b>	<b>\$ 155,284</b>	<b>\$ 130,105</b>	<b>\$ 100,000</b>	<b>\$ 29,365</b>	<b>\$ 99,192</b>	<b>\$ 513,946</b>

**TOWN OF LIVONIA  
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, 2005**

**Net change in fund balances - total governmental funds** **\$ (39,689)**

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

Governmental funds report capital outlay as expenditures. However, in the statement of 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	\$ 28,380	
Depreciation expense	<u>(380,477)</u>	(352,097)

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 statement of activities, these developer-contributed capital assets are recognized as a long-term financial resource.

829,291

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

Principal payments for capital leases		7,932
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The governmental funds report debt proceeds as financing sources, while repayment of debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities, and repayment of principal reduces liabilities; neither has any effect on the statement of activities. Also, governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation debt and related items is as follows:

Repayment of certificate of indebtedness principal	\$ 45,206	
Change in accrued interest expense for certificates of indebtedness	<u>497</u>	45,703

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

Deferred revenue - December 31, 2004	\$ (14,654)	
Deferred revenue - December 31, 2005	<u>15,827</u>	<u>1,173</u>

**Change in net assets of governmental activities** **\$ 492,313**

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*EXHIBIT 7*

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

<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 246,380</u>
<b><u>Liabilities</u></b>	
Due to developers	<u>\$ 246,380</u>

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The financial statements of the Town of Livonia have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). 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, that do not conflict 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 Livonia is a town located in Sherburne County, Minnesota. It is governed by an elected Board of five 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 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 LIVONIA**  
**SHERBURNE COUNTY, MINNESOTA**

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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. The fiduciary fund is reported only in the statement of fiduciary net assets at the fund financial statement level.

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 that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

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. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. 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. All remaining governmental funds are aggregated and reported as nonmajor funds.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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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 specific purposes.

The Landfill Mitigation Fund is used to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

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

Additionally, the Town reports the following nonmajor funds:

Special Revenue Funds

The special revenue funds account for the proceeds of specific revenue resources legally restricted to expenditures for specified purposes. These include the Capital Reserve Fund, Cemetery Fund, Park and Recreation Fund, and Sugar Bush Donation Fund.

Debt Service Fund

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

Capital Projects Fund

The Street Improvement Fund Capital Projects Fund is used to account for financial resources to be used for acquisition or construction of major capital facilities or infrastructure. For the year ended December 31, 2005, the Capital Projects Fund had no activity.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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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 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.

D. Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted for the following funds: General, Road and Bridge, Cemetery, Fire, Park and Recreation, Debt Service, and Capital Projects 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.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Budgets (Continued)

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. At the Town's annual meeting which is held each year the second Tuesday in March, the electors approve the proposed budget and levy for the next calendar year. The annual meeting is recessed to a later specific date and time, usually in August, for the purpose of certifying the levy. This allows for adjustments that may be necessary due to legislative changes.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund and certain special revenue, debt service, and capital projects funds.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles. No amendments were made to the original adopted budget.

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, 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 \$7,171.

2. Accounts Receivable

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

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Taxes Receivable

Taxes that remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes 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 have been provided as such amounts are not expected to be material.

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 10 years for office furnishings, office and computer equipment, and vehicles and large equipment; 20 to 50 years for infrastructure; and 40 to 50 years for buildings and plants. Capital assets not being depreciated include land and construction in progress.

5. Compensated Absences

Regular full-time employees and regular part-time employees working 20 or more hours per week earn sick leave and vacation benefits. Sick leave is earned at 3.33 hours per month for regular full-time employees and at half of the full-time rate for regular part-time employees as defined above. There is no carryover of sick leave from one calendar year to the next.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

5. Compensated Absences (Continued)

Vacation leave accrues monthly based on the number of years of service from a minimum of 40 hours per year to a maximum of 120 hours per year. Vacation must be taken in the calendar year in which it is earned. There is no carryover of vacation from one calendar year to the next.

6. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Issuance costs, if material, are reported as prepaid items and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, premiums and discounts, as well as issuance costs, are recognized during the current period. The face amount of the debt issue is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. 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.

8. 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 that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

8. Interfund Transactions (Continued)

During 2005, \$596 was transferred to the Debt Service Fund from the Sugar Bush Donation Special Revenue Fund to close the Sugar Bush Fund.

