

**CITY OF OAK GROVE
Anoka County, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

CITY OF OAK GROVE

TABLE OF CONTENTS

ELECTED OFFICIALS AND ADMINISTRATION..... 1

INDEPENDENT AUDITOR’S REPORT 2

MANAGEMENT’S DISCUSSION AND ANALYSIS 5

BASIC FINANCIAL STATEMENTS

 Government-Wide Financial Statements:

 Statement of Net Position 18

 Statement of Activities..... 19

 Fund Financial Statements:

 Balance Sheet – Governmental Funds 20

 Reconciliation of the Balance Sheet to the Statement of Net Position –
 Governmental Funds 23

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Governmental Funds 24

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances to the Statement of Activities – Governmental Funds 26

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Budget and Actual – General Fund..... 27

 Statement of Net Position – Proprietary Funds..... 28

 Statement of Revenues, Expenses and Changes in Net Position –
 Proprietary Funds 30

 Statement of Cash Flows – Proprietary Funds 32

 Statement of Fiduciary Net Position 34

 Notes to the Financial Statements 36

SUPPLEMENTARY INFORMATION

 Combining Balance Sheet – Nonmajor Governmental Funds 62

 Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
 Nonmajor Governmental Funds..... 63

 Combining Balance Sheet – Nonmajor Special Revenue Funds 66

 Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
 Nonmajor Special Revenue Funds 68

 Combining Balance Sheet – Nonmajor Debt Service Funds 72

 Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
 Nonmajor Debt Service Funds 74

 Combining Balance Sheet – Nonmajor Capital Projects Funds 78

 Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
 Nonmajor Capital Projects Funds 79

 Detailed Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual – General Fund..... 80

 Combining Statement of Fiduciary Net Position 83

 Statement of Changes in Agency Fund Assets and Liabilities..... 84

CITY OF OAK GROVE

TABLE OF CONTENTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	85
REPORT ON LEGAL COMPLIANCE	87
SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL COMPLIANCE.....	88

CITY OF OAK GROVE
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2012

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Mark Korin	Mayor	December 31, 2014
Kevin Robinson	Council Member	December 31, 2012
Scott Lawrence	Council Member	December 31, 2012
Mike Wylie	Council Member	December 31, 2014
Dan Denno	Council Member	December 31, 2014
<u>Administration</u>		
Rick Juba	City Administrator	
AEM Finacial Solutions, LLC	Consulting Finance Manager	
Tim Smith	Director of Public Works	
Curt Hallerman	Fire Chief	



Expert advice. When you need it.SM

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Oak Grove
Oak Grove, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Grove, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Grove, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63 and GASB 65

As discussed in Note 11 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Information as identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. This supplementary information contains prior year comparative information taken from the City's 2011 financial statements. We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City's basic financial statements for the year ended December 31, 2011, which are not presented with the accompanying financial statements. In our report dated June 12, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the 2011 supplementary information is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2011, taken as a whole.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2011, from which such partial information was derived.

We have previously audited the City's 2011 financial statements and our report, dated June 12, 2012, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
March 22, 2013

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

As management of the City of Oak Grove, Minnesota (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent year by \$ 26,692,388 (net position). Of this amount, \$ 10,663,612 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$ 2,249,432. This includes a change in accounting principle for deferred charges related to the implementation of GASB 65 and a prior period adjustment related to capital assets in the total amount of \$ 2,014,646. A further breakdown of net position is chronicled under Government-wide financial statement analysis.
- As of the close of the current year, the City's governmental funds reported a combined ending fund balance of \$ 10,873,927, an increase of \$ 643,427 in comparison with the prior year.
- At the end of the current year, total fund balance for the General Fund was \$ 3,092,273, or 129.4%, of the budgeted 2012 General fund expenditures.
- The City's total debt decreased \$ 191,422 during the current year. The decrease was mainly due to yearly principal and interest payments on general obligation (G.O) bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to the Financial Statements. This analysis contains other supplemental information in addition to the basic financial statements themselves.

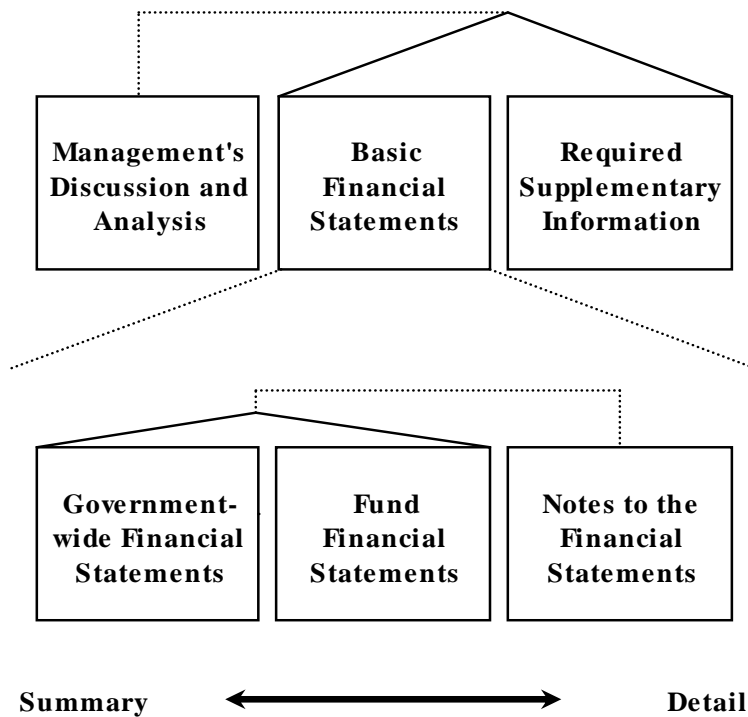
CITY OF OAK GROVE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 illustrates how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1
Required Components of the
City's Annual Financial Report**



CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-Wide and Fund Financial Statements

	Fund Financial Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statements of Net Position • Statements of Revenues, Expenses and Changes in Fund Net Position • Statements of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term
Type of Inflow/Out Flow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (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 of the City include general government, public safety, public works, sanitation, economic development, parks and recreation, conservation and natural resources, miscellaneous and interest on long-term debt. The business-type activities of the City include water, sewer and street light.

The government-wide financial statements start on page 18 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 City, 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 City 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 focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

Governmental Funds - The City maintains 17 individual governmental funds, 4 of which are Debt Service Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Asset Replacement Fund, Cable TV Franchise Grant Fund, MSA Construction Fund, Road Improvement Fund, and TIF West Lake George Administration Fund. Data from the 11 other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements or schedules elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 20 of this report.

Proprietary Fund - The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and street lights.

The proprietary fund financial statements provide separate information for the water, sewer and street lights, which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 28 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found starting on page 34 of this report.

Notes to the Financial Statements - The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements start on page 36 of this report.

Other Information - The combining statements referred to earlier, in connection with non-major governmental funds, are presented following the Notes to the Financial Statements. Combining and individual fund statements and schedules start on page 62 of this report.

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 26,692,388 at the close of the most recent year.

By far, the largest portion of the City's net position (55.9%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Position

	Governmental Activities			Business-Type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
ASSETS						
Current and Other Assets	\$ 11,421,378	\$ 10,883,575	\$ 537,803	\$ 722,507	\$ 902,362	\$ (179,855)
Capital Assets	13,027,191	13,900,965	(873,774)	4,161,807	1,523,027	2,638,780
Total Assets	<u>\$ 24,448,569</u>	<u>\$ 24,784,540</u>	<u>\$ (335,971)</u>	<u>\$ 4,884,314</u>	<u>\$ 2,425,389</u>	<u>\$ 2,458,925</u>
LIABILITIES						
Other Liabilities	\$ 472,016	\$ 454,030	\$ 17,986	\$ 59,248	\$ 36,331	\$ 22,917
Long-Term Liabilities Outstanding	1,721,231	1,867,612	(146,381)	388,000	409,000	(21,000)
Total liabilities	<u>\$ 2,193,247</u>	<u>\$ 2,321,642</u>	<u>\$ (128,395)</u>	<u>\$ 447,248</u>	<u>\$ 445,331</u>	<u>\$ 1,917</u>
NET POSITION						
Net Investment in Capital Assets	\$ 11,173,591	\$ 11,879,645	\$ (706,054)	\$ 3,752,807	\$ 1,093,027	\$ 2,659,780
Restricted	1,102,378	1,243,829	(141,451)	-	-	-
Unrestricted	9,979,353	9,339,424	639,929	684,259	887,031	(202,772)
Total Net Position	<u>\$ 22,255,322</u>	<u>\$ 22,462,898</u>	<u>\$ (207,576)</u>	<u>\$ 4,437,066</u>	<u>\$ 1,980,058</u>	<u>\$ 2,457,008</u>

An additional portion of the City's net position (4.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, (40.0%), may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net position increased by \$ 2,249,432 during the current year.

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

GOVERNMENTAL ACTIVITIES.

Governmental activities decreased the City's net position by \$ 207,576. Key elements of this decrease are as follows:

Changes in Net Position

	Governmental Activities			Business-Type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
REVENUES						
Program revenues:						
Charges for services	\$ 195,099	\$ 154,001	\$ 41,098	\$ 306,761	\$ 208,926	\$ 97,835
Operating grants and contributions	94,278	79,575	14,703	-	-	-
Capital grants and contributions	507,834	1,131,928	(624,094)	49,619	74,062	(24,443)
General revenues:						
Taxes						
Property taxes	2,313,037	2,698,647	(385,610)	-	-	-
Property taxes, levied for debt service	202,984	264,954	-	-	-	-
Franchise taxes	65,748	61,998	3,750	-	-	-
Tax increments	7,936	9,820	(1,884)	-	-	-
Intergovernmental	4,823	2,842	1,981	-	-	-
Unrestricted investment earnings	149,367	174,713	(25,346)	11,875	8,429	3,446
Gain on sale of property	7,728	4,642	3,086	-	-	-
Miscellaneous	-	27,440	(27,440)	-	-	-
Total revenues	3,548,834	4,610,560	(999,756)	368,255	291,417	76,838
EXPENSES						
General government	766,250	735,515	30,735	-	-	-
Public safety	948,015	957,536	(9,521)	-	-	-
Public works	1,205,821	1,214,804	(8,983)	-	-	-
Sanitation	29,149	34,526	(5,377)	-	-	-
Parks and recreation	145,582	123,709	21,873	-	-	-
Conservation and natural resources	34,712	15,916	18,796	-	-	-
Economic development	7,166	6,588	578	-	-	-
Interest on long-term debt	102,737	115,361	(12,624)	-	-	-
Water	-	-	-	151,627	124,939	26,688
Sewer	-	-	-	284,274	150,942	133,332
Street Light	-	-	-	6,970	-	6,970
Total expenses	3,239,432	3,203,955	35,477	442,871	275,881	166,990
Increase (decrease) in net position before transfers	309,402	1,406,605	(1,097,203)	(74,616)	15,536	(90,152)
Transfers	(47,402)	(295,046)	247,644	47,402	295,046	(247,644)
Change in net position	262,000	1,111,559	(849,559)	(27,214)	310,582	(337,796)
Net Position - January 1, as Previously Stated	22,462,898	21,351,339	1,111,559	1,980,058	1,669,476	310,582
Change in Accounting Principle	(48,273)	-	(48,273)	(4,677)	-	(4,677)
Prior Period Adjustment	(421,303)	-	(421,303)	2,488,899	-	2,488,899
Net position - January 1, as Restated	21,993,322	21,351,339	641,983	4,464,280	1,669,476	2,794,804
Net position - December 31	\$ 22,255,322	\$ 22,462,898	\$ (207,576)	\$ 4,437,066	\$ 1,980,058	\$ 2,457,008

The line item with the most significant change was the governmental capital grants revenue. It decreased in 2012 due to MSA project funding that was completed in 2011. The General Fund expenses decreased due to planned budget decreases during 2012.

