

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

Year Ended December 31, 2004



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

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

	<u>Term Expires</u>
Town Board	
Supervisors	
Craig Owings	March 2005
Douglas J. Schaller***	March 2006
Roger Veldhuisen**	March 2006
Roger Quiram*	March 2007
Susan Pfeffer	March 2007
Officers Appointed	
Clerk/Treasurer	
Steven B. Flo	Indefinite

* Chair

** Vice-Chair

*** Ronald Weingartz appointed to fill position while incumbent is serving in Operation Enduring Freedom.

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of South Bend

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Bend, Blue Earth County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1.C., the Town's policy is to prepare its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund of the Town of South Bend, as of December 31, 2004, and the respective changes in cash basis financial position and cash flows, where applicable, thereof, and the respective budgetary comparison statements for the General Fund and the Road and Bridge, Fire, and Dike Special Revenue Funds for the year then ended in conformity with the cash basis of accounting described in Note 1.C.

The Management's Discussion and Analysis, preceding the Exhibits, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)

As management of the Town of South Bend, we offer readers of the Town of South Bend's financial statements this narrative overview and analysis of the financial activities of the Town of South Bend for the fiscal year ended December 31, 2004.

Financial Highlights

- The Town's net cash assets increased \$22,009 for the year. This increase was due primarily to utility operations.
- At the close of the fiscal year, the Town's governmental funds reported ending net cash balances of \$297,135. Of this amount, \$297,135 was available for spending at the Town's discretion.
- At the close of the fiscal year, the net cash balance of the General Fund represented 14.5 percent of total general fund disbursements for the year.
- At the end of the fiscal year, the Town had no debt obligations.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Town of South Bend's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of South Bend's finances, based on the cash basis of reporting.

The *statement of net cash assets* presents information on all of the Town's cash balance. Over time, increases or decreases in net cash assets may serve as a useful indicator of whether the financial position of the Town is improving or declining.

The *statement of activities arising from cash transactions* presents information showing how the Town's net cash assets changed during the fiscal year. All changes in net cash assets are based on the cash receipts and disbursements that have taken place for the fiscal year.

Both of the government-wide financial statements distinguish functions of the Town of South Bend that are principally supported by taxes and intergovernmental collections (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, and roads and streets. The business-type activities include a water and sewer system.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Town of South Bend, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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 are not concerned with the extent of fund activity required to be supported by taxes, grants, and other contributions. Governmental fund financial statements primarily report receipts and disbursements for the year.

The Town of South Bend maintains four individual governmental funds. Information is presented separately in the governmental fund statement of balances arising from cash transactions and in the governmental fund statement of cash receipts, disbursements, and changes in cash balances for the General Fund, Road and Bridge Fund, Fire Fund, and Dike Fund.

The Town of South Bend adopts an annual budget for its General Fund, Road and Bridge Fund, Fire Fund, and Dike Fund.

The basic governmental fund financial statements can be found on Exhibits 3 to 8 of this report.

Proprietary fund. The Town of South Bend maintains one proprietary fund, or enterprise fund. An *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water system and sewer system. An enterprise fund provides the same type of information as the government-wide financial statements, only in more detail. The enterprise fund noted above is considered to be a major fund of the Town of South Bend.

The basic enterprise fund financial statements can be found on Exhibits 9 to 11 of this report.

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 after the exhibits.

Government-Wide Financial Analysis

For the year ended December 31, 2004, the Town of South Bend's net cash assets increased by \$22,009. The increase was due primarily to enterprise activities.

Governmental activities. Governmental activities decreased the Town of South Bend's net cash assets by \$41,695. Key elements are as follows:

Changes In Net Cash Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Receipts						
Program receipts						
Fees and charges for services	\$ 19,398	\$ 21,063	\$ 96,897	\$ 95,598	\$ 116,295	\$ 116,661
Operating grants and contributions	18,815	24,398	-	-	18,815	24,398
Capital grants and contributions	45,932	-	-	-	45,932	-
General receipts						
Property tax levy general purposes	93,868	95,501	-	-	93,868	95,501
Local government aid	13,832	15,583	75	-	13,907	15,583
Investment earnings	7,348	10,062	2,582	1,892	9,930	11,954
Miscellaneous	-	11,025	11,576	-	11,576	11,025
Total receipts	\$ 199,193	\$ 177,632	\$ 111,130	\$ 97,490	\$ 310,323	\$ 275,122
Disbursements						
General government	\$ 19,733	\$ 75,220	\$ -	\$ -	\$ 19,733	\$ 75,220
Public safety	146,432	32,023	-	-	146,432	32,023
Roads and streets	74,723	87,840	-	-	74,723	87,840
Water and sewer	-	-	47,426	88,223	47,426	88,223
Total disbursements	\$ 240,888	\$ 195,083	\$ 47,426	\$ 88,223	\$ 288,314	\$ 283,306
Increase (decrease) in net cash assets	\$ (41,695)	\$ (17,451)	\$ 63,704	\$ 9,267	\$ 22,009	\$ (8,184)
Cash - January 1	338,830	356,281	196,384	187,117	535,214	543,398
Cash - December 31	\$ 297,135	\$ 338,830	\$ 260,088	\$ 196,384	\$ 557,223	\$ 535,214