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

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

Actual expenditures exceeded 2005 budgets in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Expenditures Over Budget</u>
Special Revenue Funds (major)			
Road and Bridge Fund	\$ 318,678	\$ 406,714	\$ 88,036
Fire Fund	120,000	120,095	95
Special Revenue Funds (nonmajor)			
Cemetery Fund	1,500	1,735	235
Park and Recreation Fund	17,808	20,625	2,817

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		\$ 509,690
Fiduciary statement of net assets		
Cash - Agency Fund		<u>246,380</u>
Total Cash and Pooled Investments		<u>\$ 756,070</u>
Deposits		
Checking account		\$ 4,157
Savings accounts		604,914
Certificates of deposit		<u>146,999</u>
Total Deposits		<u>\$ 756,070</u>



**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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3. Deposits and Investments (Continued)

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 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.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

4. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not depreciated				
Land	\$ 621,950	\$ -	\$ -	\$ 621,950
Capital assets depreciated				
Buildings	\$ 416,373	\$ -	\$ -	\$ 416,373
Equipment	278,342	28,380	-	306,722
Infrastructure	14,060,662	829,291	-	14,889,953
Total capital assets depreciated	<u>\$ 14,755,377</u>	<u>\$ 857,671</u>	<u>\$ -</u>	<u>\$ 15,613,048</u>
Less: accumulated depreciation for				
Buildings	\$ 24,576	\$ 6,715	\$ -	\$ 31,291
Equipment	145,183	30,278	-	175,461
Infrastructure	5,056,821	343,484	-	5,400,305
Total accumulated depreciation	<u>\$ 5,226,580</u>	<u>\$ 380,477</u>	<u>\$ -</u>	<u>\$ 5,607,057</u>
Total capital assets depreciated, net	<u>\$ 9,528,797</u>	<u>\$ 477,194</u>	<u>\$ -</u>	<u>\$ 10,005,991</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,150,747</u>	<u>\$ 477,194</u>	<u>\$ -</u>	<u>\$ 10,627,941</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 10,702
Public works	<u>369,775</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 380,477</u>

5. Long-Term Liabilities

A. Components of Long-Term Debt

<u>Description</u>	<u>Initial Amount Issued</u>	<u>Maturity Date</u>	<u>Net Interest Rate</u>	<u>Outstanding Principal</u>
Certificates of Indebtedness				
2004 Certificate of Indebtedness	\$ 200,000	2009	3.90%	\$ 163,029
Equipment Certificate of Indebtedness	<u>45,329</u>	2009	4.75%	<u>37,094</u>
Total Certificates of Indebtedness	<u>\$ 245,329</u>			<u>\$ 200,123</u>
Capital lease obligation				
Ziegler - Front-end loader	<u>\$ 44,800</u>	2005	7.00%	<u>\$ -</u>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

5. Long-Term Liabilities

A. Components of Long-Term Debt (Continued)

1. Certificates of Indebtedness

The 2004 Certificate of Indebtedness was issued to provide funds to pay off the contract for deed for the original purchase of the Sugar Bush Park land. The Equipment Certificate of Indebtedness was issued to provide funds for the purchase of a new maintenance truck.

2. Capital Lease Obligation

The Town entered into a capital lease agreement for the purchase of a front-end loader during 2000. The lease obligation was paid off in 2005.

B. Changes in Long-Term Debt

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	End of Year	Due Within One Year
Certificates of indebtedness	\$ 245,329	\$ -	\$ 45,206	\$ 200,123	\$ 47,058
Capital lease obligation	7,932	-	7,932	-	-
Total	<u>\$ 253,261</u>	<u>\$ -</u>	<u>\$ 53,138</u>	<u>\$ 200,123</u>	<u>\$ 47,058</u>

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Years	Long-Term Debt	
	Principal	Interest
2006	\$ 47,058	\$ 7,648
2007	48,986	5,720
2008	50,994	3,712
2009	53,085	1,621
Totals	<u>\$ 200,123</u>	<u>\$ 18,701</u>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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6. Defined Benefit Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Town of Livonia 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.

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.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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6. Defined Benefit Pension Plans

A. Plan Description (Continued)

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](http://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 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 \$4,371, \$4,355, and \$3,182, respectively, equal to the contractually required contributions for each year as set by state statute.