CITY OF OAK GROVE

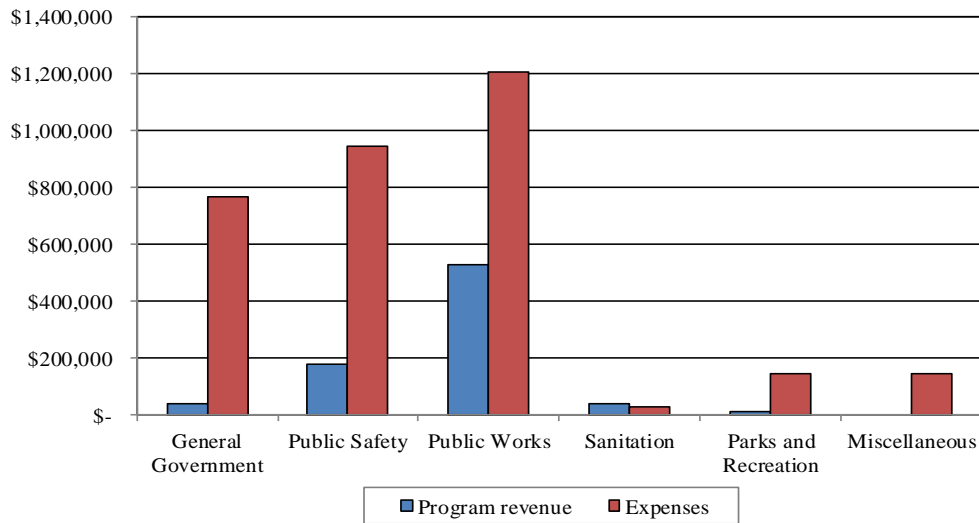
MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

GOVERNMENTAL ACTIVITIES

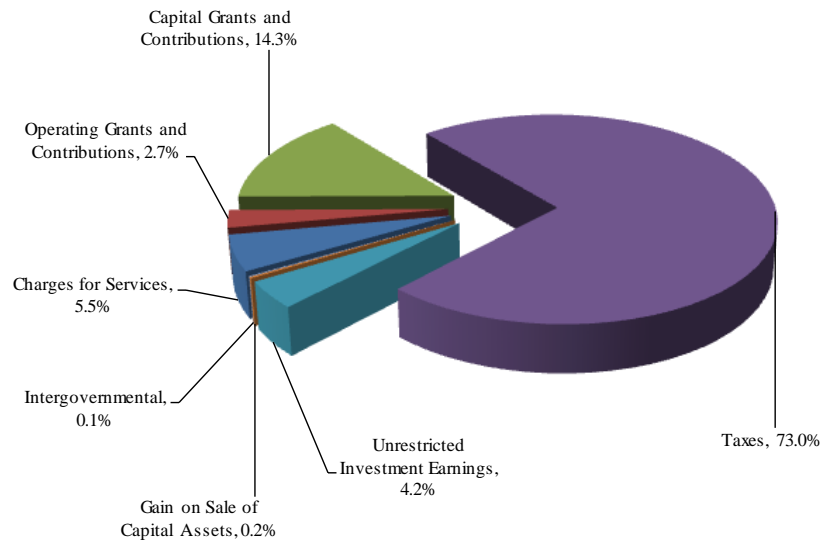
The following graph depicts various governmental activities and shows the program revenues and expenses directly related to those activities.

Governmental Activities - Net position in the governmental activities decreased \$ 207,576.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



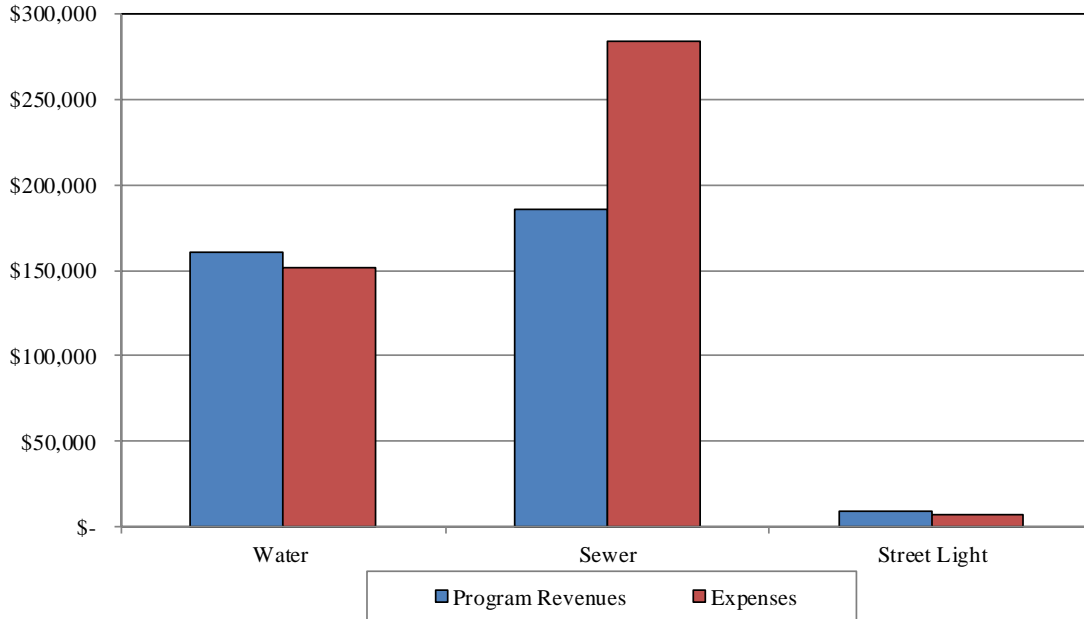
CITY OF OAK GROVE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012**

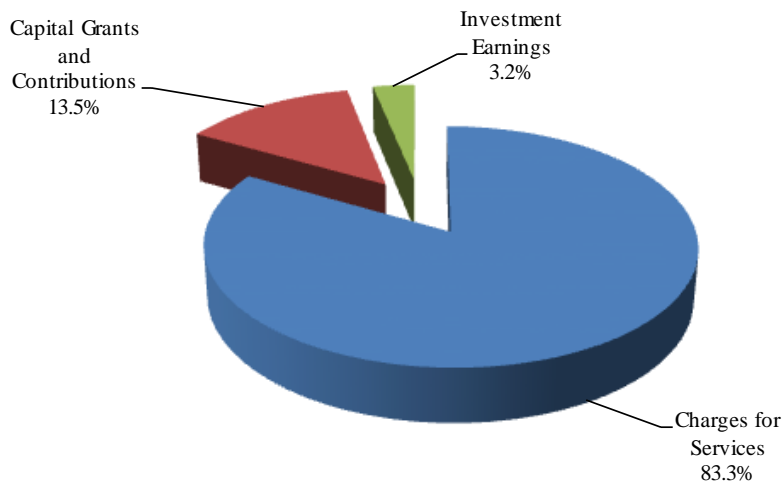
BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$ 2,457,008.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-type Activities



CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

Activity in the City's major governmental funds is discussed below:

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$ 10,873,927, an increase of \$ 643,427 in comparison with the prior year. Approximately 27.9% percent of this total amount, or \$ 3,028,947, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is either: 1) nonspendable (\$ 28,359), 2) restricted (\$ 1,080,665), 3) committed (\$ 361,742), or assigned (\$ 6,374,214).

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2012	2011	
General:			
The main reason for the increase in fund balance was due to actual expenditures coming in less than budget by \$ 218,746 and receiving \$ 65,748 in non-budgeted revenue for franchise fees.	\$ 3,092,273	\$ 2,766,077	\$ 326,196
Asset Replacement Fund:			
This increase was principally the result of a transfer of \$ 150,000 from the General Fund.	4,693,014	4,487,895	205,119
Cable TV Franchise Grant Fund:			
This decrease was caused by a major capital outlay project completed in 2012.	(32,436)	40,748	(73,184)
MSA Construction:			
The timing and scope of various road projects was the cause of this increase.	(2,531)	(93,138)	90,607
Road Improvement:			
A transfer in of \$ 250,000 to continue building the Road Improvement Capital Fund to finance future project costs contributed to this increase.	1,428,126	1,417,791	10,335

Proprietary Fund - The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$ 684,259. The total increase in net position for the funds was \$ 2,457,008.

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

No budget amendments were made during the year. The budget called for no change in fund balance. Actual revenues were over budget by \$ 146,450, and expenditures were under budget by \$ 218,746.

Some of the significant variances can be briefly summarized as follows:

- License and permits as well as intergovernmental revenues increased by \$ 69,399 due to increased activity in these areas.
- Franchise fee revenue generated a \$ 65,748 surplus.
- General government administrative expenditures were under budget by \$ 132,969 resulting from continual downsizing for budgetary savings.
- Public safety expenditures were under budget by \$ 17,408, mainly due to fire personnel expenditure reduction based on on-call activity.
- Streets and highways administrative, as well as repair and maintenance expenditures were under budget by \$ 61,463.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounted to \$ 17,188,998 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease after restatement, in the City's investment in capital assets for the current year was \$ 302,590, which represents a 1.8% overall decrease.

Major capital asset events during the current year included the following:

- Completion of the MSA Holly Street project incurred additional construction costs of approximately \$ 254,688, as well as approximately \$ 1 million which were reflected in construction in progress at year end 2011.
- The addition of a filtration system well No. 2 for approximately \$ 300,000 was added.
- A prior period adjustment to add \$ 2,067,596 in infrastructure capital assets related to The Ponds development.

Additional information on the City's capital assets can be found in Note 5 starting on page 51.

Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2012	Restated 2011	Increase (Decrease)	2012	Restated 2011	Increase (Decrease)
Land	\$ 1,747,139	\$ 1,747,139	\$ -	\$ 1,521	\$ 1,521	\$ -
Buildings and Improvements	1,923,305	2,009,802	(86,497)	14,648	14,974	(326)
Machinery and Equipment	657,036	708,364	(51,328)	10,576	11,475	(899)
Furniture and Fixtures	33,777	39,418	(5,641)	-	-	-
Infrastructure	7,604,190	7,927,798	(323,608)	4,135,062	3,983,956	151,106
Construction in Progress	1,061,744	1,047,141	14,603	-	-	-
Total	<u>\$ 13,027,191</u>	<u>\$ 13,479,662</u>	<u>\$ (452,471)</u>	<u>\$ 4,161,807</u>	<u>\$ 4,011,926</u>	<u>\$ 149,881</u>

CITY OF OAK GROVE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Debt - At the end of the current year, the City had total bonded debt outstanding of \$ 2,262,600. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

Outstanding Debt

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
302 G.O. Capital Improvement Plan Bonds, Series 2007A	\$ 300,000	\$ 345,000	\$ (45,000)	\$ -	\$ -	\$ -
303 Taxable G.O. Tax Increment Bonds, Series 2007B	1,495,000	1,555,000	(60,000)	-	-	-
Total G.O. Bonds	<u>1,795,000</u>	<u>1,900,000</u>	<u>(105,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
304 G.O. Improvement Bonds, Series 2002A	-	33,420	(33,420)	-	-	-
305 G.O. Improvement Bonds, Series 2004B	58,600	87,900	(29,300)	-	-	-
Total G.O. Improvement Bonds	<u>58,600</u>	<u>121,320</u>	<u>(62,720)</u>	<u>-</u>	<u>-</u>	<u>-</u>
611 G.O. Sewer Revenue Note Series 2010A	-	-	-	409,000	430,000	(21,000)
Compensated Absences Payable	48,267	50,969	(2,702)	-	-	-
Other Post Employment Benefits (OPEB) Obligation	-	11,973	(11,973)	-	-	-
Total City Indebtedness	<u>\$ 1,901,867</u>	<u>\$ 2,084,262</u>	<u>\$ (182,395)</u>	<u>\$ 409,000</u>	<u>\$ 430,000</u>	<u>\$ (21,000)</u>

The City's total bonded debt decreased by \$ 188,720 (9.7%) during the current year. This was due to scheduled debt service principal payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3% of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes.

Additional information on the City's long-term debt can be found in Note 6 starting on page 53 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The overall tax levy decreased in 2013 by \$ 202,953 and Council expects continuing monitoring of City finances and looking for opportunities to minimize the tax effect of City operations.
- Property tax values are expected to decline again for the 2014 budget cycle and this will result in negative changes in the City's tax rate. This will be considered when planning the 2014 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Oak Grove, 19900 Nightingale Street NW, Oak Grove, Minnesota, 55011.