- Property tax levies remained unchanged from the previous year.
- Disbursements for general government decreased from the previous year by \$55,487, because in the prior year the Town put a pitch roof and siding on the fire hall and had a survey done to properly locate an alley.
- Disbursements for roads and streets decreased from the previous year by \$13,117, because fewer contracts for road construction occurred.
- Disbursements for public safety increased from previous year by \$114,409, primarily because of FEMA and other fire equipment purchases.

Business-Type activities. Business-type activities increased the Town of South Bend’s net cash assets by \$63,704, accounting for 289 percent of the total increase in the Town’s net cash assets. Key elements of this increase are:

- An increase in rent income for water tower space and a decrease in sewage treatment costs.

Financial Analysis of the Government’s Funds

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

Governmental funds. The focus of the Town’s *governmental funds* is to provide information on the receipts, disbursements, and cash balances of the individual funds. Such information is useful in determining the availability of funds for specific uses.

The General Fund is the chief operating fund of the Town. The Road and Bridge Fund accounts for costs related to roads and streets in the Town. The Fire Fund accounts for costs related to fire protection for the Town’s residents. The Dike Fund accounts for costs related to maintenance of the Town dike.

	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
General Fund	\$ 74,484	\$ 137,813	\$ 20,003
Road and Bridge Fund	92,237	76,264	180,359
Fire Fund	20,992	20,992	1,000
Dike Fund	11,480	5,819	95,773

- The cash balance in the General Fund decreased by \$63,329 for the year, due to the purchase of fire fighting equipment for the fire department and the purchase of additional fire equipment, 90 percent of which will be reimbursed by FEMA funds received by the fire department.
- For the Road and Bridge Fund, fewer road projects took place in 2004, causing disbursements to decline from the previous year. Cash receipts remained consistent with the previous year, resulting in an overall increase in the fund’s cash balance of \$15,973 for the year.
- The Fire Fund balance remained the same as the previous year.
- The cash balance in the Dike Fund increased by \$5,661 for the year. For the second year, cash receipts slightly exceeded dike maintenance.

Proprietary fund. The Town of South Bend’s Proprietary Fund provides the same type of information found in the government-wide financial statements, but in more detail.

The Water and Sewer Fund is used to account for the operation and maintenance of the Town's water delivery system and fees collected from customers connected to the Town's water and sewer system. Interest from investments and rent receipts from water tower space are included in water and sewer fund activities.

	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
Water and Sewer Fund	\$ 111,130	\$ 47,426	\$ 260,088

- Water and sewer collections increased by \$1,299 from the previous year, virtually unchanged. Disbursements were less than anticipated, causing increases in the cash balance of the Utility Proprietary Fund.

Capital Asset and Debt Administration

Capital assets. Capital assets from governmental activities of the Town of South Bend consist of the town hall building and its related land, one grader, one dump truck, one tractor-loader, and office furniture and equipment located in the town hall. Capital assets from enterprise activities of the Town consist of the water plant, sewer and storm water lines, and equipment located at the water plant. Values for all these items have not been maintained, but a process will begin in 2005 to identify their historical costs.

Long-term debt. At the end of 2004, the Town of South Bend had no outstanding debt.

Economic Factors and Next Year's Rates

- The unemployment rate for Blue Earth County was 3.6 percent in 2003, which is consistent with the Town of South Bend's rate.
- Inflationary trends in the Town's region compare favorably with national levels.
- Tax levies for 2005 were approved at the Town's annual meeting in March 2004. The Board also decided not to change water and sewer rates.

