

CITY OF BIRCHWOOD, MINNESOTA

ANNUAL FINANCIAL REPORT

December 31, 2009

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CITY OF BIRCHWOOD, MINNESOTA
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I. INTRODUCTORY SECTION

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CITY OF BIRCHWOOD, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
December 31, 2009

ELECTED

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Mary Wingfield	Mayor	December 31, 2010
Jane Harper	Council	December 31, 2012
Barb Carson	Council	December 31, 2012
Jay Brunner	Council	December 31, 2010
David Jann	Council	December 31, 2010

APPOINTED

Vacant	Clerk/Treasurer
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II. FINANCIAL SECTION

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HLB Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and
Members of the City Council
City of Birchwood, Minnesota

We have audited the accompanying financial statements - cash basis of the governmental activities, the business-type activities and each major fund of the City of Birchwood, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City of Birchwood, Minnesota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Birchwood, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of inadequacies in the City's accounting records, we were unable to form an opinion regarding the amount of cash receipts for utility charges for services in the Water Fund and the Sewer Fund in the accompanying Statement of Activities and Statement of Receipts, Disbursements, and Changes in Cash Balances – Proprietary Funds (stated at \$199,472).

As described in Note 1 to the financial statements, the City of Birchwood, Minnesota prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had Proprietary Fund charges for services cash receipts been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, the business-type activities and each major fund of the City of Birchwood, Minnesota as of December 31, 2009, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The City of Birchwood, Minnesota has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information, on pages 28 through 31, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Birchwood, Minnesota's basic financial statements. The introductory section and supplementary financial information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplementary financial information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

August 30, 2010

BASIC FINANCIAL STATEMENTS

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CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
 December 31, 2009

Statement 1

	Primary Government		Totals 2009
	Governmental Activities	Business-Type Activities	
Cash	\$645,893	\$184,341	\$830,234
Total cash	<u>\$645,893</u>	<u>\$184,341</u>	<u>\$830,234</u>
Cash balances consist of:			
Restricted for grant disbursements	\$3,600	\$ -	\$3,600
Unrestricted	<u>642,293</u>	<u>184,341</u>	<u>826,634</u>
Total cash balance	<u>\$645,893</u>	<u>\$184,341</u>	<u>\$830,234</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF ACTIVITIES - CASH BASIS
For The Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Cash Disbursements</u>	<u>Charges For Services</u>
Primary government:		
Governmental activities:		
General government	\$123,320	\$36,265
Public safety	137,450	3,565
Highways and streets	42,086	-
Sanitation	13,773	8,149
Culture and recreation	51,831	-
Total governmental activities	<u>368,460</u>	<u>47,979</u>
Business-type activities:		
Water	91,571	68,902
Sewer	433,064	143,562
Total business-type activities	<u>524,635</u>	<u>212,464</u>
Total primary government	<u><u>\$893,095</u></u>	<u><u>\$260,443</u></u>

The accompanying notes are an integral part of these financial statements.

Program Cash Receipts		Net (Expense) Revenue and Changes in Cash Balance Primary Government		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals 2009
\$5,508	\$ -	(\$81,547)	\$ -	(\$81,547)
-	-	(133,885)	-	(133,885)
-	-	(42,086)	-	(42,086)
1,679	-	(3,945)	-	(3,945)
-	-	(51,831)	-	(51,831)
<u>7,187</u>	<u>0</u>	<u>(313,294)</u>	<u>0</u>	<u>(313,294)</u>
-	-	-	(22,669)	(22,669)
-	44,089	-	(245,413)	(245,413)
<u>0</u>	<u>44,089</u>	<u>0</u>	<u>(268,082)</u>	<u>(268,082)</u>
<u>\$7,187</u>	<u>\$44,089</u>	<u>(313,294)</u>	<u>(268,082)</u>	<u>(581,376)</u>
General cash receipts:				
General property taxes		363,941	27,510	391,451
Grants and contributions not restricted to specific programs		238	-	238
Unrestricted investment earnings		3,762	1,732	5,494
Sale of investments		70,000	60,000	130,000
Other		2,418	-	2,418
Total general cash receipts		<u>440,359</u>	<u>89,242</u>	<u>529,601</u>
Change in cash balance		127,065	(178,840)	(51,775)
Cash balance - January 1		<u>518,828</u>	<u>363,181</u>	<u>882,009</u>
Cash balance - December 31		<u>\$645,893</u>	<u>\$184,341</u>	<u>\$830,234</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
GOVERNMENTAL FUNDS
 December 31, 2009

