

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA

FOR THE 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

For the Year Ended December 31, 2004



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

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

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CLAY COUNTY, MINNESOTA**

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

		<u>Term Expires</u>
Elected		
Commissioners		
Chair	Greg Anderson	2008
Board Member	Carolyn Kastella	2006
Board Member	Palmer Nymark	2007
Board Member	John Jones	2006
Board Member	Margaret Haglund	2007
Clerk/Treasurer	Carol Kuehl	2006

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Oakport

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Oakport, Clay 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, each major fund, and the aggregate remaining fund information of the Town of Oakport, as of December 31, 2004, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.C. to the financial statements.

As discussed in the notes to the financial statements, the Town of Oakport adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Oakport'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 presented in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.C.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

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

As management of the Town of Oakport, we offer readers of the Town of Oakport's financial statements this narrative overview and analysis of the financial activities of the Town of Oakport for the fiscal year ended December 31, 2004. Because fiscal year 2004 represents the first year which the Town of Oakport implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis does not provide government-wide comparisons with the previous year. Future reports will include comparisons.

Financial Highlights

- The Town's net cash assets increased by \$127,135 for the year. This increase was due primarily to activity of the debt service funds.
- Outstanding debt of the Town decreased by \$310,000 for the year. This was due to the Town making the scheduled debt service payments for 2004.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Town of Oakport'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. 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 Oakport's finances, based on the cash basis of reporting.

The *statement of net cash assets* presents information on all of the Town's cash assets and net cash assets. 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.

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 that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Oakport, 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 are governmental 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 the changes between receipts and disbursements for the year.

The Town of Oakport maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet arising from cash transactions and in the governmental fund statement of cash receipts, disbursements, and changes in cash balances for the General Fund, Delinquent Specials Special Revenue Fund, Sewer Debt Service Fund, and Water Debt Service Fund. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the supplementary section of this report.

The Town of Oakport adopts an annual tax levy, but none of the funds have an approved budget.

The basic governmental fund financial statements can be found on Exhibits 3 and 4 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 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found after the notes to the financial statements of this report.

Governmental activities. Governmental activities increased the Town of Oakport's net cash assets by \$127,135. The increase was due primarily to special assessments collections exceeding the amount of principal and interest paid during the year.

CHANGES IN NET CASH ASSETS
Governmental Activities

	2004
Receipts	
Program receipts	
Fees, fines, and charges for services	\$ 39,799
Operating grants and contributions	96,069
Capital grants and contributions	599,655
General receipts	
Property tax levy - general purposes	104,280
Grants and contributions not restricted to specific programs	11,473
Investment earnings	13,952
	865,228
Total Receipts	\$ 865,228
Disbursements	
General government	\$ 50,708
Public safety	116,418
Streets and highways	51,125
Sanitation	4,000
Health	8,833
Principal on debt	310,000
Interest on debt	197,009
	738,093
Total Disbursements	\$ 738,093
Increase in Net Cash Assets	\$ 127,135
Net Cash Assets - January 1, 2004	1,781,838
Net Cash Assets - December 31, 2004	\$ 1,908,973

Financial Analysis of the Government's Funds

As noted earlier, the Town of Oakport 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 Delinquent Specials Special Revenue Fund accounts for additional special assessments levied in case there are insufficient funds in the debt service funds to service the general long-term debt issued for the Town's sewer and water projects. The Sewer and Water Debt Service Funds account for the servicing of general long-term debt for sewer and water projects, respectively.

	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
General Fund	\$ 66,556	\$ 58,474	\$ 165,637
Delinquent Specials Special Revenue Fund	4,205	-	319,227
Sewer Debt Service Fund	247,026	236,131	503,892
Water Debt Service Fund	199,594	179,980	460,715

- The cash balance in the General Fund increased by \$7,282 for the year, due to an increase in specials collected to pay for mosquito spraying.
- The cash balance in the Sewer Debt Service Fund increased by \$10,895 for the year, due to interest that was receipted into the fund.
- The cash balance in the Water Debt Service Fund increased by \$19,614 for the year, due to special assessments collections exceeding the amount paid on principal and interest on long-term debt.