This financial report is designed to provide a general overview of the Town of South Bend's finances for all 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 of South Bend's Clerk/Treasurer, 306 South McKinzie, Mankato, Minnesota 56001.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 1

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets		
Cash and cash equivalents	<u>\$ 297,135</u>	<u>\$ 260,088</u>
Net Cash Assets		
Unrestricted	<u>\$ 297,135</u>	<u>\$ 260,088</u>

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 2

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

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements), Receipts and Changes in Net Cash Assets		
		Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General government	\$ 19,733	\$ 7,780	\$ -	\$ -	\$ (11,953)	\$ -	\$ (11,953)
Public safety	146,432	9,837	-	45,932	(90,663)	-	(90,663)
Roads and streets	74,723	1,781	18,815	-	(54,127)	-	(54,127)
Total Governmental Activities	\$ 240,888	\$ 19,398	\$ 18,815	\$ 45,932	\$ (156,743)	\$ -	\$ (156,743)
Business-Type Activities							
Water and sewer	47,426	96,897	-	-	-	49,471	49,471
Total Primary Government	\$ 288,314	\$ 116,295	\$ 18,815	\$ 45,932	\$ (156,743)	\$ 49,471	\$ (107,272)
General Receipts							
Taxes							
Property taxes, levied for general purposes					\$ 93,868	\$ -	93,868
Local government aid					13,832	75	13,907
Investment earnings					7,348	2,582	9,930
Miscellaneous					-	11,576	11,576
Total General Receipts					\$ 115,048	\$ 14,233	\$ 129,281
Change in Net Cash Assets					\$ (41,695)	\$ 63,704	\$ 22,009
Cash - January 1					338,830	196,384	535,214
Cash - December 31					\$ 297,135	\$ 260,088	\$ 557,223

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 3

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

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Fire Fund</u>	<u>Dike Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	<u>\$ 20,003</u>	<u>\$ 180,359</u>	<u>\$ 1,000</u>	<u>\$ 95,773</u>	<u>\$ 297,135</u>
Cash Fund Balances					
Unreserved, reported in					
General Fund	\$ 20,003	\$ -	\$ -	\$ -	\$ 20,003
Special Revenue Funds	<u>-</u>	<u>180,359</u>	<u>1,000</u>	<u>95,773</u>	<u>277,132</u>
Total Cash Fund Balances	<u>\$ 20,003</u>	<u>\$ 180,359</u>	<u>\$ 1,000</u>	<u>\$ 95,773</u>	<u>\$ 297,135</u>

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 4

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

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Fire Fund</u>	<u>Dike Fund</u>	<u>Total Governmental Funds</u>
Receipts					
Taxes					
Property taxes	\$ 16,562	\$ 59,016	\$ 18,290	\$ -	\$ 93,868
Franchise fees	3,577	-	-	-	3,577
Total Taxes	\$ 20,139	\$ 59,016	\$ 18,290	\$ -	\$ 97,445
Special assessments	-	1,781	-	9,837	11,618
Licenses and permits	110	-	-	-	110
Intergovernmental	48,389	27,488	2,702	-	78,579
Investment earnings	2,490	3,215	-	1,643	7,348
Miscellaneous	3,356	737	-	-	4,093
Total Receipts	\$ 74,484	\$ 92,237	\$ 20,992	\$ 11,480	\$ 199,193
Disbursements					
Current					
General government	\$ 18,192	\$ 1,541	\$ -	\$ -	\$ 19,733
Public safety	2,890	-	20,992	5,819	29,701
Roads and streets	-	74,723	-	-	74,723
Capital outlay					
Public safety	116,731	-	-	-	116,731
Total Disbursements	\$ 137,813	\$ 76,264	\$ 20,992	\$ 5,819	\$ 240,888
Net Change in Cash Balances	\$ (63,329)	\$ 15,973	\$ -	\$ 5,661	\$ (41,695)
Cash - January 1	83,332	164,386	1,000	90,112	338,830
Cash - December 31	\$ 20,003	\$ 180,359	\$ 1,000	\$ 95,773	\$ 297,135