Statement 3

	General Fund	Public Works Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash	\$536,012	\$42,421	\$67,460	\$645,893
Total cash	<u>\$536,012</u>	<u>\$42,421</u>	<u>\$67,460</u>	<u>\$645,893</u>
Cash balances consist of:				
Reserved for grant disbursements	\$3,600	\$ -	\$ -	\$3,600
Designated for parks	1,650	-	-	1,650
Designated for street repair	-	42,421	-	42,421
Designated for tennis court	-	-	67,460	67,460
Undesignated	<u>530,762</u>	<u>-</u>	<u>-</u>	<u>530,762</u>
Total cash balance	<u>\$536,012</u>	<u>\$42,421</u>	<u>\$67,460</u>	<u>\$645,893</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
For The Year Ended December 31, 2009

Statement 4

	General Fund	Public Works Fund	Capital Projects Fund	Total Governmental Funds
Cash receipts:				
General property taxes	\$363,941	\$ -	\$ -	\$363,941
Licenses and permits	36,546	-	-	36,546
Intergovernmental	7,201	-	-	7,201
Charges for services	501	-	-	501
Certified bills	8,053	-	-	8,053
Fine and forfeits	2,474	-	-	2,474
Investment income	2,764	-	998	3,762
Miscellaneous	3,047	-	-	3,047
Total cash receipts	<u>424,527</u>	<u>0</u>	<u>998</u>	<u>425,525</u>
Cash disbursements:				
Current:				
General government	88,176	-	-	88,176
Public safety	137,450	-	-	137,450
Highways and streets	42,086	-	-	42,086
Sanitation	13,773	-	-	13,773
Culture and recreation	16,831	-	-	16,831
Miscellaneous	144	-	-	144
Total cash disbursements	<u>298,460</u>	<u>0</u>	<u>0</u>	<u>298,460</u>
Receipts over disbursements	126,067	0	998	127,065
Other financing sources/uses:				
Purchase of investments	(35,000)	-	(35,000)	(70,000)
Sale of investments	35,000	-	35,000	70,000
Total other financing sources/uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in cash balances	126,067	-	998	127,065
Cash balance - January 1	<u>409,945</u>	<u>42,421</u>	<u>66,462</u>	<u>518,828</u>
Cash balance - December 31	<u><u>\$536,012</u></u>	<u><u>\$42,421</u></u>	<u><u>\$67,460</u></u>	<u><u>\$645,893</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
PROPRIETARY FUNDS
December 31, 2009

Statement 5

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash	<u>\$165,993</u>	<u>\$18,348</u>	<u>\$184,341</u>
Total cash	<u><u>\$165,993</u></u>	<u><u>\$18,348</u></u>	<u><u>\$184,341</u></u>
Cash balances consist of:			
Unrestricted	<u>\$165,993</u>	<u>\$18,348</u>	<u>\$184,341</u>
Total cash balances	<u><u>\$165,993</u></u>	<u><u>\$18,348</u></u>	<u><u>\$184,341</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIRCHWOOD, MINNESOTA