Economic Factors and Next Year's Rates

- The unemployment rate for Clay County was 4.0 percent in 2004, which is consistent with the Town of Oakport'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 2005.

This financial report is designed to provide a general overview of the Town of Oakport'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 Oakport's Clerk/Treasurer, 1213 - 63rd Avenue North, Moorhead, Minnesota 56560.

BASIC FINANCIAL STATEMENTS

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

EXHIBIT 1

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

Assets	
Cash and investments	<u>\$ 1,908,973</u>
Cash Net Assets	
Restricted for debt service	\$ 1,164,627
Unrestricted	<u>744,346</u>
Total Cash Net Assets	<u>\$ 1,908,973</u>

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

EXHIBIT 2

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

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Cash Net Assets</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
General government	\$ 50,708	\$ 154	\$ -	\$ 77,548	\$ 26,994
Public safety	116,418	18,206	70,422	-	(27,790)
Streets and highways	51,125	-	25,647	82,787	57,309
Sanitation	4,000	4,946	-	439,320	440,266
Health	8,833	16,493	-	-	7,660
Debt principal paid	310,000	-	-	-	(310,000)
Debt interest paid	197,009	-	-	-	(197,009)
Total governmental activities	\$ 738,093	\$ 39,799	\$ 96,069	\$ 599,655	\$ (2,570)
General Receipts					
Property taxes, levied for general purposes					\$ 104,280
Grants and contributions not restricted to specific programs					11,473
Investment earnings					13,952
Total general receipts					\$ 129,705
Change in Cash Net Assets					\$ 127,135
Cash Net Assets - January 1					1,781,838
Cash Net Assets - December 31					\$ 1,908,973

GOVERNMENTAL FUNDS

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Delinquent Special Revenue Fund</u>	<u>Sewer Debt Service Fund</u>	<u>Water Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Assets						
Cash	<u>\$ 165,637</u>	<u>\$ 319,227</u>	<u>\$ 503,892</u>	<u>\$ 460,715</u>	<u>\$ 459,502</u>	<u>\$ 1,908,973</u>
Cash Fund Balances						
Unreserved						
Designated for debt service	\$ -	\$ -	\$ 503,892	\$ 460,715	\$ -	\$ 964,607
Undesignated	165,637	319,227	-	-	-	484,864
Unreserved, reported in nonmajor						
Special Revenue Funds	-	-	-	-	95,317	95,317
Debt Service Funds	-	-	-	-	200,020	200,020
Capital Projects Funds	-	-	-	-	164,165	164,165
Total cash fund balances	<u>\$ 165,637</u>	<u>\$ 319,227</u>	<u>\$ 503,892</u>	<u>\$ 460,715</u>	<u>\$ 459,502</u>	<u>\$ 1,908,973</u>

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

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

	General Fund
Receipts	
Property taxes	\$ 36,433
Special assessments	16,493
Licenses and permits	26
Intergovernmental	11,800
Charges for services	107
Investment earnings	1,697
Miscellaneous	-
	\$ 66,556
Disbursements	
Current	
General government	\$ 44,687
Public safety	-
Streets and highways	-
Sanitation	-
Health	8,833
Intergovernmental	
Public safety	4,954
Capital outlay	
General government	-
Debt service	
Principal	-
Interest and other charges	-
	\$ 58,474
Excess (Deficiency) of Receipts Over Disbursements	\$ 8,082
Other Financing Sources (Uses)	
Transfers in	\$ -
Transfers out	(800)
	\$ (800)
Net Change in Cash Balances	\$ 7,282
Cash Balances - January 1	158,355
Cash Balances - December 31	\$ 165,637

The notes to the financial statements are an integral part of this statement.