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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7. Designations and Reservations of Fund Equity

At December 31, 2005, the Town had reserved or restricted portions of its various fund equities based upon legal restriction and authorization by the Town's Board. Major fund equity appropriations at December 31, 2005, are shown on the various balance sheets as segregations of the fund equity. A summary of such reservations is as follows:

Road and Bridge Fund	
Reserved for encumbrances	\$ 10,562
Landfill Mitigation Fund	
Reserved for landfill mitigation	100,000
Debt Service Fund	
Reserved for debt service	19,408

8. 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 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 carries commercial insurance for its employee health and accident, auto, general liability, and inland marine 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 LIVONIA  
SHERBURNE 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>
<b>Revenues</b>			
Taxes	\$ 138,713	\$ 140,137	\$ 1,424
Special assessments	1,000	1,420	420
Intergovernmental			
State aid and credits	16,277	16,303	26
County aid and grants	4,500	8,731	4,231
Other	-	1,609	1,609
Charges for services	4,000	5,269	1,269
Investment earnings	4,000	6,483	2,483
Cable fees	7,000	11,885	4,885
Hall rent	300	400	100
Miscellaneous	-	193	193
<b>Total Revenues</b>	<b>\$ 175,790</b>	<b>\$ 192,430</b>	<b>\$ 16,640</b>
<b>Expenditures</b>			
<b>Current</b>			
<b>General government</b>			
Supervisors	\$ 11,962	\$ 7,690	\$ 4,272
Publications	5,350	3,099	2,251
Clerk/Treasurer	39,221	36,065	3,156
Deputy Clerk/Treasurer	23,064	19,718	3,346
Elections	750	699	51
Financial auditing	5,000	7,672	(2,672)
Assessing	8,700	9,227	(527)
Legal	12,000	12,100	(100)
Town hall building	17,977	7,718	10,259
<b>Total general government</b>	<b>\$ 124,024</b>	<b>\$ 103,988</b>	<b>\$ 20,036</b>
<b>Public safety</b>			
Animal control	\$ 6,000	\$ 4,311	\$ 1,689
Planning and zoning	15,000	16,394	(1,394)
<b>Total public safety</b>	<b>\$ 21,000</b>	<b>\$ 20,705</b>	<b>\$ 295</b>
<b>Highways and streets</b>			
Clean-up day expenses	\$ 7,766	\$ 6,279	\$ 1,487
<b>Culture and recreation</b>			
Historical society	\$ 2,000	\$ 2,000	\$ -
Boys and girls club	5,000	5,000	-
Booster club	10,000	10,000	-
<b>Total culture and recreation</b>	<b>\$ 17,000</b>	<b>\$ 17,000</b>	<b>\$ -</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Schedule 1*  
*(Continued)*

**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>
<b>Expenditures (Continued)</b>			
<b>Conservation of natural resources</b>			
Oak wilt program	\$ 6,000	\$ 4,760	\$ 1,240
<b>    Total Expenditures</b>	<u>\$ 175,790</u>	<u>\$ 152,732</u>	<u>\$ 23,058</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ -	\$ 39,698	\$ 39,698
<b>Fund Balance - January 1</b>	<u>115,586</u>	<u>115,586</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 115,586</u>	<u>\$ 155,284</u>	<u>\$ 39,698</u>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Schedule 2*

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>			
Taxes	\$ 215,528	\$ 217,741	\$ 2,213
Gravel tax	3,500	15,476	11,976
Intergovernmental	49,208	52,427	3,219
Charges for services	50,442	28,998	(21,444)
<b>Total Revenues</b>	<b>\$ 318,678</b>	<b>\$ 314,642</b>	<b>\$ (4,036)</b>
<b>Expenditures</b>			
<b>Current</b>			
Highways and streets			
Road maintenance	\$ 256,705	\$ 305,430	\$ (48,725)
Snow and ice removal	41,132	35,073	6,059
Grading	3,187	2,116	1,071
Engineering	8,034	32,631	(24,597)
Miscellaneous	1,133	-	1,133
<b>Capital outlay</b>			
Highways and streets	-	22,977	(22,977)
<b>Debt service</b>			
Principal retirement	7,932	7,932	-
Interest	555	555	-
<b>Total Expenditures</b>	<b>\$ 318,678</b>	<b>\$ 406,714</b>	<b>\$ (88,036)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (92,072)</b>	<b>\$ (92,072)</b>
<b>Fund Balance - January 1</b>	<b>222,177</b>	<b>222,177</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 222,177</b>	<b>\$ 130,105</b>	<b>\$ (92,072)</b>

**TOWN OF LIVONIA  
SHERBURNE 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>
<b>Revenues</b>			
Taxes	\$ 107,397	\$ 108,500	\$ 1,103
Intergovernmental	12,603	13,735	1,132
<b>Total Revenues</b>	<b>\$ 120,000</b>	<b>\$ 122,235</b>	<b>\$ 2,235</b>
<b>Expenditures</b>			
<b>Current</b>			
Public safety			
Fire protection	120,000	120,095	(95)
<b>Excess of Revenues Over (Under)   Expenditures</b>	<b>\$ -</b>	<b>\$ 2,140</b>	<b>\$ 2,140</b>
<b>Fund Balance - January 1</b>	<b>27,225</b>	<b>27,225</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 27,225</b>	<b>\$ 29,365</b>	<b>\$ 2,140</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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

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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.