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 5

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 20,000	\$ 20,000	\$ 16,562	\$ (3,438)
Franchise fees	-	-	3,577	3,577
Licenses and permits	-	-	110	110
Intergovernmental	-	-	48,389	48,389
Investment earnings	-	-	2,490	2,490
Miscellaneous	-	-	3,356	3,356
Total Receipts	\$ 20,000	\$ 20,000	\$ 74,484	\$ 54,484
Disbursements				
Current				
General government	\$ -	\$ -	\$ 18,192	\$ (18,192)
Public safety	-	-	2,890	(2,890)
Capital outlay				
Public safety	-	-	116,731	(116,731)
Total Disbursements	\$ -	\$ -	\$ 137,813	\$ (137,813)
Net Change in Cash Balances	\$ 20,000	\$ 20,000	\$ (63,329)	\$ (83,329)
Cash - January 1	83,332	83,332	83,332	-
Cash - December 31	\$ 103,332	\$ 103,332	\$ 20,003	\$ (83,329)

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 6

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 70,000	\$ 70,000	\$ 59,016	\$ (10,984)
Special assessments	-	-	1,781	1,781
Intergovernmental	-	-	27,488	27,488
Investment earnings	-	-	3,215	3,215
Miscellaneous	-	-	737	737
Total Receipts	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$ 92,237</u>	<u>\$ 22,237</u>
Disbursements				
Current				
General government	-	-	1,541	(1,541)
Roads and streets	-	-	74,723	(74,723)
Total Disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,264</u>	<u>\$ (76,264)</u>
Net Change in Cash Balances	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$ 15,973</u>	<u>\$ (54,027)</u>
Cash - January 1	<u>164,386</u>	<u>164,386</u>	<u>164,386</u>	<u>-</u>
Cash - December 31	<u>\$ 234,386</u>	<u>\$ 234,386</u>	<u>\$ 180,359</u>	<u>\$ (54,027)</u>

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 7

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Property taxes	\$ 22,000	\$ 22,000	\$ 18,290	\$ (3,710)
Intergovernmental	-	-	2,702	2,702
Total Receipts	\$ 22,000	\$ 22,000	\$ 20,992	\$ (1,008)
Disbursements				
Current				
Public safety	-	-	20,992	(20,992)
Net Change in Cash Balances	\$ 22,000	\$ 22,000	\$ -	\$ (22,000)
Cash - January 1	1,000	1,000	1,000	-
Cash - December 31	\$ 23,000	\$ 23,000	\$ 1,000	\$ (22,000)

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 8

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts				
Special assessments	\$ 10,000	\$ 10,000	\$ 9,837	\$ (163)
Investment earnings	-	-	1,643	1,643
Total Receipts	\$ 10,000	\$ 10,000	\$ 11,480	\$ 1,480
Disbursements				
Current				
Public safety	-	-	5,819	(5,819)
Net Change in Cash Balances	\$ 10,000	\$ 10,000	\$ 5,661	\$ (4,339)
Cash - January 1	90,112	90,112	90,112	-
Cash - December 31	<u>\$ 100,112</u>	<u>\$ 100,112</u>	<u>\$ 95,773</u>	<u>\$ (4,339)</u>

UTILITY PROPRIETARY FUND

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF NET CASH ASSETS
UTILITY PROPRIETARY FUND
DECEMBER 31, 2004**

	<u>Business-Type Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 260,088</u>
Net Cash Assets	
Unrestricted	<u>\$ 260,088</u>

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 10

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN NET CASH ASSETS
UTILITY PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities
Operating Receipts	
Charges for services	\$ 67,742
Operating Disbursements	
Salaries and benefits	\$ 3,584
Supplies	6,604
Other services and charges	30,934
Insurance	1,952
Utilities	4,352
Total Operating Disbursements	\$ 47,426
Operating Income (Loss)	\$ 20,316
Nonoperating Receipts (Disbursements)	
Special assessments	\$ 29,155
Intergovernmental	75
Investment earnings	2,582
Rent	11,576
Total Nonoperating Receipts (Disbursements)	\$ 43,388
Net Income (Loss)	\$ 63,704
Cash - January 1	196,384
Cash - December 31	\$ 260,088

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CASH FLOWS - CASH BASIS
UTILITY PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities
Cash Flows From Operating Activities	
Receipts from customers	\$ 67,742
Receipts from special assessments for water and sewer bills	2,719
Payments to suppliers	(13,607)
Payments to city for sewer treatment	(21,786)
Payments to employees	(4,784)
Other payments	(7,249)
	\$ 23,035
Cash Flows From Noncapital Financing Activities	
PERA aid received from state	\$ 75
	\$ 26,436
Cash Flows From Capital and Related Financing Activities	
Special assessments	\$ 26,436
	\$ 14,158
Cash Flows From Investing Activities	
Interest	\$ 2,582
Rent	11,576
	\$ 63,704
Net Increase (Decrease) in Cash	
	\$ 196,384
Cash - January 1	196,384
Cash - December 31	\$ 260,088
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income	\$ 20,316
Special assessments levied for delinquent water and sewer bills	2,719
	\$ 23,035
Net Cash Provided by (Used in) Operating Activities	\$ 23,035

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Town's financial statements are prepared in conformity with the cash basis of accounting for the year ended December 31, 2004.