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES

Statement 6

PROPRIETARY FUNDS - CASH BASIS

For The Year Ended December 31, 2009

	Sewer Fund	Water Fund	Total
Receipts:			
Property taxes	\$27,510	\$ -	\$27,510
Special assessments	44,089	-	44,089
Certified bills	9,449	3,543	12,992
Charges for services:			
Sewer fee	92,514	-	92,514
Sewer lift fees	18,876	-	18,876
Sewer rehab fees	22,723	-	22,723
Water fees	-	65,359	65,359
Investment income	876	856	1,732
Total receipts	216,037	69,758	285,795
Disbursements:			
Utility locates	-	657	657
Water utility expense	-	15,508	15,508
Water purchase	-	45,406	45,406
Contracted labor	2,063	-	2,063
MCES charges	39,238	-	39,238
Maintenance and supplies	10,385	-	10,385
Sewer rehab	120,265	-	120,265
Sewer lift stations	10,813	-	10,813
Debt service:			
Principal	91,205	-	91,205
Interest	29,095	-	29,095
Total disbursements	303,064	61,571	364,635
Receipts over (under) disbursements	(87,027)	8,187	(78,840)
Other financing sources/uses:			
Purchase of investments	(130,000)	(30,000)	(160,000)
Sale of investments	30,000	30,000	60,000
Total other financing sources/uses	(100,000)	-	(100,000)
Net change in cash balance	(187,027)	8,187	(178,840)
Cash balance - January 1	353,020	10,161	363,181
Cash balance - December 31	<u>\$165,993</u>	<u>\$18,348</u>	<u>\$184,341</u>

The accompanying notes are an integral part of these financial statements.

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Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Birchwood, Minnesota (the City) was formed and operates pursuant to applicable Minnesota laws and statutes. The governing body consists of a mayor and four council members. All members are elected on a non-partisan, at-large basis and serve on a part-time basis. The City follows the practice of reporting under "Minimum Reporting Requirements for City Financial Statements for Cities Under 2,500 in Population," as promulgated by Minnesota Statutes, Section 471.698. Under such requirements, the cash basis method of accounting is used for governmental funds and proprietary funds. Accounts receivable and accounts payable of the governmental fund type are set forth in separate schedules.

Under the cash basis of accounting, all transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because receivables, payables, and other accrued items which would be recognized under generally accepted accounting principles are not included in the accompanying financial statements.

A. FINANCIAL REPORTING ENTITY

In accordance with GASB pronouncements and generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The City does not have any component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of cash balances and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The City's financial statements are reported using the cash basis of accounting. Revenues are recognized as soon as they are received. Expenditures are recorded when paid.

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Public Works Fund* is used to account for capital improvements and holds dollars reserved for designated specific purposes. This fund can also be used for G.O. Bond proceeds for capital improvements.

The *Capital Projects Fund* is used to account for City projects that add value to the City, such as the tennis court project which the City designates dollars to future repair or replacement of the tennis court.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for collection of special assessments (debt service), sewer use fee charges and connection fees. These receipts are used to cover the expenses of operation, maintenance, and annual debt service payments or retirement of bond indebtedness of the City's sanitary sewer system.

The *Water Fund* accounts for accounts for all receipts (water fees from utility billing) and expenses (water purchase from White Bear Lake, state fees to Department of Health, water line locates, water main break repairs) associated with the operation and maintenance of the City's water service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary-fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer enterprise fund 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 an allowable use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. FUND ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and proprietary funds of the City are accounted for using the cash basis of accounting. Revenues and related assets are recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred.

The accounting system of the City is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash receipts and disbursements, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

E. BUDGETS

The City is required by statutes to adopt a budget for its General Fund. However, there is no legal restriction on expenditures in excess of appropriations.

All budgets are adopted on a cash basis. Budgetary comparisons presented in this report are on this basis.

Appropriations are authorized by the City Council at the fund level, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets.

All unexpended appropriations lapse at year end.

Any changes in the total budget of each fund must be approved by a majority vote of the City Council. There were no changes in the budget during the year.

F. CASH

Cash and investment balances from all funds are invested to the extent available in authorized investments. Because the City maintains its accounts on the cash basis, interest earnings are not accrued at year end.

Investment income associated with all City funds has been administratively assigned to the General Fund, Capital Projects Fund, Sewer Fund, and Water Fund.

G. INVENTORIES

The City had no significant inventories in the proprietary funds.

H. PROPERTY TAXES

Property tax levies are set by the City Council each year and are certified to the County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over assessable property. Such taxes become a lien on January 1.

Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County provides tax settlements to cities and other local governments three times a year, generally during January, June and November.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

Minnesota Statutes require that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of FDIC insurance. Deposits include checking, savings and nonnegotiable certificates of deposits.