BASIC FINANCIAL STATEMENTS

CITY OF OAK GROVE

STATEMENT OF NET POSITION

December 31, 2012

With Comparative Totals as of December 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 9,965,789	\$ 568,582	\$ 10,534,371	\$ 10,108,248
Receivables:				
Accounts Receivable	21,753	37,477	59,230	74,394
Interest Receivable	29,559	-	29,559	30,209
Due from Other Governments	134,622	-	134,622	8,992
Taxes Receivable:				
Unremitted	24,835	-	24,835	23,980
Delinquent	107,591	-	107,591	148,200
Special Assessments Receivable:				
Unremitted	-	-	-	442
Delinquent	3,380	-	3,380	4,585
Deferred	186,690	116,448	303,138	376,539
Prepaid Items	28,359	-	28,359	38,598
Land Held for Resale	918,800	-	918,800	918,800
Deferred Charges	-	-	-	52,950
Capital Assets not being Depreciated:				
Land	1,747,139	1,521	1,748,660	1,748,660
Construction in Progress	1,061,744	-	1,061,744	1,047,141
Capital Assets (Net of Accumulated Depreciation):				
Buildings and Improvements	1,923,305	14,648	1,937,953	2,024,776
Furniture and Fixtures	33,777	-	33,777	39,418
Machinery and Equipment	657,036	10,576	667,612	719,839
Infrastructure	7,604,190	4,135,062	11,739,252	9,844,158
	<u>\$ 24,448,569</u>	<u>\$ 4,884,314</u>	<u>\$ 29,332,883</u>	<u>\$ 27,209,929</u>
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 217,564	\$ 24,034	\$ 241,598	\$ 153,031
Contracts Payable	-	2,672	2,672	-
Due to Other Governments	5,170	8,400	13,570	35,724
Salaries and Benefits Payable	27,056	544	27,600	17,348
Interest Payable	41,590	2,598	44,188	46,608
Bond Principal Payable:				
Payable Within One Year	134,300	21,000	155,300	188,720
Payable After One Year	1,719,300	388,000	2,107,300	2,262,600
Compensated Absences Payable:				
Payable Within One Year	46,336	-	46,336	48,930
Payable After One Year	1,931	-	1,931	2,039
Other Post Employment Benefits (OPEB) Obligation	-	-	-	11,973
Total Liabilities	<u>2,193,247</u>	<u>447,248</u>	<u>2,640,495</u>	<u>2,766,973</u>
Net Position				
Net Investment in Capital Assets	11,173,591	3,752,807	14,926,398	12,972,672
Restricted				
Debt Service	273,749	-	273,749	323,552
Tax Increment	485,510	-	485,510	488,216
Subordinate Service District	3,553	-	3,553	24,380
Cable TV - PEG	-	-	-	40,748
Park Dedication	339,566	-	339,566	366,933
Unrestricted	9,979,353	684,259	10,663,612	10,226,455
Total Net Position	<u>22,255,322</u>	<u>4,437,066</u>	<u>26,692,388</u>	<u>24,442,956</u>
	<u>\$ 24,448,569</u>	<u>\$ 4,884,314</u>	<u>\$ 29,332,883</u>	<u>\$ 27,209,929</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF OAK GROVE

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2012	2011
Governmental Activities								
General Government	\$ 766,250	\$ 32,972	\$ 7,156	\$ -	\$ (726,122)	\$ -	\$ (726,122)	\$ (719,098)
Public Safety	948,015	146,420	29,076	1,700	(770,819)	-	(770,819)	(808,290)
Public Works	1,205,821	-	32,893	494,134	(678,794)	-	(678,794)	(74,725)
Sanitation	29,149	15,707	23,720	-	10,278	-	10,278	12,236
Parks and Recreation	145,582	-	1,433	12,000	(132,149)	-	(132,149)	(110,709)
Conservation and Natural Resources	34,712	-	-	-	(34,712)	-	(34,712)	(15,916)
Economic Development	7,166	-	-	-	(7,166)	-	(7,166)	(6,588)
Interest on Long-Term Debt	102,737	-	-	-	(102,737)	-	(102,737)	(115,361)
Total Governmental Activities	<u>3,239,432</u>	<u>195,099</u>	<u>94,278</u>	<u>507,834</u>	<u>(2,442,221)</u>	<u>-</u>	<u>(2,442,221)</u>	<u>(1,838,451)</u>
Business-Type Activities								
Water	151,627	140,076	-	21,011	-	9,460	9,460	3,092
Sewer	284,274	157,351	-	28,608	-	(98,315)	(98,315)	4,015
Street Light	6,970	9,334	-	-	-	2,364	2,364	-
Total Business-Type Activities	<u>442,871</u>	<u>306,761</u>	<u>-</u>	<u>49,619</u>	<u>-</u>	<u>(86,491)</u>	<u>(86,491)</u>	<u>7,107</u>
Total Governmental and Business-Type Activities	<u>\$ 3,682,303</u>	<u>\$ 501,860</u>	<u>\$ 94,278</u>	<u>\$ 557,453</u>	<u>(2,442,221)</u>	<u>(86,491)</u>	<u>(2,528,712)</u>	<u>(1,831,344)</u>
General Revenues								
Property Taxes					2,313,037	-	2,313,037	2,698,647
Property Taxes Levied for Debt Service					202,984	-	202,984	264,954
Franchise Taxes					65,748	-	65,748	61,998
Tax Increments					7,936	-	7,936	9,820
Intergovernmental					4,823	-	4,823	2,842
Unrestricted Investment Earnings					149,367	11,875	161,242	183,142
Other General Revenue					-	-	-	27,440
Gain on Sale of Capital Assets					7,728	-	7,728	4,642
Transfers					<u>(47,402)</u>	<u>47,402</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers					<u>2,704,221</u>	<u>59,277</u>	<u>2,763,498</u>	<u>3,253,485</u>
Change in Net Position					<u>262,000</u>	<u>(27,214)</u>	<u>234,786</u>	<u>1,422,141</u>
Net Position - Beginning					<u>22,462,898</u>	<u>1,980,058</u>	<u>24,442,956</u>	<u>23,020,815</u>
Change in Accounting Principle					<u>(48,273)</u>	<u>(4,677)</u>	<u>(52,950)</u>	<u>-</u>
Prior Period Adjustment					<u>(421,303)</u>	<u>2,488,899</u>	<u>2,067,596</u>	<u>-</u>
Net Position - Beginning, As Restated					<u>21,993,322</u>	<u>4,464,280</u>	<u>26,457,602</u>	<u>23,020,815</u>
Net Position - Ending					<u>\$ 22,255,322</u>	<u>\$ 4,437,066</u>	<u>\$ 26,692,388</u>	<u>\$ 24,442,956</u>

CITY OF OAK GROVE

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012
With Comparative Totals as of December 31, 2011**

	General Fund (101, 203, 204, 205)	Capital Projects		
		Asset Replacement Fund (410, 411, 412, 413)	Cable TV Franchise Grant Fund (206)	MSA Construction Fund (402)
ASSETS				
Cash and Investments	\$ 2,997,856	\$ 4,693,014	\$ 46,576	\$ -
Accounts Receivable	21,753	-	-	-
Interest Receivable	29,559	-	-	-
Due from Other Funds	113,690	-	-	-
Due from Other Governments	-	-	-	124,080
Taxes Receivable:				
Unremitted	24,835	-	-	-
Delinquent	107,591	-	-	-
Special Assessment Receivable:				
Unremitted	-	-	-	-
Delinquent	412	-	-	-
Deferred	104,410	-	-	-
Prepaid Items	28,359	-	-	-
Land Held for Resale	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 3,428,465</u>	<u>\$ 4,693,014</u>	<u>\$ 46,576</u>	<u>\$ 124,080</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 92,319	\$ -	\$ 79,012	\$ 6,736
Due to Other Funds	-	-	-	119,875
Due to Other Governments	5,170	-	-	-
Salaries and Benefits Payable	26,290	-	-	-
Total Liabilities	<u>123,779</u>	<u>-</u>	<u>79,012</u>	<u>126,611</u>
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	107,591	-	-	-
Unavailable Revenue - Special Assessments	104,822	-	-	-
Total Deferred Inflows of Resources	<u>212,413</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	28,359	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	4,693,014	-	-
Unassigned	3,063,914	-	(32,436)	(2,531)
Total Fund Balances	<u>3,092,273</u>	<u>4,693,014</u>	<u>(32,436)</u>	<u>(2,531)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,428,465</u>	<u>\$ 4,693,014</u>	<u>\$ 46,576</u>	<u>\$ 124,080</u>

Capital Projects				
Road Improvement Fund (403)	TIF West Lake George Administration Fund (405)	Nonmajor Governmental Funds	Total Governmental Funds	
			2012	2011
\$ 1,312,232	\$ -	\$ 916,111	\$ 9,965,789	\$ 9,380,107
-	-	-	21,753	23,050
-	-	-	29,559	30,209
119,875	-	-	233,565	162,161
-	-	10,542	134,622	8,992
-	-	-	24,835	23,980
-	-	-	107,591	148,200
-	-	-	-	267
2,968	-	-	3,380	4,585
18,977	-	63,303	186,690	258,514
-	-	-	28,359	38,598
-	599,200	319,600	918,800	918,800
<u>\$ 1,454,052</u>	<u>\$ 599,200</u>	<u>\$ 1,309,556</u>	<u>\$ 11,654,943</u>	<u>\$ 10,997,463</u>
\$ 3,981	\$ -	\$ 35,516	\$ 217,564	\$ 140,432
-	113,690	-	233,565	162,161
-	-	-	5,170	35,724
-	-	766	27,056	17,348
<u>3,981</u>	<u>113,690</u>	<u>36,282</u>	<u>483,355</u>	<u>355,665</u>
-	-	-	107,591	148,200
21,945	-	63,303	190,070	263,098
<u>21,945</u>	<u>-</u>	<u>63,303</u>	<u>297,661</u>	<u>411,298</u>
-	-	-	28,359	38,598
-	485,510	595,155	1,080,665	1,185,978
-	-	361,742	361,742	406,064
1,428,126	-	253,074	6,374,214	5,965,519
-	-	-	3,028,947	2,634,341
<u>1,428,126</u>	<u>485,510</u>	<u>1,209,971</u>	<u>10,873,927</u>	<u>10,230,500</u>
<u>\$ 1,454,052</u>	<u>\$ 599,200</u>	<u>\$ 1,309,556</u>	<u>\$ 11,654,943</u>	<u>\$ 10,997,463</u>

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CITY OF OAK GROVE

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011**

	2012	2011
Total Fund Balances - Governmental Funds	\$ 10,873,927	\$ 10,230,500
Amounts reported for governmental activities in the Statement of Net Positions are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Capital Assets	22,600,382	22,766,675
Less Accumulated Depreciation	(9,573,191)	(8,865,710)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond Principal Payable	(1,853,600)	(2,021,320)
Unamortized Debt Issue Cost	-	48,273
Compensated Absences Payable	(48,267)	(50,969)
Unfunded OPEB Liability	-	(11,973)
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
Property Taxes	107,591	148,200
Special Assessments	3,380	4,585
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred Special Assessments	186,690	258,513
Governmental funds do not report a liability for accrued interest until due and payable.		
	(41,590)	(43,876)
Total Net Position - Governmental Activities	\$ 22,255,322	\$ 22,462,898

CITY OF OAK GROVE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011**

	General Fund (101, 203, 204, 205)	Capital Projects		
		Asset Replacement Fund (410, 411, 412, 413)	Cable TV Franchise Grant Fund (206)	MSA Construction Fund (402)
REVENUES				
Property Taxes	\$ 2,340,127	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-
Special Assessments	19,434	-	-	-
Licenses and Permits	133,085	-	-	-
Intergovernmental	202,962	-	-	124,080
Charges for Services	7,831	-	-	-
Fines and Forfeitures	38,476	-	-	-
Miscellaneous:				
Investment Income	43,096	72,579	732	-
Contributions and Donations	3,133	-	5,096	-
Franchise Fees	65,748	-	-	-
Other	32,893	-	-	-
Total Revenues	<u>2,886,785</u>	<u>72,579</u>	<u>5,828</u>	<u>124,080</u>
EXPENDITURES				
Current				
General Government	741,649	-	-	-
Public Safety	820,401	-	-	-
Public Works	420,281	-	-	13,491
Sanitation	-	-	-	-
Parks and Recreation	72,049	-	-	-
Conservation and Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay				
General Government	-	-	79,012	-
Public Safety	20,834	-	-	-
Public Works	95,115	25,188	-	19,982
Sanitation	-	-	-	-
Parks and Recreation	-	-	-	-
Total Expenditures	<u>2,170,329</u>	<u>25,188</u>	<u>79,012</u>	<u>33,473</u>
Excess of Revenues Over (Under) Expenditures	716,456	47,391	(73,184)	90,607
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	7,728	-	-
Transfers In	9,740	150,000	-	-
Transfers Out	(400,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(390,260)</u>	<u>157,728</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	326,196	205,119	(73,184)	90,607
FUND BALANCES				
Beginning of Year	<u>2,766,077</u>	<u>4,487,895</u>	<u>40,748</u>	<u>(93,138)</u>
End of Year	<u>\$ 3,092,273</u>	<u>\$ 4,693,014</u>	<u>\$ (32,436)</u>	<u>\$ (2,531)</u>