In June 1999, the Governmental Accounting Standards Board unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the Town's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on major funds.

Because the Town reports on a cash basis of accounting, the full accrual accounting requirement does not apply. The Town has elected to implement all other provisions of the statement in the current year.

A. Financial Reporting Entity

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

The Town of South Bend is governed by a five-member Board of Supervisors who are elected to three-year terms. The Board appoints a Clerk/Treasurer responsible for the proper administration of all affairs relating to the Town.

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

1. Government-Wide Statements

The government-wide statements (statement of net cash assets and the statement of activities arising from cash transactions) display information about the Town. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net cash assets, both the governmental and business-type activities columns are presented on a consolidated basis by column.

The statement of activities arising from cash transactions demonstrates the degree to which direct disbursements of each function of the Town's activities are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or activity. Program receipts include: (1) fees and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Receipts that are not classified as program revenues, including all taxes, are presented as general receipts.

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds. Separate statements for each fund category--governmental and proprietary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The Town of South Bend reports all of its funds as major funds:

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

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation

2. Fund Financial Statements (Continued)

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

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

The Dike Special Revenue Fund accounts for the receipts and disbursements used to finance maintenance of the Town dike.

The Utility Proprietary Fund accounts for the receipts and disbursements used to operate and maintain the Town water and sewer system.

C. Basis of Accounting

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

D. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Town considers all checking and savings account deposits as cash and cash equivalents.

E. Capital Assets

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

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Intergovernmental Receipts

The Town received Federal Emergency Management Assistance (FEMA) money from the FY03 Assistance to Firefighters Grant Program in the program area of Fire Operations and Firefighter Safety. This grant was applied for and granted to the Town of South Bend Volunteer Fire Department. The Town of South Bend has purchased firefighting equipment in the amount of \$89,282 of which 90 percent will be reimbursed with FEMA grant money that passes through the Volunteer Fire Department. As of December 31, 2004, the Town of South Bend has been reimbursed \$45,932. The remaining balance will be reimbursed to the Town of South Bend as the Volunteer Fire Department receives the FEMA grant money.

G. Budgets

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

2. Stewardship, Compliance, and Accountability

A. Disbursements Over Budget

The following funds had disbursements in excess of tax levies for the year ended December 31, 2004:

	<u>Disbursements</u>	<u>Tax Levies</u>	<u>Excess</u>
General Fund	\$ 137,813	\$ 20,000	\$ 117,813
Road and Bridge Fund	76,264	70,000	6,264

As described in Note 1.F., \$43,350 of the excess disbursements in the General Fund is to be funded by a FEMA grant.

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Town to deposit its cash in financial institutions designated by the Board. Minnesota statutes require all of the Town's deposits to be covered by insurance, surety bond, or collateral.

At December 31, 2004, the Town of South Bend's bank deposits were \$587,315. The book value of these deposits was \$557,223.

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

	Bank Balance
Covered deposits	
Insured, or collateralized with securities held by the Town or its agent in the Town's name	\$ 200,000
Collateralized with securities held by the pledging Institution's agent in the Town's name	387,315
Total covered deposits	\$ 587,315
Uncollateralized	-
Total	\$ 587,315

Following is a summary of the Town of South Bend's deposits at December 31, 2004:

	Book Balance
Checking account	\$ 96,628
Savings account	460,595
Total	\$ 557,223

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

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

B. Property Taxes

Taxes are billed by Blue Earth County to individual property owners within the Town of South Bend annually and, for the most part, are due and payable in January, but may be paid in two equal installments on or before May 15 and October 15 without penalty. Blue Earth County is the collecting agency for these levies and remits the collections to the Town three times a year. Tax collections are ordinarily recorded in the Town's receipts register when received.

4. Pension Plans

Defined Benefit Plans

All full-time employees of the Town of South Bend are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employee 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 highest 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 the 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 the average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

4. Pension Plans

Defined Benefit Plans (Continued)

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 web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Town is required to contribute the following percentages of annual covered payroll:

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

The Town's contributions for the years ending December 31, 2004, 2003, and 2002, were \$1,444, \$1,732, and \$1,569, respectively. The contractually required contributions for each year as set by state statute for the years ending December 31, 2004, 2003, and 2002, was \$1,700, \$1,732, and \$1,569, respectively.