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**SUPPLEMENTARY INFORMATION**

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Statement 1*

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

	Special Revenue Funds			Total	Debt Service Fund	Total
	Capital Reserve	Cemetery	Park and Recreation			
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 25,799	\$ 16,180	\$ 36,747	\$ 78,726	\$ 19,408	\$ 98,134
Taxes receivable						
Current	-	-	764	764	-	764
Delinquent	-	-	951	951	1,373	2,324
Accounts receivable	34	-	34	68	-	68
Accrued interest receivable	-	103	-	103	-	103
Due from other governments	-	-	139	139	-	139
<b>Total Assets</b>	<b>\$ 25,833</b>	<b>\$ 16,283</b>	<b>\$ 38,635</b>	<b>\$ 80,751</b>	<b>\$ 20,781</b>	<b>\$ 101,532</b>
<b><u>Liabilities and Fund Balance</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 3	\$ -	\$ 3	\$ -	\$ 3
Salaries payable	-	-	13	13	-	13
Deferred revenue - delinquent taxes	-	-	951	951	1,373	2,324
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 964</b>	<b>\$ 967</b>	<b>\$ 1,373</b>	<b>\$ 2,340</b>
<b>Fund Balance</b>						
Reserved for Debt service	\$ -	\$ -	\$ -	\$ -	\$ 19,408	\$ 19,408
Unreserved Undesignated	25,833	16,280	37,671	79,784	-	79,784
<b>Total Fund Balance</b>	<b>\$ 25,833</b>	<b>\$ 16,280</b>	<b>\$ 37,671</b>	<b>\$ 79,784</b>	<b>\$ 19,408</b>	<b>\$ 99,192</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 25,833</b>	<b>\$ 16,283</b>	<b>\$ 38,635</b>	<b>\$ 80,751</b>	<b>\$ 20,781</b>	<b>\$ 101,532</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

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

	<b>Capital Reserve</b>	<b>Cemetery</b>
<b>Revenues</b>		
Taxes	\$ -	\$ -
Intergovernmental	-	-
Charges for services	20,362	2,950
Investment earnings	-	626
Miscellaneous	-	-
	-	-
<b>Total Revenues</b>	<b>\$ 20,362</b>	<b>\$ 3,576</b>
<b>Expenditures</b>		
<b>Current</b>		
Culture and recreation	\$ -	\$ -
Cemetery	-	1,735
<b>Debt service</b>		
Principal retirement	-	-
Interest	-	-
	-	-
<b>Total Expenditures</b>	<b>\$ -</b>	<b>\$ 1,735</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 20,362</b>	<b>\$ 1,841</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ -	\$ -
Transfers out	-	-
	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 20,362</b>	<b>\$ 1,841</b>
<b>Fund Balance - January 1</b>	<b>5,471</b>	<b>14,439</b>
<b>Fund Balance - December 31</b>	<b>\$ 25,833</b>	<b>\$ 16,280</b>