Capital Projects				
Road Improvement Fund (403)	TIF West Lake George Administration Fund (405)	Nonmajor Governmental Funds	Total Governmental Funds	
			2012	2011
\$ -	\$ -	\$ 216,503	\$ 2,556,630	\$ 2,968,647
-	7,936	-	7,936	9,820
5,235	-	57,389	82,058	142,269
-	-	-	133,085	81,652
-	-	23,720	350,762	1,176,276
-	-	15,707	23,538	39,711
-	-	-	38,476	32,638
22,609	-	10,351	149,367	174,713
-	-	12,000	20,229	16,145
-	-	-	65,748	61,998
-	-	194,021	226,914	27,440
<u>27,844</u>	<u>7,936</u>	<u>529,691</u>	<u>3,654,743</u>	<u>4,731,309</u>
-	-	2,500	744,149	891,093
-	-	-	820,401	842,831
12,820	-	-	446,592	494,466
-	-	27,709	27,709	31,122
-	-	96	72,145	69,346
-	-	34,712	34,712	15,916
-	642	6,524	7,166	6,588
-	-	167,720	167,720	198,220
-	-	105,023	105,023	113,140
-	-	-	79,012	-
-	-	-	20,834	15,666
254,689	-	-	394,974	1,156,481
-	-	6,327	6,327	3,229
-	-	44,878	44,878	25,804
<u>267,509</u>	<u>642</u>	<u>395,489</u>	<u>2,971,642</u>	<u>3,863,902</u>
(239,665)	7,294	134,202	683,101	867,407
-	-	-	7,728	38,101
250,000	-	10,000	419,740	692,946
-	(10,000)	(57,142)	(467,142)	(987,992)
<u>250,000</u>	<u>(10,000)</u>	<u>(47,142)</u>	<u>(39,674)</u>	<u>(256,945)</u>
10,335	(2,706)	87,060	643,427	610,462
<u>1,417,791</u>	<u>488,216</u>	<u>1,122,911</u>	<u>10,230,500</u>	<u>9,620,038</u>
<u>\$ 1,428,126</u>	<u>\$ 485,510</u>	<u>\$ 1,209,971</u>	<u>\$ 10,873,927</u>	<u>\$ 10,230,500</u>

CITY OF OAK GROVE

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	<u>2012</u>	<u>2011</u>
Net Change in Fund Balances - Total Governmental Funds:	\$ 643,427	\$ 610,462
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	546,025	1,201,180
Expenses not Capitalized	(163,249)	(109,339)
Depreciation Expense	(835,247)	(832,843)
Loss on Disposal	-	(33,459)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		
	2,702	24,844
OPEB costs are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		
	11,973	-
Anoka County HRA - Oaks of Lake George Deficit Liability		
	-	180,106
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net assets in the Statement of Activities.		
	167,720	198,220
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
	2,286	1,757
Amortization of Debt Issuance Costs		
	-	(3,978)
Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred Special Assessments	(71,823)	(120,660)
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.		
Delinquent Special Assessments	(1,205)	315
Delinquent Property Taxes	(40,609)	(5,046)
Change in Net Position of Governmental Activities	<u>\$ 262,000</u>	<u>\$ 1,111,559</u>

CITY OF OAK GROVE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u> Original and Final	<u>Actual</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES			
Property Taxes	\$ 2,320,404	\$ 2,340,127	\$ 19,723
Special Assessments	17,600	19,434	1,834
Licenses and Permits	94,235	133,085	38,850
Intergovernmental	172,413	202,962	30,549
Charges for Services	40	7,831	7,791
Fines and Forfeitures	25,100	38,476	13,376
Miscellaneous:			
Investment Income	75,000	43,096	(31,904)
Contributions and Donations	500	3,133	2,633
Franchise Fees	-	65,748	65,748
Other	35,043	32,893	(2,150)
Total Miscellaneous	<u>110,543</u>	<u>144,870</u>	<u>34,327</u>
Total Revenues	<u>2,740,335</u>	<u>2,886,785</u>	<u>146,450</u>
EXPENDITURES			
Current			
General Government	874,618	741,649	(132,969)
Public Safety	837,809	820,401	(17,408)
Public Works	481,744	420,281	(61,463)
Parks and Recreation	66,904	72,049	5,145
Capital Outlay			
Public Safety	25,000	20,834	(4,166)
Public Works	103,000	95,115	(7,885)
Total Expenditures	<u>2,389,075</u>	<u>2,170,329</u>	<u>(218,746)</u>
Excess of Revenues Over Expenditures	351,260	716,456	365,196
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	39,000	-	(39,000)
Transfers In	9,740	9,740	-
Transfers Out	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(351,260)</u>	<u>(390,260)</u>	<u>(39,000)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>326,196</u>	<u>\$ 326,196</u>
FUND BALANCES			
Beginning of Year		<u>2,766,077</u>	
End of Year		<u>\$ 3,092,273</u>	

CITY OF OAK GROVE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2012
With Comparative Totals as of December 31, 2011

	Sewer - Lake George (611)	Sewer - The Ponds (612)	Water - Lake George (621)	Water - The Ponds (622)
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 475,199	\$ -	\$ -	\$ 43,404
Accounts Receivable	5,344	12,896	3,305	14,255
Special Assessment Receivable:				
Unremitted	-	-	-	-
Deferred	116,448	-	-	-
Due from Other Funds	27,721	-	-	139,424
Deferred Charges	-	-	-	-
Total Current Assets	<u>624,712</u>	<u>12,896</u>	<u>3,305</u>	<u>197,083</u>
Noncurrent Assets				
Capital Assets:				
Land	1,521	-	-	-
Buildings and Improvements	16,276	-	-	-
Machinery and Equipment	14,344	-	-	-
Infrastructure	2,922,313	2,209,959	778,911	802,300
Total Capital Assets	<u>2,954,454</u>	<u>2,209,959</u>	<u>778,911</u>	<u>802,300</u>
Less Accumulated Depreciation	<u>(1,502,628)</u>	<u>(860,417)</u>	<u>(70,748)</u>	<u>(150,024)</u>
Net Capital Assets	<u>1,451,826</u>	<u>1,349,542</u>	<u>708,163</u>	<u>652,276</u>
Total Assets	<u>\$ 2,076,538</u>	<u>\$ 1,362,438</u>	<u>\$ 711,468</u>	<u>\$ 849,359</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 8,032	\$ 5,372	\$ 4,741	\$ 4,798
Contracts Payable	-	-	2,672	-
Salaries and Benefits Payable	235	39	270	-
Interest Payable	2,598	-	-	-
Due to Other Funds	-	27,721	139,424	-
Due to Other Governments	-	-	-	8,400
Amount Due Within One Year	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>31,865</u>	<u>33,132</u>	<u>147,107</u>	<u>13,198</u>
Noncurrent Liabilities				
Bonds Payable	409,000	-	-	-
Less Amount Due Within One Year	<u>(21,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>388,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>419,865</u>	<u>33,132</u>	<u>147,107</u>	<u>13,198</u>
Net Position				
Net Investment in Capital Assets	1,042,826	1,349,542	708,163	652,276
Unrestricted	<u>613,847</u>	<u>(20,236)</u>	<u>(143,802)</u>	<u>183,885</u>
Total Net Position	<u>1,656,673</u>	<u>1,329,306</u>	<u>564,361</u>	<u>836,161</u>
Total Liabilities and Net Position	<u>\$ 2,076,538</u>	<u>\$ 1,362,438</u>	<u>\$ 711,468</u>	<u>\$ 849,359</u>

Street Light (601)	Total Proprietary Funds	
	2012	2011
\$ 49,979	\$ 568,582	\$ 728,141
1,677	37,477	51,344
-	-	175
-	116,448	118,025
-	167,145	-
-	-	4,677
<u>51,656</u>	<u>889,652</u>	<u>902,362</u>
-	1,521	1,521
-	16,276	16,276
-	14,344	14,344
-	6,713,483	2,922,313
-	6,745,624	2,954,454
-	(2,583,817)	(1,431,427)
-	4,161,807	1,523,027
<u>\$ 51,656</u>	<u>\$ 5,051,459</u>	<u>\$ 2,425,389</u>
\$ 1,091	\$ 24,034	\$ 12,599
-	2,672	-
-	544	-
-	2,598	2,732
-	167,145	-
-	8,400	-
-	21,000	21,000
<u>1,091</u>	<u>226,393</u>	<u>36,331</u>
-	409,000	430,000
-	(21,000)	(21,000)
-	388,000	409,000
<u>1,091</u>	<u>614,393</u>	<u>445,331</u>
-	3,752,807	1,093,027
50,565	684,259	887,031
<u>50,565</u>	<u>4,437,066</u>	<u>1,980,058</u>
<u>\$ 51,656</u>	<u>\$ 5,051,459</u>	<u>\$ 2,425,389</u>

CITY OF OAK GROVE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011**

	<u>Sewer - Lake George (611)</u>	<u>Sewer - The Ponds (612)</u>	<u>Water - Lake George (621)</u>	<u>Water - The Ponds (622)</u>
OPERATING REVENUES				
Charges for Services	\$ 71,897	\$ 74,676	\$ 24,012	\$ 115,534
Permits, Hookup Fees and Penalties	-	-	-	80
Miscellaneous Operating Revenues	-	-	-	450
Total Operating Revenues	<u>71,897</u>	<u>74,676</u>	<u>24,012</u>	<u>116,064</u>
OPERATING EXPENSES				
Wages and Salaries	8,294	7,166	2,920	1,019
Employee Benefits	3,087	3,315	2,029	1,734
Materials and Supplies	3,602	4,191	746	24
Water Purchases	-	-	-	105,167
Repairs and Maintenance	15,892	47,562	367	12
Professional Services	9,033	36,163	4,908	-
Utilities	4,294	13,499	4,486	274
Depreciation	71,201	49,732	11,592	16,046
Miscellaneous	-	93	303	-
Total Operating Expenses	<u>115,403</u>	<u>161,721</u>	<u>27,351</u>	<u>124,276</u>
Operating Gain (Loss)	(43,506)	(87,045)	(3,339)	(8,212)
NONOPERATING REVENUES (EXPENSES)				
Investment Income	7,777	-	867	2,432
Special Assessments	16,988	-	-	391
Intergovernmental	-	-	10,000	-
Refunds and Reimbursements	-	10,778	-	-
Connection Charges	11,500	120	-	10,620
Interest Expense	(7,150)	-	-	-
Total Nonoperating Revenues (Expenses)	<u>29,115</u>	<u>10,898</u>	<u>10,867</u>	<u>13,443</u>
Income (Loss) before Transfers	(14,391)	(76,147)	7,528	5,231
Transfers In	-	6,179	-	-
Transfers Out	<u>(6,179)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	(20,570)	(69,968)	7,528	5,231
NET POSITION				
Beginning of Year, as Previously Stated	1,681,920	-	135,530	162,608
Change in Accounting Principle	(4,677)	-	-	-
Prior Period Adjustment	-	1,399,274	421,303	668,322
Beginning of Year, as Restated	<u>1,677,243</u>	<u>1,399,274</u>	<u>556,833</u>	<u>830,930</u>
End of Year	<u>\$ 1,656,673</u>	<u>\$ 1,329,306</u>	<u>\$ 564,361</u>	<u>\$ 836,161</u>

Street Light (601)	Total Proprietary Funds	
	2012	2011
\$ 9,334	\$ 295,453	\$ 206,376
-	80	2,550
-	450	-
<u>9,334</u>	<u>295,983</u>	<u>208,926</u>
-	19,399	12,720
-	10,165	3,787
-	8,563	10,168
-	105,167	82,640
-	63,833	25,844
-	50,104	48,178
6,970	29,523	8,125
-	148,571	71,200
-	396	5,246
<u>6,970</u>	<u>435,721</u>	<u>267,908</u>
2,364	(139,738)	(58,982)
799	11,875	8,429
-	17,379	8,062
-	10,000	-
-	10,778	-
-	22,240	66,000
-	(7,150)	(7,973)
<u>799</u>	<u>65,122</u>	<u>74,518</u>
3,163	(74,616)	15,536
47,402	53,581	295,046
-	(6,179)	-
<u>50,565</u>	<u>(27,214)</u>	<u>310,582</u>
-	1,980,058	1,669,476
-	(4,677)	-
-	2,488,899	-
-	<u>4,464,280</u>	<u>1,669,476</u>
<u>\$ 50,565</u>	<u>\$ 4,437,066</u>	<u>\$ 1,980,058</u>