EXHIBIT 4

Delinquent Specials Special Revenue Fund	Sewer Debt Service Fund	Water Debt Service Fund	Other Funds	Total Funds
\$ -	\$ -	\$ -	\$ 67,847	\$ 104,280
446	239,726	199,594	178,541	634,800
-	-	-	-	26
-	-	-	95,742	107,542
-	-	-	4,500	4,607
3,759	7,300	-	1,196	13,952
-	-	-	21	21
\$ 4,205	\$ 247,026	\$ 199,594	\$ 347,847	\$ 865,228
\$ -	\$ -	\$ -	\$ 168	\$ 44,855
-	-	-	41,369	41,369
-	-	-	51,125	51,125
-	-	-	4,000	4,000
-	-	-	-	8,833
-	-	-	70,095	75,049
-	-	-	5,853	5,853
-	155,000	110,000	45,000	310,000
-	81,131	69,980	45,898	197,009
\$ -	\$ 236,131	\$ 179,980	\$ 263,508	\$ 738,093
\$ 4,205	\$ 10,895	\$ 19,614	\$ 84,339	\$ 127,135
\$ -	\$ -	\$ -	\$ 800	\$ 800
-	-	-	-	(800)
\$ -	\$ -	\$ -	\$ 800	\$ -
\$ 4,205	\$ 10,895	\$ 19,614	\$ 85,139	\$ 127,135
315,022	492,997	441,101	374,363	1,781,838
\$ 319,227	\$ 503,892	\$ 460,715	\$ 459,502	\$ 1,908,973

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**TOWN OF OAKPORT
CLAY 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 of Oakport'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 (GASB) 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 (MD&A) section providing an analysis of the Town's overall financial position and results of operations.
- A change in the fund financial statements to focus on major funds.

This and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Financial Reporting Entity

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

The Town of Oakport is governed by a five-member Board of Supervisors who are elected to three-year terms. The form of government includes a Clerk/Treasurer who is elected for two-year terms.

B. Basis of Presentation

1. Government-Wide Statements

The government-wide statements (the statement of cash net assets and the statement of activities arising from cash transactions) display information about the primary government. Eliminations have been made to minimize the double counting of internal activities.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation

1. Government-Wide Statements (Continued)

In the government-wide statement of cash net assets, the governmental activities are presented on a consolidated basis. The Town's cash net assets are reported in two parts - restricted cash net assets and unrestricted cash net assets. The Town first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

The fund financial statements provide information about the Town's funds. 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.

The Town reports the following major governmental funds:

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

The Delinquent Specials Special Revenue Fund accounts for the receipt of additional special assessments levied in case there are insufficient funds in the debt service funds to service the long-term debt issued for the Town's sewer and water projects.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation

2. Fund Financial Statements (Continued)

The Sewer Debt Service Fund accounts for the servicing of long-term debt issued for the Town's sewer project.

The Water Debt Service Fund accounts for the servicing of long-term debt issued for the Town's water project.

C. Basis of Accounting

The Town of Oakport'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. Tax Levy

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 is to occur 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.

E. Capital Assets

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

F. Equity Classifications

In the fund financial statements, designations of cash fund balance represent management plans that are subject to change.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

2. Stewardship, Compliance, and Accountability

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

	Disbursements	Levy	Excess
General Fund	\$ 58,474	\$ 40,000	\$ 18,474
Road and Bridge Fund	51,125	48,000	3,125

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Township 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 Oakport's bank deposits were \$875,713. The book value of these deposits was \$861,998.

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

	2004
Covered deposits	
Insured or collateralized with securities held by the Town or its agents in the Town's name	\$ 690,801
Uninsured and uncollateralized	184,912
Total	\$ 875,713

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

- (1) securities that are insured or registered, or for which the securities are held by the Town or its agent in the Town's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Town's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Town's name.

As of December 31, 2004, the Town had \$1,046,975 invested in the Minnesota Municipal Money Market Fund which is not required to be categorized by GASB Statement 3.

Following is a summary of the fair values of the Town of Oakport's cash and investments at December 31, 2004:

	<u>2004</u>
Checking account	\$ 506,020
Certificates of deposit	355,978
Minnesota Municipal Money Market Fund	<u>1,046,975</u>
Total	<u>\$ 1,908,973</u>

B. Property Taxes

Taxes are billed by Clay County to individual property owners within the Town of Oakport 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 14 without penalty. Clay 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.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

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

C. Interfund Transfers

Interfund transfers consisted of the following:

Transfers to other governmental funds from the General Fund	\$ 800	To provide funding
--	--------	--------------------

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plan

Plan Description

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

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Pension Plan

Plan Description (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 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 and 2003, were \$408 and \$238, respectively, equal to the contractually required contributions for each year as set by state statute.