**Statement 2**

<b>Special Revenue Funds</b>				
<b>Park and Recreation</b>	<b>Sugar Bush Donation</b>	<b>Total</b>	<b>Debt Service Fund</b>	<b>Total</b>
\$ 16,102	\$ -	\$ 16,102	\$ 57,441	\$ 73,543
2,038	-	2,038	-	2,038
22,761	-	46,073	-	46,073
-	-	626	-	626
-	-	-	1,110	1,110
<b>\$ 40,901</b>	<b>\$ -</b>	<b>\$ 64,839</b>	<b>\$ 58,551</b>	<b>\$ 123,390</b>
\$ 20,625	\$ -	\$ 20,625	\$ -	\$ 20,625
-	-	1,735	-	1,735
-	-	-	45,206	45,206
-	-	-	9,499	9,499
<b>\$ 20,625</b>	<b>\$ -</b>	<b>\$ 22,360</b>	<b>\$ 54,705</b>	<b>\$ 77,065</b>
<b>\$ 20,276</b>	<b>\$ -</b>	<b>\$ 42,479</b>	<b>\$ 3,846</b>	<b>\$ 46,325</b>
\$ -	\$ -	\$ -	\$ 596	\$ 596
-	(596)	(596)	-	(596)
<b>\$ -</b>	<b>\$ (596)</b>	<b>\$ (596)</b>	<b>\$ 596</b>	<b>\$ -</b>
\$ 20,276	\$ (596)	\$ 41,883	\$ 4,442	\$ 46,325
17,395	596	37,901	14,966	52,867
<b>\$ 37,671</b>	<b>\$ -</b>	<b>\$ 79,784</b>	<b>\$ 19,408</b>	<b>\$ 99,192</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
CEMETERY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>			
Charges for services	\$ 500	\$ 2,950	\$ 2,450
Investment earnings	1,000	626	(374)
<b>Total Revenues</b>	<b>\$ 1,500</b>	<b>\$ 3,576</b>	<b>\$ 2,076</b>
<b>Expenditures</b>			
<b>Current</b>			
Cemetery	1,500	1,735	(235)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ 1,841</b>	<b>\$ (1,841)</b>
<b>Fund Balance - January 1</b>	<b>14,439</b>	<b>14,439</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 14,439</b>	<b>\$ 16,280</b>	<b>\$ (1,841)</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
PARK AND RECREATION SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>			
Taxes	\$ 15,938	\$ 16,102	\$ 164
Intergovernmental	1,870	2,038	168
Charges for services	-	22,761	22,761
	<b>\$ 17,808</b>	<b>\$ 40,901</b>	<b>\$ 23,093</b>
<b>Expenditures</b>			
<b>Current</b>			
Culture and recreation			
Parks	17,808	20,625	(2,817)
	<b>\$ -</b>	<b>\$ 20,276</b>	<b>\$ 20,276</b>
<b>Excess of Revenues Over (Under) Expenditures</b>			
	<b>\$ -</b>	<b>\$ 20,276</b>	<b>\$ 20,276</b>
<b>Fund Balance - January 1</b>	<b>17,395</b>	<b>17,395</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 17,395</b>	<b>\$ 37,671</b>	<b>\$ 20,276</b>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Schedule 6*

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>			
Taxes	\$ 57,441	\$ 57,441	\$ -
Miscellaneous	-	1,110	1,110
<b>Total Revenues</b>	<u>\$ 57,441</u>	<u>\$ 58,551</u>	<u>\$ 1,110</u>
<b>Expenditures</b>			
<b>Debt service</b>			
Principal retirement	\$ 47,598	\$ 45,206	\$ 2,392
Interest	9,843	9,499	344
<b>Total Expenditures</b>	<u>\$ 57,441</u>	<u>\$ 54,705</u>	<u>\$ 2,736</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>\$ -</u>	<u>\$ 3,846</u>	<u>\$ 3,846</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	596	596
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ 4,442</u>	<u>\$ 4,442</u>
<b>Fund Balance - January 1</b>	<u>14,966</u>	<u>14,966</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 14,966</u>	<u>\$ 19,408</u>	<u>\$ 4,442</u>

**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**AGENCY FUND**

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

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

*Statement 3*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>ESCROWS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 219,700	\$ 198,605	\$ 171,925	\$ 246,380
<b><u>Liabilities</u></b>				
Due to developers	\$ 219,700	\$ 217,806	\$ 191,126	\$ 246,380

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**TOWN OF LIVONIA  
SHERBURNE COUNTY, MINNESOTA**

**Schedule 7**

**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 Livonia, 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 agree with this statement.*

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:**

*In keeping with the recommendation made by your office, a policy and practices manual will be drafted this year for approval by the Town Board of Supervisors. This manual should serve as a management tool as well as an operating policy for Town employees.*

05-3 Payroll Activities

Our review of payroll activities found the following:

- Time sheets are signed by employees, but are not reviewed by anyone. We recommend that the time sheets be reviewed by a Board member and that they be signed and dated by the Board member.
- It appears leave time earned and taken by employees is not monitored. This could be accomplished by having a Board member review leave records when time sheets are reviewed.
- The Town's payroll policies do not address outstanding vacation and sick leave balances at termination. The policies should be updated to include the process to be followed in determining how much, if any, of the leave balances should be paid out at termination.

We recommend that the Board of Supervisors implement the above recommendations.

Client's Response:

*We agree with your recommendation.*

**MANAGEMENT PRACTICES**

ITEM ARISING THIS YEAR

05-4 Open Store Accounts

The Town maintains some open store accounts with local merchants. However, it has no written policies that set forth requirements for using these accounts. Written policies should exist to 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:

*We agree with your recommendation.*



# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
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PATRICIA ANDERSON  
STATE AUDITOR

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Town Board of Supervisors  
Town of Livonia

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Livonia as of and for the year ended December 31, 2005, and have issued our report thereon dated March 17, 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 Livonia 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 Livonia'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, we believe none of the reportable conditions listed 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 Livonia 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 17, 2006