CITY OF OAK GROVE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	<u>Sewer - Lake George (611)</u>	<u>Sewer - The Ponds (612)</u>	<u>Water - Lake George (621)</u>	<u>Water - The Ponds (622)</u>
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 95,363	\$ 61,780	\$ 24,132	\$ 120,918
Payments to Suppliers	(37,388)	(96,136)	(6,069)	(92,279)
Payments to Employees	(11,146)	(10,442)	(4,679)	(2,753)
Net Cash Flows - Operating Activities	<u>46,829</u>	<u>(44,798)</u>	<u>13,384</u>	<u>25,886</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Refunds and Reimbursements	-	10,778	-	-
Transfer from Other Funds	-	6,179	-	-
Transfer to Other Funds	(6,179)	-	-	-
Payment of Due From/To Other Funds	(27,721)	27,721	139,424	(139,424)
Net Cash Flows - Noncapital Financing Activities	<u>(33,900)</u>	<u>44,678</u>	<u>139,424</u>	<u>(139,424)</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	(21,000)	-	-	-
Interest Paid on Debt	(7,284)	-	-	-
Special Assessments	14,894	-	-	4,237
Connection Charges	11,500	120	-	10,620
Intergovernmental Revenue	-	-	10,000	-
Acquisition of Capital Assets	-	-	(295,780)	-
Net Cash Flows - Capital and Related Financing Activities	<u>(1,890)</u>	<u>120</u>	<u>(285,780)</u>	<u>14,857</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>7,777</u>	<u>-</u>	<u>867</u>	<u>2,432</u>
Net Change in Cash and Cash Equivalents	18,816	-	(132,105)	(96,249)
CASH AND CASH EQUIVALENTS				
January 1	<u>456,383</u>	<u>-</u>	<u>132,105</u>	<u>139,653</u>
December 31	<u>\$ 475,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,404</u>
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Gain (Loss)	\$ (43,506)	\$ (87,045)	\$ (3,339)	\$ (8,212)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Flows -				
Depreciation Expense	71,201	49,732	11,592	16,046
Accounts Receivable	23,466	(12,896)	120	4,854
Prepaid Items	-	-	-	-
Accounts Payable	(4,567)	5,372	4,741	4,798
Due to Other Governmental Units	-	-	-	8,400
Salaries Payable	235	39	270	-
Total Adjustments	<u>90,335</u>	<u>42,247</u>	<u>16,723</u>	<u>34,098</u>
Net Cash Flows - Operating Activities	<u>\$ 46,829</u>	<u>\$ (44,798)</u>	<u>\$ 13,384</u>	<u>\$ 25,886</u>

Street Light (601)	Total Proprietary Funds	
	2012	2011
\$ 7,657	\$ 309,850	\$ 177,091
(5,879)	(237,751)	(177,852)
-	(29,020)	(16,507)
<u>1,778</u>	<u>43,079</u>	<u>(17,268)</u>
-	10,778	-
47,402	53,581	295,046
-	(6,179)	-
-	-	-
<u>47,402</u>	<u>58,180</u>	<u>295,046</u>
-	(21,000)	(30,000)
-	(7,284)	(7,792)
-	19,131	28,578
-	22,240	66,000
-	10,000	-
-	(295,780)	-
-	(272,693)	56,786
<u>799</u>	<u>11,875</u>	<u>8,429</u>
49,979	(159,559)	342,993
-	728,141	385,148
<u>\$ 49,979</u>	<u>\$ 568,582</u>	<u>\$ 728,141</u>
\$ 2,364	\$ (139,738)	\$ (58,982)
-	148,571	71,200
(1,677)	13,867	(31,835)
-	-	62
1,091	11,435	2,287
-	8,400	-
-	544	-
<u>(586)</u>	<u>182,817</u>	<u>41,714</u>
<u>\$ 1,778</u>	<u>\$ 43,079</u>	<u>\$ (17,268)</u>

CITY OF OAK GROVE

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2012

With Comparative Totals as of December 31, 2011

	Agency Funds	
	2012	2011
ASSETS		
Cash and Investments	\$ 89,215	\$ 265,674
LIABILITIES		
Accounts Payable	\$ -	\$ 2,660
Deposits Payable	89,215	263,014
Total Liabilities	\$ 89,215	\$ 265,674

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CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Oak Grove (the “City”) is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit – Reported as if they were part of the City.

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Blended Component Unit

The Oak Grove Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Oak Grove EDA is reported as if it were part of the primary government because the Commissioners consist of the Mayor and each member of the City Council. Each Commissioner’s term coincides with their term as Mayor or member of the City Council.

2. Joint Ventures and Jointly Governed Organizations

LOGIS – a Jointly Governed Organization. This consortium of approximately 45 governmental entities provides computerized data processing and support services to its members. LOGIS is legally separate; the City does not appoint a voting majority of the Board; and, the consortium is fiscally independent of the City. During 2012, the City paid \$ 43,418 to this organization for services provided, which is included as expenditures/expenses of the General and Asset Replacement Funds. Financial information can be obtained at 5750 Duluth Street, Golden Valley, Minnesota 55422-4036. The City terminated its use of LOGIS at the end of 2012.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

2. Joint Ventures and Jointly Governed Organizations (Continued)

The Upper Rum River Watershed Management Organization (URRWMO). The URRWMO is a joint powers organization including the Cities of St. Francis, Oak Grove, Nowthen, Bethel and portions of the City of East Bethel. A small corner of the City of Ham Lake also falls within the URRWMO. The URRWMO Board is made up of representatives from each of these cities and townships. The organization seeks to maintain the quality of area lakes, rivers, streams, groundwater and other water resources across municipal boundaries. During 2012, the City made payments of \$ 4,355 to the organization. All URRWMO revenues and expenditures were administered through the City of Oak Grove through 2011. Beginning in 2012, the City is no longer the administrator for URRWMO. Additional financial information can be obtained in the URRWMO's 2011 Annual Report, which is available at http://www.anokanaturalresources.com/urrwmo/mngmnt_plan_rev.htm.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level. 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 for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type, pension (or other benefit) trust and agency.

The Agency Funds are presented in the fiduciary fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, these Funds are not incorporated into the government-wide statements.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as deferred inflow of resources.

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Asset Replacement Fund – This Fund is used to account for funds set aside primarily from taxes and used for the replacement of the City’s capital assets.

Cable TV Franchise Grant Fund – This Fund is used to account for cable TV capital activity.

MSA Construction Fund – This Fund is used to account for the accumulation of resources used for Minnesota State Aid construction projects.

Road Improvement Fund – This Fund is used to account for funds set aside from property taxes for the construction and seal coating of City roads.

TIF West Lake George Administration Fund – This Fund accounts for land purchased for the West Lake George Project and other administrative purposes.

Proprietary Funds:

Sewer – Lake George Fund – This Fund is used to account for the activities related to the operation of the Lake George sewer distribution system.

Sewer – The Ponds Fund – This Fund is used to account for the activities related to the operation of The Ponds sewer distribution system.

Water – Lake George Fund – This Fund accounts for the operations of the City’s water utility in the Lake George area.

Water – The Ponds Fund – This Fund accounts for the operations of the City’s water utility in The Ponds.

Street Light Fund – This Fund accounts for the operations of the City’s street light utility.

Agency Funds:

Agency Funds – These Funds are used to account for the monies on behalf of developers’ escrow and cable television.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City as well as charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to first use committed resources, then assigned and then unassigned resources as they are needed.

D. Assets, Liabilities and Net Position or Fund Balance

1. Deposits and Investments

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

The City had formal policies in place as of December 31, 2012 to address the risks identified on the following page.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has adopted a deposit policy to address custodial risk for deposits that states all depositories approved by the City Council must maintain a sufficient level of depository insurance and collateralized securities to cover deposits made by the City.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy refers to *Minnesota Statutes* 118A. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to those that are in the top two ratings issued by nationally recognized statistical rating organizations.

Interest Rate Risk: The City's investment policy addresses diversification of maturity dates and liquidity of the investment portfolio to limit exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states all investments of City funds must be covered by security investor protection or other acceptable brokerage insurance to limit the City's exposure to custodial credit risk.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a City's investment in a single issuer. The City's investment policy states that the portfolio will be diversified so the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City are reported at fair value.

2. Property Taxes

The City Council annually adopts a tax levy and certifies it to Anoka County (the "County") in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local school district and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

2. Property Taxes (Continued)

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and state credits received by the City in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

3. Special Assessments

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with *Minnesota Statutes*. These assessments are collectible by the City over a term usually consistent with the terms of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City.

If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are remitted to the City in payment of delinquent special assessments. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. All remaining delinquent and deferred assessments receivable in governmental funds are offset by deferred inflows of resources. In the proprietary funds all special assessment receivables are shown as revenue in the year they are recorded.

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

5. Land Held for Resale

Land is acquired by the City for subsequent resale for redevelopment purposes. Land held for resale is reported as an asset at the lower of cost or estimated realizable value in the fund that acquired it.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost as noted on the table on the following page and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City has not reported infrastructure for all streets and bridges, etc. retroactively. The City reports as street infrastructure only those streets financed by assessments since Oak Grove became a city in 1993. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

<u>Assets</u>	<u>Threshold</u>
Land/Land Improvements	\$ 10,000
Buildings and Improvements	25,000
Machinery and Equipment	1,000
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

6. Capital Assets (Continued)

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-40
Building Improvements	5-30
Wastewater Sewer Systems	25-50
Streets	25-50
Vehicles and Equipment	3-50
Furniture	15
Office Equipment	7-15
Park Improvements	10-30

7. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently only has one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item is reported only in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In July 2007, the City's policy was amended to a paid time off (PTO) leave policy where vacation and sick were combined into one type of leave pay. All compensatory pay and PTO benefits that are vested as severance pay is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive extended medical benefits (EMB).

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

8. Compensated Absences (Continued)

All compensated absences pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee termination or similar circumstances. These liabilities are paid by the governmental fund the employee provided most of its service to. The liability for accrued compensated absences including compensatory pay and PTO leave was estimated at \$ 48,267 at December 31, 2012.

9. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts, as well as issuance costs, are reported as an expense in the year the bond is issued. Bonds payable are reported net of the applicable bond premium.

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

10. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the City Council and that remain binding unless removed by the City Council by subsequent formal action.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

10. Fund Balance (Continued)

a. Classification (Continued)

- Assigned Fund Balances – These are amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted or committed. The City Council has delegated authority to assign and remove fund balance assignments to the Finance Department.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

b. Minimum Fund Balance

The City’s target General Fund balance is to maintain an unrestricted fund balance of an amount not less than 35% of the next year’s budgeted expenditures of the General Fund.

11. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

12. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

13. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented by fund types and in total in the fund financial statements and government-wide statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with this year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund and the General Fund Oak Grove EDA Special Revenue Fund. Budgeted expenditure appropriations lapse at year-end. Financial controls for debt service funds are achieved through bond indenture provisions. Project-length financial plans are adopted for all capital project funds.

B. Legal Compliance – Budgets

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

1. The City Finance Director submits to the City Council a proposed operating budget, which includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The preliminary property tax levy is legally enacted through passage of a resolution and certified to the County by September 15 of each year.
4. The final budget is legally adopted through the passage of a resolution by December 20 of each year.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and General Fund Oak Grove EDA Special Revenue Fund.
6. The City Council may authorize the transfer of budgeted amounts between funds.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Legal Compliance – Budgets (Continued)

7. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the department level. For management purposes, budgetary control is maintained within the department level. Also, inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean it will be spent. The budget process is flexible in that, where the need has been properly demonstrated, the City Administrator can make an adjustment within the department budget. Therefore, there is a constant review process, and expenditures are not approved until it has been determined that 1) adequate funds were appropriated, 2) the expenditure is still necessary and 3) funds are available.

Both the original and final budgeted amounts as adopted by the City Council are presented in the basic financial statements. Revenues exceeding budgeted amounts are sometimes used for supplemental appropriations during the year. Neither the revenue nor the expenditure budget is adjusted to reflect these items. The City did not make any supplemental appropriations during the year.

C. Deficit Fund Balance

The following Fund had a deficit fund balance at December 31, 2012:

Cable TV Franchise Grant Capital Projects Fund	\$ (32,436)
MSA Construction Capital Projects Fund	(2,531)

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City’s funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund’s portion of this pool (or pools) is displayed in the financial statements as “cash and cash equivalents” or “investments.” For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

A. Deposits

Custodial Credit Risk: This is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of December 31, 2012, the City’s bank balance of \$ 2,745,025 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the City’s name. The book balance as of December 31, 2012 for deposits was as follows.

Checking Accounts	\$ 1,872,298
Money Market Accounts	665,444
Certificates of Deposits	<u>190,000</u>
Total Deposits	<u>\$ 2,727,742</u>

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

Investment Type	Fair Value	Investment Maturities		
		Less than 1 Year	1-5 Years	6-10 Years
Mutual Money Market	\$ 1,015,896	\$ 1,015,896	\$ -	\$ -
Brokered Certificates of Deposit	3,887,052	695,878	2,938,420	252,754
Federal Home Loan Mortgage Corporation	1,101,894	-	-	1,101,894
Federal National Loan Mortgage Corporation	718,146	218,696	-	499,450
Federal Home Loan Bank Conventional	1,172,857	-	-	1,172,857
Total	\$ 7,895,845	\$ 1,930,470	\$ 2,938,420	\$ 3,026,955

Concentration of Credit Risk – Investments: As of December 31, 2012, the City’s investments in Federal Home Loan Mortgage Corporation (14.0%), Federal National Loan Mortgage Corporation (9.1%) and Federal Home Loan Bank Conventional (14.9%), were exposed to concentration of credit risk as they exceeded 5% of the City’s total investment.