The December 31, 2009 carrying amount of the City's deposits with financial institutions was \$466,901, and the bank balance was \$468,874.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that insurance, surety bonds or collateral protect all City deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. As of December 31, 2009, the bank balance of the City's deposits was covered by federal depository insurance or covered by perfected collateral pledged and held in the City's name.

B. INVESTMENTS

Minnesota Statutes authorize the City to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities, or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - (1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - (3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7, 469.178, subdivision 5 or 475.61, subdivision 6.

As of December 31, 2009, the City's investments consisted of the following:

	<u>Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Cash and cash equivalents:			
Deposits	N/A	N/A	\$466,901
Money market	N/A	N/A	<u>363,333</u>
Total cash and cash equivalents			<u>830,234</u>
Investments:			
Brokered cd's	N/A	Less than 1 year	<u>230,000</u>
Total cash and investments			<u><u>\$1,060,234</u></u>

Credit risk: The City follows State Statutes in regards to credit risk of investments. The City does not have an investment policy which further limits its investment choices.

Interest Rate Risk: The City does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The City does not have an investment policy which addresses the concentration of credit risk.

Custodial Credit Risk: For investments, custodial credit risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. As of December 31, 2009, all investments of the City were insured, registered and held by the City or its agent in the City's name.

Note 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE

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 Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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.

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 receiving them yet 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 PERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 7% effective January, 1, 2010. The City's contributions for 2009 were \$4,104. The City overpaid PERA \$294 for 2009 which was refunded in 2010. The City's contributions for 2007 and 2008 are unavailable.

Note 4 DESIGNATIONS AND RESERVATIONS OF CASH BALANCES

The City has designated and reserved portions of its various cash balances through legal restriction and City Council authorization. A summary of such designations is as follows:

General fund:	
Reserved for grant disbursements	\$3,600
Designated for parks	1,650
Public works fund:	
Designated for street repair	42,421
Capital projects fund:	
Designated for tennis court	<u>67,460</u>
Total	<u><u>\$115,131</u></u>

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 5 LONG-TERM DEBT

As of December 31, 2009, the long-term debt of the City consisted of the following:

Issue	Original Amount	Interest Rates	Final Maturity	Balance 12/31/09
Business-type activities:				
G.O. Improvement Bonds Series 2004A	\$210,000	4.80%	2014	\$108,000
G.O. Improvement Bonds Series 2004B	252,000	4.80%	2014	130,500
G.O. Improvement Bonds Series 2008	192,000	4.91%	2018	<u>179,795</u>
Total				<u><u>\$418,295</u></u>

Long-term debt activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance	Due Within One Year
Business-type activities:					
G.O. Sewer Revenue Bonds Series 2001	\$33,000	\$ -	\$33,000	\$ -	\$ -
G.O. Improvement Bonds Series 2004A	129,000	-	21,000	108,000	21,000
G.O. Improvement Bonds Series 2004B	155,500	-	25,000	130,500	26,000
G.O. Improvement Bonds Series 2008	192,000	-	12,205	179,795	16,366
Total	<u>\$509,500</u>	<u>\$0</u>	<u>\$91,205</u>	<u>\$418,295</u>	<u>\$63,366</u>

Estimated future maturities:

	G.O. Improvement Bonds Series 2004A		G.O. Improvement Bonds Series 2004B		G.O. Improvement Bonds Series 2008	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$21,000	\$5,184	\$26,000	\$6,264	\$16,366	\$8,828
2011	21,500	4,176	26,000	5,016	17,170	8,024
2012	21,500	3,144	26,000	3,768	18,013	7,181
2013	22,000	2,112	26,000	2,520	18,897	6,297
2014	22,000	1,056	26,500	1,272	19,825	5,369
2015	-	-	-	-	20,798	4,396
2016	-	-	-	-	21,820	3,374
2017	-	-	-	-	22,891	2,303
2018	-	-	-	-	24,015	1,179
	<u>\$108,000</u>	<u>\$15,672</u>	<u>\$130,500</u>	<u>\$18,840</u>	<u>\$179,795</u>	<u>\$46,952</u>

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

PLEDGED REVENUE

Future revenue pledged for the payment of long-term debt is as follows:

<u>Bond Issue</u>	<u>Use of Proceeds</u>	<u>Type</u>	<u>Revenue Pledged</u>			<u>12/31/2009</u>	<u>Current Year 2009</u>	
			<u>Original Amount</u>	<u>Percent of Total Debt Service</u>	<u>Term of Pledge</u>	<u>Remaining Principal and Interest</u>	<u>Principal and Interest Paid</u>	<u>Pledged Revenue Received</u>
G.O. Improvement Bonds Series 2004A and B	2004 Sanitary Sewer Rehab	Special Assessments	\$281,488	49%	2005-2014	\$273,012	\$59,679	\$44,346
G.O. Improvement Bonds Series 2008	2008 Sanitary Sewer Rehab	Special Assessments	150,557	39%	2008-2018	226,747	25,679	44,346

Note 6 CONTINGENCIES

A. RISK MANAGEMENT

The City is exposed to various risks of loss including general liability, property damage and employee bodily injury. The City maintains its general property, automobile, worker's compensation and liability coverage through the League of Minnesota Cities Insurance Trust. The City retains the responsibility to cover any settlements exceeding the specific coverage. There were no significant reductions in insurance coverage from the previous year. Settlements have not exceeded insurance coverage in the past three years. The City's deductibles are considered immaterial to the financial statements.

B. LITIGATION

At December 31, 2009, the City was not aware of any existing or pending lawsuits, claims or other actions in which the City is a defendant, the outcome of which would materially affect the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BIRCHWOOD, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
For The Year Ended December 31, 2009

	2009			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Receipts:				
General property taxes	\$365,749	\$365,749	\$363,941	(\$1,808)
Licenses and permits	-	-	36,546	36,546
Intergovernmental	5,702	5,702	7,201	1,499
Charges for services	-	-	501	501
Certified bills	-	-	8,053	8,053
Fine and forfeits	-	-	2,474	2,474
Investment income	-	-	2,764	2,764
Miscellaneous	-	-	3,047	3,047
Total receipts	371,451	371,451	424,527	53,076
Disbursements:				
General government:				
City council	-	-	4,300	(4,300)
City clerk expenses:				
Wages	33,090	33,090	32,935	155
Elections	-	-	470	(470)
Recording and reporting	-	-	127	(127)
Total city clerk expenses	33,090	33,090	33,532	(442)
Financial administration:				
Treasurer wages	33,090	33,090	3,836	29,254
Accounting	-	-	228	(228)
Assessing	5,155	5,155	5,978	(823)
Banking fees	-	-	170	(170)
Total financial administration	38,245	38,245	10,212	28,033
Insurance:				
General liability	7,500	7,500	5,677	1,823
Property	-	-	930	(930)
Municipal	1,062	1,062	1,500	(438)
Workers compensation	-	-	676	(676)
Total insurance	8,562	8,562	8,783	(221)

CITY OF BIRCHWOOD, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
For The Year Ended December 31, 2009

	2009			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Disbursements:				
City development:				
Dues and subscriptions	\$5,040	\$5,040	\$5,410	(\$370)
Training and education	470	470	660	(190)
Total city development	<u>5,510</u>	<u>5,510</u>	<u>6,070</u>	<u>(560)</u>
Governmental building maintenance:				
Utilities	6,000	6,000	6,631	(631)
Computer/internet	-	-	336	(336)
Repair and maintenance	17,500	17,500	2,130	15,370
Total governmental building maintenance	<u>23,500</u>	<u>23,500</u>	<u>9,097</u>	<u>14,403</u>
Cable equipment	750	750	990	(240)
Publishing and printing	-	-	1,535	(1,535)
Office supplies	4,500	4,500	3,413	1,087
Legal services	7,600	7,600	6,557	1,043
Engineering	7,500	7,500	3,160	4,340
Planning commission	-	-	495	(495)
Mileage/travel	600	600	32	568
Other	750	750	-	750
Total general government	<u>130,607</u>	<u>130,607</u>	<u>88,176</u>	<u>42,431</u>
Public safety:				
Police service	90,244	90,244	89,667	577
Fire/emergency service	23,100	23,100	21,375	1,725
Building inspector fees	-	-	22,387	(22,387)
Animal control	-	-	1,237	(1,237)
Department of labor fees	-	-	1,185	(1,185)
Utility locates	-	-	1,599	(1,599)
Total public safety	<u>113,344</u>	<u>113,344</u>	<u>137,450</u>	<u>(24,106)</u>
Highways and streets:				
Street lights	13,500	13,500	12,979	521
Snow and ice removal	35,000	35,000	18,404	16,596
Street maintenance	31,000	31,000	10,703	20,297
Total highways and streets	<u>79,500</u>	<u>79,500</u>	<u>42,086</u>	<u>37,414</u>
Sanitation:				
Recycling	12,000	12,000	8,849	3,151
Garbage service	-	-	79	(79)
County environmental charge	-	-	627	(627)
Diseased trees disposal	7,000	7,000	4,218	2,782
Total sanitation	<u>19,000</u>	<u>19,000</u>	<u>13,773</u>	<u>5,227</u>