**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

5. Risk Management

The Town of South Bend is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to the Town's officers and employees; and natural disasters. All risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

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**TOWN OF SOUTH BEND
BLUE EARTH COUNTY, MINNESOTA**

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

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Segregation of Duties

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

We recommend that the Board be aware of the absence of segregation of the accounting functions.

Client's Response:

The Board is very much aware of this condition.

ITEMS ARISING THIS YEAR

04-1 Bank Reconcilements

Our review of the bank reconcilements for the year disclosed:

- They did not contain initials of the preparer and the date prepared,
- They did not contain documentation of review by another official, and
- They were not reconciled to cash balances in the accounting records.

The above items help identify responsibility and timeliness of the reconcilements, as well as strengthen internal controls that provide for the detection and correction of errors and irregularities.

We recommend that the individual preparing the bank reconcilements initial and date the forms, that a Board member review the reconcilements, and that cash balances be reconciled to the accounting records.

Client's Response:

The Clerk/Treasurer will initial and date the bank reconcilements. The Chairman will be asked to appoint a person to review the bank reconcilements. A spreadsheet reconciling cash balances will be initiated and kept on an ongoing monthly basis to be sure cash balances are reconciled on a timely basis to accounting records.

04-2 Disbursements

Our tests of disbursements disclosed:

- Two of 25 payments to vendors had no vendor invoices or voucher forms,
- Vendor invoices did not contain documentation of review and approval prior to payment, and
- Board minutes did not provide specific details as to the disbursements approved for the month.

Adequate support for payments is a fundamental requirement of a sound accounting system. It is the primary evidence to explain the nature of the Town's cash outlays. Each claim should be fully reviewed for appropriateness and accuracy prior to the Board meeting, including initialing and dating the invoice as evidence of the review. In addition, each claim should be listed in the Board minutes or listed on an abstract that is signed by the Board Chair.

We recommend that procedures be established to assure that all payments are properly supported, reviewed, and approved.

Client's Response:

Every effort will be made to keep invoices and claims in the monthly disbursements folder. Occasionally an invoice or claim is removed for further review or discussion after approval and payment. Every effort will be made to make sure the invoice or claim is returned to that month's disbursements folder. The Clerk/Treasurer or Maintenance Manager reviews most invoices prior to the meeting. Either the Clerk/Treasurer or Maintenance Manager will initial the invoices and/or claims in the future. A check register including all disbursements and deposits for a given month from each account will be attached to the minutes. This has now been done for the 2004 minutes.

II. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-3 Collateral Assignment

The Town Clerk/Treasurer was not able to demonstrate that the Town had a perfected security interest in pledged collateral.

In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03 requires that, to the extent that deposited funds exceed available federal deposit insurance, the Town must obtain a corporate surety bond or an assignment of pledged collateral in an amount equal to 110 percent of the amount on deposit plus accrued interest.

The Town is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment, federal law requires the Town to obtain a written assignment of collateral that is approved by the depository bank's Board of Directors or loan committee and is a continuous official record of the bank.

We recommend that the Town obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client's Response:

Proper documentation of perfected security interest in pledged collateral will be kept on file with the Township.

04-4 Annual Budgets

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

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

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

PREVIOUSLY REPORTED ITEM RESOLVED

Declaration Statement on Checks (03-2)

The declaration statement required by Minn. Stat. § 471.391, subs. 1 and 2, should be printed on the reverse side of checks above the space for endorsement.

Resolution

The declaration statement is printed on the Town's checks as required.

III. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

04-5 Budgeting

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

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

Client's Response:

A budget will be prepared and presented to the Board at its Budget Meeting scheduled for 7:00 p.m., March 1, 2005. A signed copy of the approved budget will be attached to the regular March meeting's minutes.



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 South Bend

We have audited the cash basis financial statements of the Town of South Bend as of and for the year ended December 31, 2004, and have issued our report thereon dated February 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

In planning and performing our audit, we considered the Town of South Bend's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 03-1, 04-1, and 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider items 03-1 and 04-2 to be material weaknesses.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains 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 South Bend complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-3 and 04-4.

This report is intended for the information of the Town Board of Supervisors, its management, and the Town's electors and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 9, 2005