Credit Risk: As of December 31, 2012, the FHLB Bonds and mortgage backed notes were rated AA+ by Standard & Poor’s (S&P) and Aaa by Moody’s Investors Services. Money market mutual funds and certificate of deposits are not rated.

Custodial Credit Risk – Securities held by the City’s broker-dealer are not registered to the City, but are in an insured account. The account is insured up to \$ 500,000 by Securities Investor Protection Corporation (SIPC) insurance and the broker-dealer provides an additional \$ 1 billion aggregate policy for all of its customers as a group, not individually. It is not known what portion of this policy is applicable to the City’s portfolio.

C. Deposits and Investments

Summary of cash deposits and investments as of December 31, 2012 were as follows:

Deposits (Note 3.A.)	\$ 2,727,742
Investments (Note 3.B.)	<u>7,895,845</u>
Total	<u>\$ 10,623,587</u>

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments (Continued)

Deposits and investments are presented in the December 31, 2012 basic financial statements as follows:

Statement of Net Assets:

Cash and Investments \$ 10,534,372

Statement of Fiduciary Net Assets 89,215

Total Deposits and Investments \$ 10,623,587

NOTE 4 – INTERFUND ACTIVITY

A. Interfund Receivables and Payables

At December 31, 2012, the composition of interfund balances was as follows:

Fund Type and Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 113,690	\$ -
MSA Construction Capital Projects Fund	-	119,875
Road Improvement Capital Projects Fund	119,875	-
TIF West Lake George Administration Capital Projects Fund	-	113,690
Sewer - Lake George	27,721	-
Sewer - The Ponds	-	27,721
Water - Lake George	-	139,424
Water - The Ponds	<u>139,424</u>	<u>-</u>
Total	<u><u>\$ 400,710</u></u>	<u><u>\$ 400,710</u></u>

The interfund balances payable are short-term borrowings to cover negative cash balances at the end of the year.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 – INTERFUND ACTIVITY

B. Interfund Transfers

Transfers during the year ended December 31, 2012 were as follows:

Transfers In	Transfers Out	Amount	Description
General Fund	Nonmajor Governmental Funds	\$ 9,740	Administration of recycling program
Asset Replacement Fund	General Fund	150,000	Equipment and road improvement projects
Road Improvement Fund	General Fund	250,000	Equipment and road improvement projects
	TIF West Lake George Administration		
Other Nonmajor Governmental Funds	Capital Projects Fund	10,000	For G.O. bond payment
Sewer - The Ponds	Sewer - Lake George	6,179	Equity transfer to separate the two sewer funds
			Equity transfer to move fund from a governmental fund to an enterprise fund
Street Light Fund	Nonmajor Governmental Funds	47,402	
	Total Transfers	<u>\$ 473,321</u>	

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance, as Previously Stated	Prior Period Adjustment	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
Governmental Activities:						
Capital Assets not being Depreciated:						
Land	\$ 1,747,139		\$ 1,747,139	\$ -	\$ -	\$ 1,747,139
Construction in Progress	1,047,141		1,047,141	14,603	-	1,061,744
Total Capital Assets not being Depreciated	<u>2,794,280</u>	<u>-</u>	<u>2,794,280</u>	<u>14,603</u>	<u>-</u>	<u>2,808,883</u>
Capital Assets being Depreciated:						
Buildings and Improvements	2,979,644		2,979,644	-	-	2,979,644
Furniture and Fixtures	71,581		71,581	-	-	71,581
Machinery and Equipment	3,025,737		3,025,737	148,719	103,845	3,070,611
Infrastructure	13,895,433	(480,459)	13,414,974	254,689	-	13,669,663
Total Capital Assets being Depreciated	<u>19,972,395</u>	<u>(480,459)</u>	<u>19,491,936</u>	<u>403,408</u>	<u>103,845</u>	<u>19,791,499</u>
Less Accumulated Depreciation for:						
Buildings and Improvements	969,842		969,842	86,497	-	1,056,339
Furniture and Fixtures	32,163		32,163	5,641	-	37,804
Machinery and Equipment	2,317,373		2,317,373	164,812	68,610	2,413,575
Infrastructure	5,546,332	(59,156)	5,487,176	578,297	-	6,065,473
Total Accumulated Depreciation	<u>8,865,710</u>	<u>(59,156)</u>	<u>8,806,554</u>	<u>835,247</u>	<u>68,610</u>	<u>9,573,191</u>
Total Capital Assets being Depreciated, Net	<u>11,106,685</u>	<u>(421,303)</u>	<u>10,685,382</u>	<u>(431,839)</u>	<u>35,235</u>	<u>10,218,308</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,900,965</u>	<u>\$ (421,303)</u>	<u>\$ 13,479,662</u>	<u>\$ (417,236)</u>	<u>\$ 35,235</u>	<u>\$ 13,027,191</u>

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 – CAPITAL ASSETS

	Beginning Balance, as Previously Stated	Prior Period Adjustment	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
Business-Type Activities:						
Capital Assets not being Depreciated:						
Land	\$ 1,521	\$ -	\$ 1,521	\$ -	\$ -	\$ 1,521
Capital Assets being Depreciated:						
Buildings and Improvements	16,276	-	16,276	-	-	16,276
Machinery and Equipment	14,344	-	14,344	-	-	14,344
Infrastructure	2,922,313	3,492,718	6,415,031	298,452	-	6,713,483
Total Capital Assets being Depreciated	<u>2,952,933</u>	<u>3,492,718</u>	<u>6,445,651</u>	<u>298,452</u>	<u>-</u>	<u>6,744,103</u>
Less Accumulated Depreciation for:						
Buildings and Improvements	1,302	-	1,302	326	-	1,628
Machinery and Equipment	2,869	-	2,869	899	-	3,768
Infrastructure	1,427,256	1,003,819	2,431,075	147,346	-	2,578,421
Total Accumulated Depreciation	<u>1,431,427</u>	<u>1,003,819</u>	<u>2,435,246</u>	<u>148,571</u>	<u>-</u>	<u>2,583,817</u>
Total Capital Assets being Depreciated, Net	<u>1,521,506</u>	<u>2,488,899</u>	<u>4,010,405</u>	<u>149,881</u>	<u>-</u>	<u>4,160,286</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,523,027</u>	<u>\$ 2,488,899</u>	<u>\$ 4,011,926</u>	<u>\$ 149,881</u>	<u>\$ -</u>	<u>\$ 4,161,807</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General Government	\$ 32,004
Public Safety	108,110
Public Works	665,134
Sanitation	1,440
Parks and Recreation	<u>28,559</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 835,247</u>
Business-Type Activities:	
Sewer - Lake George	\$ 71,201
Sewer - The Ponds	49,732
Water - Lake George	11,592
Water - The Ponds	<u>16,046</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 148,571</u>

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues G.O. bonds to provide for financing tax increment projects and street improvements. Debt service is covered respectively by tax increments and special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City.

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Governmental Activities:						
G.O. Improvement Bonds:						
G.O. Improvement Bonds, Series 2004B	09/01/04	2.45%-4.30%	293,000	09/01/14	\$ 58,600	\$ 29,300
G.O. Bonds:						
G.O. Capital Improvement Plan Bond, Series 2007A	11/15/07	3.55%-4.00%	465,000	11/05/18	300,000	45,000
Taxable G.O. Tax Increment Bond, Series 2007B	11/15/07	4.75%-6.00%	1,690,000	11/15/28	<u>1,495,000</u>	<u>60,000</u>
Total G. O. Bonds					<u>1,795,000</u>	<u>105,000</u>
Subtotal Bonds Payable					<u>1,853,600</u>	<u>134,300</u>
Compensated Absences	N/A	N/A	N/A	N/A	<u>48,267</u>	<u>46,336</u>
Total Governmental Activities					<u>\$ 1,901,867</u>	<u>\$ 180,636</u>
Business-Type Activities:						
G.O. Sewer Revenue Note Series 2010A	04/20/10	1.69%	490,429	08/20/29	<u>\$ 409,000</u>	<u>\$ 21,000</u>

On April 1, 2010, the City entered into a loan agreement for the G.O. Sewer Revenue Note for \$ 490,429 with the Minnesota Public Facilities Authority (PFA), with an interest rate of 1.694%. The first interest payment on the Note was due August 20, 2010 and semi-annually on February 20 and August 20, thereafter. Principal on the Note will be due on August 20 in the years 2010 through 2029. The Note financed improvements to the City's wastewater treatment system to connect the Northeast Treatment System to the West Treatment System and to eliminate the Northeast Treatment System. The Note is to be repaid from net revenues of the sewer system and special assessments levied on property specially benefited from the improvements. Should net revenues and assessments be insufficient to pay principal and interest when due, the City agrees to levy an ad valorem tax upon all taxable property in the City sufficient to pay such principal and interest.

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Bonds Payable:				
G.O. Improvement Bonds	\$ 121,320	\$ -	\$ 62,720	\$ 58,600
G. O. Bonds	<u>1,900,000</u>	<u>-</u>	<u>105,000</u>	<u>1,795,000</u>
Total Bonds Payable	<u>2,021,320</u>	<u>-</u>	<u>167,720</u>	<u>1,853,600</u>
Compensated Absences	<u>50,969</u>	<u>54,547</u>	<u>57,249</u>	<u>48,267</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 2,072,289</u>	<u>\$ 54,547</u>	<u>\$ 224,969</u>	<u>\$ 1,901,867</u>
Business-Type Activities:				
Notes Payable	<u>\$ 430,000</u>	<u>\$ -</u>	<u>\$ 21,000</u>	<u>\$ 409,000</u>

The General Fund typically liquidates the liability related to compensated absences.

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>			
	<u>G.O. Improvement Bonds</u>		<u>G.O. Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 29,300	\$ 2,490	\$ 105,000	\$ 95,435
2014	29,300	1,260	110,000	90,489
2015	-	-	115,000	85,329
2016	-	-	120,000	79,706
2017	-	-	130,000	73,650
2018-2022	-	-	500,000	282,056
2023-2027	-	-	580,000	131,100
2028-2029	<u>-</u>	<u>-</u>	<u>135,000</u>	<u>4,050</u>
Total	<u>\$ 58,600</u>	<u>\$ 3,750</u>	<u>\$ 1,795,000</u>	<u>\$ 841,815</u>

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

D. Minimum Debt Payments (Continued)

Year Ending December 31,	Total Governmental Activities		Business-Type Activities	
	Principal	Interest	G.O. Revenue Note Principal	Interest
2013	\$ 134,300	\$ 97,925	\$ 21,000	\$ 6,928
2014	139,300	91,749	21,000	6,573
2015	115,000	85,329	22,000	6,217
2016	120,000	79,706	22,000	5,844
2017	130,000	73,650	22,000	5,472
2018-2022	500,000	282,056	118,000	21,548
2023-2027	580,000	131,100	129,000	11,214
2028-2029	135,000	4,050	54,000	1,372
Total	\$ 1,853,600	\$ 845,565	\$ 409,000	\$ 65,168

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Asset Replacement Fund	Cable TV Franchise Grant Fund	MSA Construction Fund	Road Improvement Fund	TIF West Lake George Administration Fund	Nonmajor Governmental Funds	Total
Nonspendable:								
Prepaid Items	\$ 28,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,359
Restricted:								
TIF West Lake George	-	-	-	-	-	485,510	-	485,510
Debt Service	-	-	-	-	-	-	252,036	252,036
Subordinate Service								
District	-	-	-	-	-	-	3,553	3,553
Park Redevelopment	-	-	-	-	-	-	339,566	339,566
Committed:								
Recycling Services	-	-	-	-	-	-	20,516	20,516
EDA	-	-	-	-	-	-	341,226	341,226
Assigned:								
Asset Replacement	-	4,653,684	-	-	-	-	-	4,653,684
Road Construction/ Repair	-	-	-	-	1,428,126	-	-	1,428,126
Trail Maintenance	-	-	-	-	-	-	7,488	7,488
Public Benefit	-	-	-	-	-	-	245,586	245,586
Unassigned	3,103,244	-	(32,436)	(2,531)	-	-	-	3,068,277
Total Fund Balance	\$ 3,131,603	\$ 4,653,684	\$ (32,436)	\$ (2,531)	\$ 1,428,126	\$ 485,510	\$ 1,209,971	\$ 10,873,927

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 7 – FUND BALANCES/NET POSITION

B. Net Position

Restricted net position is comprised of the total restricted fund balances in the governmental funds plus the effect of the conversion to the government-wide net position.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation coverage is provided through a pooled self-insurance program through LMCIT. The City pays an annual premium to LMCIT and is subject to supplemental assessments if deemed necessary by LMCIT. For workers compensation, the City enrolls with a state-certified managed care organization and has a \$ 500 deductible per occurrence to further decrease the cost of coverage. Final premiums are determined after an audit of payroll subsequent to the close of the agreement year and are subject to revisions in rates, payrolls and experience modification. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

At December 31, 2012, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

GERF members belong to either the Coordinated or 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.