CITY OF BIRCHWOOD, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
For The Year Ended December 31, 2009

	2009			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Disbursements:				
Culture and recreation:				
Tennis court	\$15,000	\$15,000	\$443	\$14,557
Parks	14,000	14,000	16,388	(2,388)
Total culture and recreation	<u>29,000</u>	<u>29,000</u>	<u>16,831</u>	<u>12,169</u>
Miscellaneous	-	-	144	(144)
Total disbursements	<u>371,451</u>	<u>371,451</u>	<u>298,460</u>	<u>72,991</u>
Receipts over (under) disbursements	-	-	126,067	126,067
Other financing sources/uses:				
Purchase of investments	-	-	(35,000)	35,000
Sale of investments	-	-	35,000	(35,000)
Total other financing sources/uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in cash balances	<u>\$0</u>	<u>\$0</u>	126,067	<u>\$126,067</u>
Cash balance - January 1			<u>409,945</u>	
Cash balance - December 31			<u><u>\$536,012</u></u>	

CITY OF BIRCHWOOD, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2009

Note A LEGAL COMPLIANCE – BUDGETS

The General Fund budget is legally adopted on the cash basis. The legal level of budgetary control is at the fund level for the General Fund.

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SUPPLEMENTARY FINANCIAL INFORMATION

CITY OF BIRCHWOOD, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
 For The Year Ended December 31, 2009
 (Unaudited)

Schedule 1

<u>Fund and Vendor</u>	<u>Amount</u>
General fund:	
Washington County	\$13,128
Ramsey Washington Cable Commission	880
PERA overpayment	294
Waste Management	320
Writers Unlimited	575
Residents utilities	77
Total general fund	<u>15,274</u>
 Sewer fund:	
Residents utilities	<u>1,546</u>
 Water fund:	
Residents utilities	<u>642</u>
 Sewer and water fund: (breakout unavailable)	
Residents utilities	<u>1,000</u>
 Total receivables	<u><u>\$18,462</u></u>

CITY OF BIRCHWOOD, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE
For The Year Ended December 31, 2009
(Unaudited)

Schedule 2

Fund and Vendor	Amount
General fund:	
Schleiss Accounting LLC	\$3,500
State of Minnesota	561
U.S. Department of Treasury	2,003
City of WBL Building Inspections	4,007
Infratech	1,000
John Lund	483
John Fleck	13
Steve Dean Tree Trimming	1,928
Bob Carson	353
Brian Lauzon	6,836
Business Forms and Accounting	91
Deluxe for Business	216
Eckberg Lammers Attorney	4,665
League of MN Cities	911
Mary Wingfield	16
On Site Sanitation Inc	128
Time Savers	200
Washington County	554
Washington County - PILT	5,996
Waste Management	1,770
Xcel Energy 4586612-4	2,090
Former Employee - overtime wages	898
Former Employee - wages	1,077
PERA	86
Press Publications	35
Elfering Engineering	173
MN Dept of Labor and Industry	539
Mini-Mobile	629
White Bear Lake Conservation District	650
First American Title Company	1,041
Total general fund	<u>42,449</u>
Sewer fund:	
City of WBL Public Works	816
Metropolitan Council	3,595
Residents overpayment utilities/assessments	2,245
Total sewer fund	<u>6,656</u>
Water fund:	
City of White Bear Lake	8,646
TDKA Engineering	320
Total water fund	<u>8,966</u>
Sewer and water fund: (breakout unavailable)	
Over payment of residents utilities	19,329
Total payables	<u><u>\$77,400</u></u>