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

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

The Town's contributions for the years ended December 31, 2004 and 2003, were \$400 and \$233, respectively, equal to the contractually required contributions for each year as set by statute.

5. Risk Management

The Town of Oakport 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.

SUPPLEMENTARY INFORMATION

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement A

**COMBINING BALANCE SHEET ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Special Revenue (Statement A-1)	Debt Service (Statement A-2)	Capital Projects (Statement A-3)	Total Nonmajor Governmental Funds (Exhibit 3)
Assets				
Cash and investments	<u>\$ 95,317</u>	<u>\$ 200,020</u>	<u>\$ 164,165</u>	<u>\$ 459,502</u>
 Cash Fund Balances				
Unreserved				
Designated for debt service	\$ -	\$ 200,020	\$ -	\$ 200,020
Undesignated	<u>95,317</u>	<u>-</u>	<u>164,165</u>	<u>259,482</u>
Total Cash Fund Balances	<u>\$ 95,317</u>	<u>\$ 200,020</u>	<u>\$ 164,165</u>	<u>\$ 459,502</u>

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

**COMBINING BALANCE SHEET ARISING FROM CASH TRANSACTIONS
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	<u>Fire</u>	<u>Road and Bridge</u>
Assets		
Cash and investments	<u>\$ 51</u>	<u>\$ 40,597</u>
 Cash Fund Balances		
Unreserved		
Undesignated	<u>\$ 51</u>	<u>\$ 40,597</u>

Statement A-1

<u>Hydrant Maintenance</u>	<u>Parks</u>	<u>Sewer Fees</u>	<u>Walmart</u>	<u>Total (Statement A)</u>
<u>\$ 4,467</u>	<u>\$ 10,195</u>	<u>\$ 39,302</u>	<u>\$ 705</u>	<u>\$ 95,317</u>
<u>\$ 4,467</u>	<u>\$ 10,195</u>	<u>\$ 39,302</u>	<u>\$ 705</u>	<u>\$ 95,317</u>

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement A-2

**COMBINING BALANCE SHEET ARISING FROM CASH TRANSACTIONS
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2004**

	Street	Water Tower	Crystal Creek Paving	Total (Statement A)
Assets				
Cash and investments	\$ 65,302	\$ 83,315	\$ 51,403	\$ 200,020
 Cash Fund Balances				
Unreserved				
Designated for debt service	\$ 65,302	\$ 83,315	\$ 51,403	\$ 200,020

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement A-3

**COMBINING BALANCE SHEET ARISING FROM CASH TRANSACTIONS
NONMAJOR CAPITAL PROJECTS FUNDS
DECEMBER 31, 2004**

	Flood Mitigation	Water Tower	Paving	Crystal Creek Paving	Total (Statement A)
Assets					
Cash and investments	\$ -	\$ 108,813	\$ 27,855	\$ 27,497	\$ 164,165
Cash Fund Balances					
Unreserved Undesignated	\$ -	\$ 108,813	\$ 27,855	\$ 27,497	\$ 164,165

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement B

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

	Special Revenue (Statement B-1)	Debt Service (Statement B-2)	Capital Projects (Statement B-3)	Total Nonmajor Governmental Funds (Exhibit 4)
Receipts				
Property taxes	\$ 67,847	\$ -	\$ -	\$ 67,847
Special assessments	18,206	160,335	-	178,541
Intergovernmental				
State grants				
Highway allotment	25,647	-	-	25,647
Department of natural resources	-	-	70,095	70,095
Charges for services	4,500	-	-	4,500
Investment earnings	835	361	-	1,196
Miscellaneous	21	-	-	21
	\$ 117,056	\$ 160,696	\$ 70,095	\$ 347,847
Disbursements				
Current				
General government	\$ 168	\$ -	\$ -	\$ 168
Public safety	41,369	-	-	41,369
Highways and streets	51,125	-	-	51,125
Sanitation	4,000	-	-	4,000
Intergovernmental				
Public safety	-	-	70,095	70,095
Capital outlay				
General government	-	-	5,853	5,853
Debt service				
Principal	-	45,000	-	45,000
Interest and other charges	-	45,898	-	45,898
	\$ 96,662	\$ 90,898	\$ 75,948	\$ 263,508
Excess (Deficiency) of Receipts Over Disbursements	\$ 20,394	\$ 69,798	\$ (5,853)	\$ 84,339
Other Financing Sources (Uses)				
Transfers in	800	-	-	800
Net Change in Cash Fund Balances	\$ 21,194	\$ 69,798	\$ (5,853)	\$ 85,139
Cash Fund Balances - January 1	74,123	130,222	170,018	374,363
Cash Fund Balances - December 31	\$ 95,317	\$ 200,020	\$ 164,165	\$ 459,502