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 defined 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 PERA's 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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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 their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

CITY OF OAK GROVE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City’s contributions to the Public Employees’ Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 38,687, \$ 40,508 and \$ 57,050, respectively. The City’s contributions were equal to the contractually required contributions for each year as set by state statute.

Defined Contribution Plan

Three Council Members of the City are covered by the Public Employee’s Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes* Chapter 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. For ambulance service personnel, employer contributions are determined by the employer and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% of the assets in each member’s account annually.

Total contributions made by the City during year 2012 were:

<u>Contribution Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rates</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	
\$ 803	\$ 803	5.0%	5.0%	5.0%

CITY OF OAK GROVE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 22, 2013, the date which the financial statements were available to be issued.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position. The City also implemented GASB Statement

No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in an adjustment to the beginning net position on the statement of activities of \$ 52,950 to remove deferred charges no longer required to be capitalized in accordance with GASB 65.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required between the City's Governmental Activities and Business-type Activities to move water system capital assets to the Water – Lake George Fund. This resulted in a decrease in capital assets in Governmental Activities and an increase in capital assets in Business-type activities and the Water – Lake George Fund in the amount of \$ 421,303. A prior period adjustment was also done to add capital assets contributed to the City in the prior year to the Water – The Ponds Fund in the amount of \$ 668,322 and to the Sewer – The Ponds Fund in the amount of \$ 1,399,274.

NOTE 13 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

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SUPPLEMENTARY INFORMATION

CITY OF OAK GROVE

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2012

With Comparative Totals as of December 31, 2011

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	
				2012	2011
ASSETS					
Cash and Investments	\$ 71,435	\$ 252,036	\$ 592,640	\$ 916,111	\$ 806,650
Accounts Receivable	-	-	-	-	1,899
Due from Other Governments	10,542	-	-	10,542	6,802
Special Assessment Receivable:					
Unremitted	-	-	-	-	267
Delinquent	-	-	-	-	1,681
Deferred	-	63,303	-	63,303	114,028
Land Held for Resale	<u>319,600</u>	<u>-</u>	<u>-</u>	<u>319,600</u>	<u>319,600</u>
 Total Assets	 <u><u>\$ 401,577</u></u>	 <u><u>\$ 315,339</u></u>	 <u><u>\$ 592,640</u></u>	 <u><u>\$ 1,309,556</u></u>	 <u><u>\$ 1,250,927</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 35,516	\$ -	\$ -	\$ 35,516	\$ 8,533
Due to Other Governments	-	-	-	-	3,775
Salaries and Benefits Payable	<u>766</u>	<u>-</u>	<u>-</u>	<u>766</u>	<u>-</u>
Total Liabilities	<u>36,282</u>	<u>-</u>	<u>-</u>	<u>36,282</u>	<u>12,308</u>
 Deferred Inflows of Resources					
Unavailable Revenue - Special Assessments	<u>-</u>	<u>63,303</u>	<u>-</u>	<u>63,303</u>	<u>115,708</u>
 Fund Balances					
Restricted	3,553	252,036	339,566	595,155	657,014
Committed	361,742	-	-	361,742	406,064
Assigned	<u>-</u>	<u>-</u>	<u>253,074</u>	<u>253,074</u>	<u>59,833</u>
Total Fund Balances	<u>365,295</u>	<u>252,036</u>	<u>592,640</u>	<u>1,209,971</u>	<u>1,122,911</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u><u>\$ 401,577</u></u>	 <u><u>\$ 315,339</u></u>	 <u><u>\$ 592,640</u></u>	 <u><u>\$ 1,309,556</u></u>	 <u><u>\$ 1,250,927</u></u>

CITY OF OAK GROVE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds	
				2012	2011
REVENUES					
Property Taxes	\$ 13,519	\$ 202,984	\$ -	\$ 216,503	\$ 275,424
Special Assessments	13,446	43,943	-	57,389	83,950
Intergovernmental	23,720	-	-	23,720	33,696
Charges for Services	15,707	-	-	15,707	22,098
Miscellaneous:					
Investment Income	873	2,151	7,327	10,351	20,616
Contributions and Donations	-	-	12,000	12,000	-
Other	-	-	194,021	194,021	-
Total Revenues	<u>67,265</u>	<u>249,078</u>	<u>213,348</u>	<u>529,691</u>	<u>435,784</u>
EXPENDITURES					
Current					
General Government	-	-	2,500	2,500	-
Public Works					
Street Lighting	-	-	-	-	6,192
Sanitation					
Recycling	27,709	-	-	27,709	31,122
Parks and Recreation	-	-	96	96	-
Conservation and Natural Resources	34,712	-	-	34,712	142
Economic Development	6,524	-	-	6,524	5,909
Debt Service					
Principal	-	167,720	-	167,720	198,220
Interest and Other Charges	-	105,023	-	105,023	113,140
Capital Outlay					
Sanitation	6,327	-	-	6,327	3,229
Parks and Recreation	-	-	44,878	44,878	25,804
Total Expenditures	<u>75,272</u>	<u>272,743</u>	<u>47,474</u>	<u>395,489</u>	<u>383,758</u>
Excess of Revenues Over (Under) Expenditures	(8,007)	(23,665)	165,874	134,202	52,026
OTHER FINANCING SOURCES (USES)					
Transfers In	-	10,000	-	10,000	1,563
Transfers Out	(57,142)	-	-	(57,142)	(584,972)
Total Other Financing Sources (Uses)	<u>(57,142)</u>	<u>10,000</u>	<u>-</u>	<u>(47,142)</u>	<u>(583,409)</u>
Net Change in Fund Balances	(65,149)	(13,665)	165,874	87,060	(531,383)
FUND BALANCES					
Beginning of Year, As Previously Stated	430,444	265,701	426,766	1,122,911	1,662,323
Change in Accounting Principle	-	-	-	-	(8,029)
Beginning of Year, As Restated	<u>430,444</u>	<u>265,701</u>	<u>426,766</u>	<u>1,122,911</u>	<u>1,654,294</u>
End of Year	<u>\$ 365,295</u>	<u>\$ 252,036</u>	<u>\$ 592,640</u>	<u>\$ 1,209,971</u>	<u>\$ 1,122,911</u>

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SPECIAL REVENUE FUNDS

CITY OF OAK GROVE
COMBINING BALANCE SHEET -
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2012
With Comparative Totals as of December 31, 2011

	Special Revenue		
	Recycling Fund (202)	General Fund Oak Grove EDA (210)	Subordinate Service District (209)
ASSETS			
Cash and Investments	\$ 11,685	\$ 21,626	\$ 38,124
Accounts Receivable	-	-	-
Due from Other Governments	10,542	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Land Held for Resale	-	319,600	-
	<u>-</u>	<u>319,600</u>	<u>-</u>
Total Assets	<u>\$ 22,227</u>	<u>\$ 341,226</u>	<u>\$ 38,124</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 945	\$ -	\$ 34,571
Due to Other Governments	-	-	-
Salaries and Benefits Payable	766	-	-
Total Liabilities	<u>1,711</u>	<u>-</u>	<u>34,571</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Special Assessments	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances			
Restricted	-	-	3,553
Committed	20,516	341,226	-
Total Fund Balances	<u>20,516</u>	<u>341,226</u>	<u>3,553</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,227</u>	<u>\$ 341,226</u>	<u>\$ 38,124</u>

Special Revenue

Total	
2012	2011
\$ 71,435	\$ 114,451
-	1,899
10,542	6,802
-	453
-	12,300
319,600	319,600
\$ 401,577	\$ 455,505

\$ 35,516	\$ 8,533
-	3,775
766	-
36,282	12,308

-	12,753
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3,553	24,380
361,742	406,064
365,295	430,444

\$ 401,577	\$ 455,505
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CITY OF OAK GROVE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR SPECIAL REVENUE FUNDS**

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Special Revenue		
	Recycling Fund (202)	Street Light (2300)	General Fund Oak Grove EDA (210)
REVENUES			
Property Taxes	\$ -	\$ -	\$ 13,519
Special Assessments	-	-	-
Intergovernmental	23,720	-	-
Charges for Services	15,707	-	-
Miscellaneous:			
Investment Income	244	-	190
Total Revenues	<u>39,671</u>	<u>-</u>	<u>13,709</u>
EXPENDITURES			
Current			
Public Works:			
Street Lighting	-	-	-
Sanitation:			
Recycling	27,709	-	-
Conservation and Natural Resources	-	-	-
Economic Development	-	-	6,524
Capital Outlay			
Sanitation	6,327	-	-
Total Expenditures	<u>34,036</u>	<u>-</u>	<u>6,524</u>
Excess of Revenues Over Expenditures	5,635	-	7,185
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(9,740)</u>	<u>(47,402)</u>	<u>-</u>
Net Change in Fund Balances	(4,105)	(47,402)	7,185
FUND BALANCES			
Beginning of Year, As Previously Stated	24,621	47,402	334,041
Change in Accounting Principle	-	-	-
Beginning of Year, As Restated	<u>24,621</u>	<u>47,402</u>	<u>334,041</u>
End of Year	<u>\$ 20,516</u>	<u>\$ -</u>	<u>\$ 341,226</u>

Special Revenue Subordinate Service District (209)	Total	
	2012	2011
\$ -	\$ 13,519	\$ 10,470
13,446	13,446	12,132
-	23,720	33,696
-	15,707	22,098
439	873	8,568
<u>13,885</u>	<u>67,265</u>	<u>86,964</u>
-	-	6,192
-	27,709	31,122
34,712	34,712	142
-	6,524	5,909
-	6,327	3,229
<u>34,712</u>	<u>75,272</u>	<u>46,594</u>
(20,827)	(8,007)	40,370
-	(57,142)	(561,163)
(20,827)	(65,149)	(520,793)
24,380	430,444	959,266
-	-	(8,029)
<u>24,380</u>	<u>430,444</u>	<u>951,237</u>
<u>\$ 3,553</u>	<u>\$ 365,295</u>	<u>\$ 430,444</u>

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DEBT SERVICE FUNDS

CITY OF OAK GROVE

**COMBINING BALANCE SHEET -
NONMAJOR DEBT SERVICE FUNDS**

December 31, 2012

With Comparative Totals as of December 31, 2011

	Debt Service		
	G.O. Improvement Bonds, Series 2002A (304)	G.O. Improvement Bonds, Series 2004B (305)	G.O. Capital Improvement Plan Bonds, Series 2007A (302)
ASSETS			
Cash and Investments	\$ 34,704	\$ 41,037	\$ 57,633
Special Assessment Receivable:			
Unremitted	-	-	-
Delinquent	-	-	-
Deferred	14,206	49,097	-
	<u>\$ 48,910</u>	<u>\$ 90,134</u>	<u>\$ 57,633</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred Inflows of Resources			
Unavailable Revenue - Special Assessments	\$ 14,206	\$ 49,097	\$ -
	<u>34,704</u>	<u>41,037</u>	<u>57,633</u>
Fund Balances			
Restricted	34,704	41,037	57,633
	<u>34,704</u>	<u>41,037</u>	<u>57,633</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 48,910</u>	<u>\$ 90,134</u>	<u>\$ 57,633</u>

Debt Service Taxable G.O. Tax Increment Bonds, Series 2007B (303)	Total	
	2012	2011
\$ 118,662	\$ 252,036	\$ 265,433
-	-	267
-	-	1,228
-	63,303	101,728
<u>\$ 118,662</u>	<u>\$ 315,339</u>	<u>\$ 368,656</u>
<u>\$ -</u>	<u>\$ 63,303</u>	<u>\$ 102,955</u>
<u>118,662</u>	<u>252,036</u>	<u>265,701</u>
<u>\$ 118,662</u>	<u>\$ 315,339</u>	<u>\$ 368,656</u>

CITY OF OAK GROVE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR DEBT SERVICE FUNDS
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011**

