

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF WILMINGTON
HOUSTON 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 WILMINGTON
HOUSTON COUNTY, MINNESOTA**

Year Ended December 31, 2004



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

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**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

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**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

	<u>Term Expires</u>
Town Board	
Supervisors	
Kenneth Privit*	March 2006
Greg Myhre**	March 2007
Kenneth H. Meyer	March 2008
Elected Officers	
Clerk/Treasurer	
Julie Amundson	March 2006
*Chair	
**Vice Chair	

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Town Board of Supervisors
Town of Wilmington

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Wilmington, Houston 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 of Wilmington'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 and each major fund of the Town of Wilmington, 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.

The Town of Wilmington has not presented a Management's Discussion and Analysis or budgetary comparison information for its major funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 18, 2005

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

EXHIBIT 1

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

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 105,907
Liabilities	
	<u>-</u>
Cash Net Assets	
Unrestricted	<u><u>\$ 105,907</u></u>

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF 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 Governmental Activities</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
General government	\$ 28,419	\$ 4	\$ -	\$ (28,415)
Public safety	13,918	-	-	(13,918)
Streets and highways	140,452	1,999	15,165	(123,288)
Total Governmental Activities	\$ 182,789	\$ 2,003	\$ 15,165	\$ (165,621)
General Receipts				
Taxes				
Property taxes, levied for general purposes				\$ 145,639
Investment earnings				1,802
Miscellaneous				281
Total general receipts				\$ 147,722
Change in net cash assets				\$ (17,899)
Cash Net Assets - January 1				123,806
Cash Net Assets - December 31				\$ 105,907

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

EXHIBIT 3

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

	General Fund	Road and Bridge Fund	Fire and Ambulance Fund	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 651	\$ 86,592	\$ 18,664	\$ 105,907
<u>Cash Fund Balances</u>				
Unreserved, reported in				
Special revenue funds	\$ -	\$ 86,592	\$ 18,664	\$ 105,256
General Fund	651	-	-	651
Total Cash Fund Balances	\$ 651	\$ 86,592	\$ 18,664	\$ 105,907

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

EXHIBIT 4

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH FUND 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>Total Governmental Funds</u>
Receipts				
Property taxes	\$ 14,781	\$ 113,133	\$ 17,725	\$ 145,639
Intergovernmental	-	15,165	-	15,165
Charges for services	4	1,999	-	2,003
Investment earnings	1,802	-	-	1,802
Miscellaneous	18	263	-	281
Total Receipts	\$ 16,605	\$ 130,560	\$ 17,725	\$ 164,890
Disbursements				
Current				
General government	\$ 28,419	\$ -	\$ -	\$ 28,419
Public safety	-	-	13,918	13,918
Streets and highways	-	140,452	-	140,452
Total Disbursements	\$ 28,419	\$ 140,452	\$ 13,918	\$ 182,789
Net Change in Cash Fund Balances	\$ (11,814)	\$ (9,892)	\$ 3,807	\$ (17,899)
Cash Balances - January 1	12,465	96,484	14,857	123,806
Cash Balances - December 31	\$ 651	\$ 86,592	\$ 18,664	\$ 105,907

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

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. Governmental activities are normally supported by taxes and intergovernmental revenues.

In the government-wide statement of cash net assets, the governmental activities are presented on a consolidated basis by column. 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 revenues, including all taxes, are presented as general receipts.

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

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.

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

C. Basis of Accounting

The Town of Wilmington'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.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

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. The Town's Board may not spend more than the amount approved for the levy at the annual meeting without

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budgetary Compliance (Continued)

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.

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

	Disbursements	Levy	Excess
General Fund	\$ 28,419	\$ 15,000	\$ 13,419
Road and Bridge Fund	140,452	115,000	25,452

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 Wilmington's bank deposits were \$110,995. The book value of these deposits was \$105,907.

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 agents in the Town's name	\$ 110,995
Uninsured and uncollateralized	-
Total	\$ 110,995

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

3. Detailed Notes - Transaction Classes/Accounts

A. Deposits and Investments (Continued)

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

Checking account	\$ 91,434
Certificates of deposit	<u>14,473</u>
Total	<u>\$ 105,907</u>

B. Property Taxes

Taxes are billed by Houston County to individual property owners within the Town of Wilmington 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. Houston 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. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Town of Wilmington are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Town makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members 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:

**TOWN OF WILMINGTON
HOUSTON COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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 \$421, \$585, and \$470, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The Town of Wilmington 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 WILMINGTON
HOUSTON COUNTY, MINNESOTA**

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

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Departmental Segregation of Duties

Due to the limited number of personnel within the Town of Wilmington, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. There may be only one employee to receive and account for collections. This is not unusual in operations the size of the Town of Wilmington; however, the Town's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- Receipting collections, posting collections to registers, and making bank deposits;
- Signing checks and reconciling the bank accounts;
- Receipting collections and posting collections to the accounts receivable records;
- Approving receivable write-off/write-downs and posting adjustments to the accounts receivable records; and
- Data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the Town's management may wish to consider to strengthen controls are:

- Supervisors should monitor operations within the Town to determine that reports are submitted promptly and are in agreement with cash balances and grant expenditures.
- Supervisors should adopt a formal conflicts of interest policy.
- Minutes should include the claim number of bills approved for payment.

- Even though invoices are stapled to vouchers, all invoices should be canceled to ensure they are not paid twice.
- A formal receipt book that records each receipt during the year should be kept.

We recommend the Town's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures by Town staff.

Client's Response:

Supervisors are aware of the situation and monitor closely the actions of the Clerk/Treasurer.

II. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-1 Insufficient Collateral

Federal deposit insurance (FDIC) was insufficient for the amount on deposit at Eitzen State Bank during 2004. Funds on deposit at month-end for 8 of the 12 months exceeded FDIC insurance. The amount of the excess deposits ranged from \$3,561 to \$36,955. During the year, the Town did not require the bank to pledge collateral for deposits in excess of FDIC insurance as required by Minn. Stat. § 118A.03.

We recommend the Town monitor the deposits in designated depositories to ensure Town funds are fully protected as required by Minn. Stat. § 118A.03.

Client's Response:

Action was taken December 2004 to put funds into another financial institution so all monies are covered by the FDIC insurance and no collateral need to be pledged.

04-2 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 for. 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, was 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.

Client's Response:

This matter will be discussed with a member of the County Township Officers Association to present a recommendation to the full board.

III. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-2 Budgets

We noted that the Town did not approve a budget for its three funds.

We recommend the Town Board approve revenue and expenditure budgets for each fund to ensure fiscal controls. Budget changes approved by the Board should match the changes posted to the general ledger system.

Client's Response:

Beginning in 2005, a more detailed budget has been proposed and set into action. Monies are divided into funds and a more detailed income and expense budget will be enacted for the next fiscal year.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Town Board of Supervisors
Town of Wilmington

We have audited the cash basis financial statements of the Town of Wilmington as of and for the year ended December 31, 2004, and have issued our report thereon dated May 18, 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 Wilmington 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 Wilmington'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. A reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 03-1.

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 item 03-1 to be a material weakness.

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Town of Wilmington complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-1 and 04-2.

This report is intended solely for the information and use 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: May 18, 2005