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Fire</u>	<u>Road and Bridge</u>
Receipts		
Property taxes	\$ 26,741	\$ 41,106
Special assessments	-	-
Intergovernmental		
State grants		
Highway allotment	-	25,647
Charges for services	-	-
Investment earnings	-	-
Miscellaneous	-	-
	<u> </u>	<u> </u>
Total Receipts	\$ 26,741	\$ 66,753
Disbursements		
Current		
General government	\$ -	\$ -
Public safety	27,514	-
Highways and streets	-	51,125
Sanitation	-	-
	<u> </u>	<u> </u>
Total Disbursements	\$ 27,514	\$ 51,125
Excess (Deficiency) of Receipts Over Disbursements	\$ (773)	\$ 15,628
Other Financing Sources (Uses)		
Transfers in	800	-
	<u> </u>	<u> </u>
Net Change in Cash Fund Balances	\$ 27	\$ 15,628
Cash Fund Balances - January 1	24	24,969
	<u> </u>	<u> </u>
Cash Fund Balances - December 31	\$ 51	\$ 40,597
	<u> </u>	<u> </u>

Statement B-1

<u>Hydrant Maintenance</u>	<u>Parks</u>	<u>Sewer Fees</u>	<u>Walmart</u>	<u>Total (Statement B)</u>
\$ -	\$ -	\$ -	\$ -	\$ 67,847
18,206	-	-	-	18,206
-	-	-	-	25,647
-	-	4,500	-	4,500
-	30	805	-	835
-	-	-	21	21
<u>\$ 18,206</u>	<u>\$ 30</u>	<u>\$ 5,305</u>	<u>\$ 21</u>	<u>\$ 117,056</u>
\$ -	\$ -	\$ -	\$ 168	\$ 168
13,855	-	-	-	41,369
-	-	-	-	51,125
-	-	4,000	-	4,000
<u>\$ 13,855</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 168</u>	<u>\$ 96,662</u>
\$ 4,351	\$ 30	\$ 1,305	\$ (147)	\$ 20,394
-	-	-	-	800
<u>\$ 4,351</u>	<u>\$ 30</u>	<u>\$ 1,305</u>	<u>\$ (147)</u>	<u>\$ 21,194</u>
<u>116</u>	<u>10,165</u>	<u>37,997</u>	<u>852</u>	<u>74,123</u>
<u>\$ 4,467</u>	<u>\$ 10,195</u>	<u>\$ 39,302</u>	<u>\$ 705</u>	<u>\$ 95,317</u>

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Street</u>	<u>Water Tower</u>	<u>Crystal Creek Paving</u>	<u>Total (Statement B)</u>
Receipts				
Special assessments	\$ 42,579	\$ 77,548	\$ 40,208	\$ 160,335
Investment earnings	-	361	-	361
Total Receipts	\$ 42,579	\$ 77,909	\$ 40,208	\$ 160,696
Disbursements				
Debt service				
Principal	\$ 25,000	\$ -	\$ 20,000	\$ 45,000
Interest	10,160	26,864	8,874	45,898
Total Disbursements	\$ 35,160	\$ 26,864	\$ 28,874	\$ 90,898
Net Change in Cash Balance	\$ 7,419	\$ 51,045	\$ 11,334	\$ 69,798
Cash Fund Balances - January 1	57,883	32,270	40,069	130,222
Cash Fund Balances - December 31	\$ 65,302	\$ 83,315	\$ 51,403	\$ 200,020