	Debt Service		
	G.O. Improvement Bonds, Series 2002A (304)	G.O. Improvement Bonds, Series 2004B (305)	G.O. Capital Improvement Plan Bonds, Series 2007A (302)
REVENUES			
Property Taxes	\$ -	\$ -	\$ 59,435
Special Assessments	18,273	25,670	-
Miscellaneous:			
Investment Income	611	707	306
Total Revenues	<u>18,884</u>	<u>26,377</u>	<u>59,741</u>
EXPENDITURES			
Debt Service			
Principal	33,420	29,300	45,000
Interest and Other Charges	836	4,088	12,437
Total Expenditures	<u>34,256</u>	<u>33,388</u>	<u>57,437</u>
Excess of Revenues Over (Under) Expenditures	(15,372)	(7,011)	2,304
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(15,372)	(7,011)	2,304
FUND BALANCES			
Beginning of Year	<u>50,076</u>	<u>48,048</u>	<u>55,329</u>
End of Year	<u>\$ 34,704</u>	<u>\$ 41,037</u>	<u>\$ 57,633</u>

Debt Service Taxable G.O. Tax Increment Bonds, Series 2007B (303)	Total	
	2012	2011
\$ 143,549	\$ 202,984	\$ 264,954
-	43,943	71,818
527	2,151	2,947
<u>144,076</u>	<u>249,078</u>	<u>339,719</u>
60,000	167,720	198,220
87,662	105,023	113,140
<u>147,662</u>	<u>272,743</u>	<u>311,360</u>
(3,586)	(23,665)	28,359
10,000	10,000	1,563
-	-	(23,809)
<u>10,000</u>	<u>10,000</u>	<u>(22,246)</u>
6,414	(13,665)	6,113
<u>112,248</u>	<u>265,701</u>	<u>259,588</u>
<u>\$ 118,662</u>	<u>\$ 252,036</u>	<u>\$ 265,701</u>

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CAPITAL PROJECTS FUNDS

CITY OF OAK GROVE

**COMBINING BALANCE SHEET -
NONMAJOR CAPITAL PROJECTS FUNDS
December 31, 2012**

With Comparative Totals as of December 31, 2011

	Capital Projects				
	Trail Maintenance Fund (404)	Park Redevelopment Fund (207)	Public Benefit Fund (208)	Total	
				2012	2011
ASSETS					
Cash and Investments	\$ 7,488	\$ 339,566	\$ 245,586	\$ 592,640	\$ 426,766
FUND BALANCES					
Restricted	\$ -	\$ 339,566	\$ -	\$ 339,566	\$ 366,933
Assigned	7,488	-	245,586	253,074	59,833
Total Fund Balances	\$ 7,488	\$ 339,566	\$ 245,586	\$ 592,640	\$ 426,766

CITY OF OAK GROVE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR CAPITAL PROJECTS FUNDS
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011**

	Capital Projects			Total	
	Trail Maintenance Fund (404)	Park Redevelopment Fund (207)	Public Benefit Fund (208)	2012	2011
REVENUES					
Miscellaneous:					
Investment Income	\$ 54	\$ 5,607	\$ 1,666	\$ 7,327	\$ 9,101
Contributions and Donations	-	12,000	-	12,000	-
Other	-	-	194,021	194,021	-
Total Revenues	54	17,607	195,687	213,348	9,101
EXPENDITURES					
Current					
General Government	-	-	2,500	2,500	-
Park and Recreation	-	96	-	96	-
Capital Outlay					
Parks and Recreation	-	44,878	-	44,878	25,804
Total Expenditures	-	44,974	2,500	47,474	25,804
Excess of Revenues Over (Under) Expenditures	54	(27,367)	193,187	165,874	(16,703)
FUND BALANCES					
Beginning of Year	7,434	366,933	52,399	426,766	443,469
End of Year	\$ 7,488	\$ 339,566	\$ 245,586	\$ 592,640	\$ 426,766

CITY OF OAK GROVE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Property Taxes	\$ 2,320,404	\$ 2,340,127	\$ 19,723
Special Assessments	17,600	19,434	1,834
Licenses and Permits	94,235	133,085	38,850
Intergovernmental Revenue:			
MSA Maintenance	140,000	150,229	10,229
Market Value Credit	-	4,823	4,823
PERA Aid	2,000	2,060	60
Fire Aid	30,413	29,076	(1,337)
Other Grants and Aids	-	16,774	16,774
Total Intergovernmental Revenue	<u>172,413</u>	<u>202,962</u>	<u>30,549</u>
Charges for Services:			
General Government	40	47	7
Public Works	-	7,784	7,784
Total Charges for Services	<u>40</u>	<u>7,831</u>	<u>7,791</u>
Fines and Forfeitures	25,100	38,476	13,376
Miscellaneous Revenues:			
Investment Income	75,000	43,096	(31,904)
Contributions and Donations	500	3,133	2,633
Franchise Fees	-	65,748	65,748
Other	35,043	32,893	(2,150)
Total Miscellaneous Revenues	<u>110,543</u>	<u>144,870</u>	<u>34,327</u>
Total Revenues	<u>2,740,335</u>	<u>2,886,785</u>	<u>146,450</u>
EXPENDITURES			
General Government			
Mayor and Council:			
Current	41,629	35,450	(6,179)
Administrative:			
Current	384,219	367,808	(16,411)
Finance:			
Current	177,411	167,225	(10,186)
Elections:			
Current	24,385	17,488	(6,897)
Planning and Zoning:			
Current	52,194	23,993	(28,201)

CITY OF OAK GROVE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Over (Under)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
EXPENDITURES			
General Government (Continued)			
Other General Government:			
Current	\$ 194,780	\$ 129,685	\$ (65,095)
Total General Government	<u>874,618</u>	<u>741,649</u>	<u>(132,969)</u>
Public Safety			
Police:			
Current	496,604	494,560	(2,044)
Fire:			
Current	287,545	240,973	(46,572)
Capital Outlay	25,000	20,834	(4,166)
Total Fire	<u>312,545</u>	<u>261,807</u>	<u>(50,738)</u>
Building and Inspections:			
Current	53,660	84,868	31,208
Total Public Safety	<u>862,809</u>	<u>841,235</u>	<u>(21,574)</u>
Public Works			
Streets and Highways:			
Current:			
Street Maintenance	383,398	345,109	(38,289)
Snow and Ice Removal	72,356	50,903	(21,453)
Street Engineering	12,800	18,005	5,205
Watershed	13,190	6,264	(6,926)
Total Current	<u>481,744</u>	<u>420,281</u>	<u>(61,463)</u>
Capital Outlay	103,000	95,115	(7,885)
Total Public Works	<u>584,744</u>	<u>515,396</u>	<u>(69,348)</u>
Parks and Recreation			
Current	66,904	72,049	5,145
Total Expenditures	<u>2,389,075</u>	<u>2,170,329</u>	<u>(218,746)</u>
Excess of Revenues Over Expenditures	351,260	716,456	365,196

CITY OF OAK GROVE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	\$ 39,000	\$ -	\$ (39,000)
Transfers In	9,740	9,740	-
Transfers Out	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(351,260)</u>	<u>(390,260)</u>	<u>(39,000)</u>
Net Change in Fund Balances	<u><u>\$ -</u></u>	326,196	<u><u>\$ 326,196</u></u>
FUND BALANCES			
Beginning of Year		<u>2,766,077</u>	
End of Year		<u><u>\$ 3,092,273</u></u>	

CITY OF OAK GROVE

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2012

With Comparative Totals as of December 31, 2011

	<u>Developer Escrow (801)</u>	<u>Total 2011</u>
ASSETS		
Cash and Investments	<u>\$ 89,215</u>	<u>\$ 265,674</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 2,660
Deposits Payable	<u>89,215</u>	<u>263,014</u>
Total Liabilities	<u>\$ 89,215</u>	<u>\$ 265,674</u>

CITY OF OAK GROVE

**STATEMENT OF CHANGES IN AGENCY FUND ASSETS AND LIABILITIES
For the Year Ended December 31, 2012**

	Developer Escrow (801)			
	01/01/12	Additions	Deductions	12/31/12
ASSETS				
Cash and Investments	\$ 260,578	\$ 54,000	\$ 225,363	\$ 89,215
LIABILITIES				
Accounts Payable	\$ 2,660	\$ -	\$ 2,660	\$ -
Deposits Payable	257,918	54,000	222,703	89,215
Total Liabilities	<u>\$ 260,578</u>	<u>\$ 54,000</u>	<u>\$ 225,363</u>	<u>\$ 89,215</u>

	Cable TV Escrow (6050)			
	01/01/12	Additions	Deductions	12/31/12
ASSETS				
Cash and Investments	\$ 5,096	\$ -	\$ 5,096	\$ -
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Deposits Payable	5,096	-	5,096	-
Total Liabilities	<u>\$ 5,096</u>	<u>\$ -</u>	<u>\$ 5,096</u>	<u>\$ -</u>

	Totals			
	01/01/12	Additions	Deductions	12/31/12
ASSETS				
Cash and Investments	\$ 265,674	\$ 54,000	\$ 230,459	\$ 89,215
LIABILITIES				
Accounts Payable	\$ 2,660	\$ -	\$ 2,660	\$ -
Deposits Payable	263,014	54,000	227,799	89,215
Total Liabilities	<u>\$ 265,674</u>	<u>\$ 54,000</u>	<u>\$ 230,459</u>	<u>\$ 89,215</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Oak Grove
Oak Grove, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Grove, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses on Legal Compliance and Internal Control*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses on Legal Compliance and Internal Control* as Audit Finding 12-01 and 12-02 to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses on Legal Compliance and Internal Control*. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Kern DeWenter, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
March 22, 2013



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REPORT ON LEGAL COMPLIANCE

Honorable Mayor and Members
of the City Council
City of Oak Grove
Anoka County, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Grove, Minnesota, as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2013.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 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 Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and Tax Increment Financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as described in the *Schedule of Findings and Responses on Legal Compliance and Internal Control*.

This report is intended solely for the information and use of the City Council, management and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kern DeWenter, Vice Ltd". The signature is written in black ink and is positioned above the printed name of the firm.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
March 22, 2013

CITY OF OAK GROVE

**SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2012**

CURRENT YEAR INTERNAL CONTROL FINDING:

Material Weaknesses:

Audit Finding 12-01 – Prior Period Adjustment

Prior period adjustments were required to correct the 2011 financial statements related to capital assets in governmental activities the water and sewer funds. This could have resulted in a material misstatement to the financial statement that would not be detected and corrected in a timely manner.

City's Response:

The City will review year-end closing procedures to ensure all material adjustments are recorded.

Audit Finding 12-02 – Material Audit Adjustments

During the course of our audit, we proposed a material audit adjustment that would not have been identified as a result of the City's existing internal controls and, therefore, could have resulted in a material misstatement of the City's financial statements.

In order to ensure financial statements were free from material misstatement, a material audit adjustment was required to record additional accounts payable. This could have resulted in a material misstatement to the financial statement that would not be detected and corrected in a timely manner.

City's Response:

The City will review year-end closing procedures to ensure all material adjustments are recorded.

CURRENT YEAR LEGAL COMPLIANCE FINDINGS:

Audit Finding 12-03 – Closed Meetings

Minnesota Statutes 13D.01 requires that all meetings be open to the public, unless the meeting is closed for an allowable exception. If a meeting is closed, the public body shall state on the record the specific grounds permitting the meeting to be closed and describe the subject to be discussed. Further, *Minnesota Statutes* 13D.05, subd. 1(d) requires that all closed meetings, except those closed as permitted by attorney-client privilege, be electronically recorded.

During 2012, the City held closed meetings in which they did not electronically record the meeting.

City's Response:

The City will ensure all future closed meetings are recorded.

CITY OF OAK GROVE

**SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2012**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 12-04 – Prompt Payment to Subcontractors Verbiage

Minnesota Statutes 471.425, Subd. 4(a) requires contracts of a municipality to have the prime contractor pay any subcontractor within 10 days of the prime contractor's receipt of payment from the government entity. The contract also must require the prime contractor pay interest of 1.5% per month or any part of a month to the subcontractor for any undisputed amount not paid to the subcontractor within the 10 days.

During the review of contracts the City held, it was noted this verbiage was missing.

City's Response:

The City will ensure the proper language is included in future contracts.

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 10-01 – Collateral Assignment Agreement

Minnesota Statutes 118A.03, subd. 4 requires the collateral assignment shall state that, upon default of the financial institution, the collateral shall be released to the city immediately. This Statute further requires written assignment be approved by the depository's board of directors or loan committee and to be maintained as an official record of the depository.

During our audit, the City did not have the collateral assignment agreement on file for one of its depositories; therefore, we were unable to determine if the assignments required the release of collateral upon default.

City's Response:

The City has closed this bank account in 2013.