**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Statement B-3

**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Flood Mitigation</u>	<u>Water Tower</u>	<u>Paving</u>	<u>Crystal Creek Paving</u>	<u>Total (Statement B)</u>
Receipts					
Intergovernmental					
State grants					
Department of natural resources	\$ 70,095	\$ -	\$ -	\$ -	\$ 70,095
Disbursements					
Intergovernmental					
Public safety	\$ 70,095	\$ -	\$ -	\$ -	\$ 70,095
Capital outlay					
General government	-	5,853	-	-	5,853
Total Disbursements	\$ 70,095	\$ 5,853	\$ -	\$ -	\$ 75,948
Net Change in Cash Balance	\$ -	\$ (5,853)	\$ -	\$ -	\$ (5,853)
Cash Fund Balances - January 1	-	114,666	27,855	27,497	170,018
Cash Fund Balances - December 31	\$ -	\$ 108,813	\$ 27,855	\$ 27,497	\$ 164,165

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OTHER SCHEDULES

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Schedule 1

**SCHEDULE OF LONG-TERM OBLIGATIONS
DECEMBER 31, 2004**

	Amount
Long-term debt currently outstanding is as follows:	
\$4,000,000 1999 General Obligation Improvement and Refunding Bonds due in annual installments of \$170,000 to \$475,000, plus interest at 5.0 to 5.3 percent through February 1, 2012.	\$ 3,035,000
\$660,000 2002 General Obligation Improvement Bonds due in annual installments of \$55,000 to \$80,000, plus interest at 3.5 to 4.5 percent through February 1, 2014.	660,000
\$240,000 2002B General Obligation Improvement Bonds due in annual installments of \$20,000 to \$30,000, plus interest at 3.0 to 4.25 percent through February 1, 2013.	220,000
Total	\$ 3,915,000

Annual debt service requirements to maturity for debt outstanding is as follows:

Year Ending December 31	Principal	Interest	Total
2005	\$ 390,000	\$ 179,372	\$ 569,372
2006	420,000	160,385	580,385
2007	460,000	139,698	599,698
2008	485,000	117,323	602,323
2009	530,000	92,998	622,998
2010-2014	1,630,000	127,868	1,757,868
Total	\$ 3,915,000	\$ 817,644	\$ 4,732,644

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**TOWN OF OAKPORT
CLAY COUNTY, MINNESOTA**

Schedule 2

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

I. INTERNAL CONTROL

04-1 Segregation of Duties

Due to the limited number of officials in the Town of Oakport, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in smaller entities; however, the Town 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.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to local governments such as the Town of Oakport. Under the above conditions, the most effective system of control lies in the knowledge of the Board and the Town's officers regarding the Town's operations and the periodic review of those operations.

Client's Response:

The Board is aware of the lack of segregation of duties and has adopted oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

II. MINNESOTA LEGAL COMPLIANCE

04-2 Collateral

Minn. Stat. § 118A.03, subd. 3, requires that cash balances on deposit in excess of available federal deposit insurance be protected by a surety bond, or pledged collateral whose fair market value is at least ten percent more than the uninsured balance. In addition, a Federal Court decision 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. To perfect the security interest, the collateral assignment must be in writing, approved by the Board of Directors or loan committee of the depository, and be an official record of the depository.

Schedule 2
(Continued)

The Town did not have a perfected security interest in the collateral at Northwestern Bank. There was no written collateral assignment or approval by an appropriate resolution. Also, the amount of collateral was insufficient to meet the legal requirements.

We recommend the Town implement policies and procedures to ensure an adequate amount of collateral is pledged. We also recommend the Town review collateral assignments to determine that they are in writing, approved by the depository's board of directors or loan committee, and continuously an official record of the depository.

Client's Response:

We have been working with the bank to address the issues noted.



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 Oakport

We have audited the financial statements of the Town of Oakport as of and for the year ended December 31, 2004, and have issued our report thereon dated March 21, 2005. The Town's financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 Oakport 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 the cash basis of accounting.

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 Oakport'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 a matter involving the internal control over financial

reporting and its operation that we consider to be a reportable condition. 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 condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

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, we consider the reportable condition listed above to be a material weakness.

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Town of Oakport complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-2.

This report is intended solely for the information and use of the Town 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 21, 2005