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OTHER REQUIRED REPORTS

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL

To the Honorable Mayor and
Members of the City Council
City of Birchwood, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, and each major fund of the City of Birchwood, Minnesota as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Birchwood, Minnesota's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Birchwood, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Birchwood, Minnesota'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City of Birchwood, Minnesota's internal control as described in the accompanying Schedule of Findings and Responses as items 2009-1 through 2009-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the City of Birchwood, Minnesota's internal control as described in the accompanying schedule as items 2009-5 through 2009-19 to be significant deficiencies.

The City of Birchwood, Minnesota's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, members of the City Council, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

August 30, 2010

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-1 Lack of Documentation for Utility Billing and Receipting

Criteria: Documentation should be retained to substantiate amounts billed and amounts received for utilities. This documentation should be detailed enough to allow the tracing of payments from customers to both the utility billing software and the accounting software and ultimately to the bank deposit.

Condition: Of 20 utility bills selected for testing, 8 lacked sufficient documentation as described above. These 8 instances did not appear to be isolated occurrences. Additionally, the City was unable to provide any 2009 documentation from the Utility Billing Software.

Cause: Unknown.

Effect: The lack of conclusive documentation did not allow for completion of standard auditing procedures. We were unable to apply other auditing procedures to satisfy ourselves as to the utility receipts of the City, and as such the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the City's charges for services in the Water Fund and the Sewer Fund.

Recommendation: We recommend the City put adequate controls in place to provide for an adequate paper trail for utility billing and receipting.

Views of Responsible Officials and Planned Corrective Action: The City has re-established deposit procedures for resident fee payments and has contracted with the City of Little Canada for utility billing. The City of Little Canada issues billing invoices, and also receives, records and deposits payments.

Supporting documentation (receipt report and deposit slip copy) is provided to the City of Birchwood for entry into the City's CTAS program. Periodic balance comparisons are made to assure all payments are tracked and in balance.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-2 Inadequate Controls over Utility Billing

Criteria: The design of an entity's internal control system should include appropriate safeguards over utility billing so that misstatements due to error or fraud are prevented or detected in a timely manner.

Condition: During our audit we identified the following issues related to internal controls over utility billing:

- The City does not have controls in place over the input of meter readings, and recording payment/receipts to utility accounts in the utility billing software.
- The City does not have controls in place to compare the water they pump to the water sold.
- The City does not have controls in place to identify low meter readings or zero usage readings.
- The City does not have controls in place to verify readings they receive from customers via telephone.
- Residents have been allowed to install their own meters; there are no controls in place to verify the meters are properly installed.
- The City was unable to provide documented approval of utility rates.
- Of the 15 utility bills tested, auditors noted 6 late payments. For these 6 late payments, auditors did not note any evidence that a related late fee was billed to the utility account.

Cause: Unknown.

Effect: By not having such controls there is an increased risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: We recommend the City implement adequate controls over the utility billing process which include appropriate safeguards so that misstatements due to error or fraud are prevented or detected in a timely manner.

Views of Responsible Officials and Planned Corrective Action: (Note: April and May 2009 late payments of utility payments may have been due to the lack of a City mail box. Mail was held at post office for several weeks. No late fees were assessed as it was seen as an administrative issue and not resident late payments).

There were several changes in staff and use of volunteers in 2009 to help with the utility billing process. This has been resolved by outsourcing utility billing to the City of Little Canada for

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

both the billing and collection of payments. The City of Birchwood contracts with a firm for meter reading services and has directed this firm to review readings for inconsistencies and to repair or replace meters if needed.

The incidence of resident-provided readings is minimal and is due to interior meter locations whereby meter relocation construction would prove cost prohibitive. The City will endeavor to arrange for a physical inspection of these meters on an annual basis.

Regarding the controls comparing the water pumped to the water sold, the City will consider a Finance Committee recommendation to align the residents' utility billing schedule with the White Bear Lake billing schedule to allow for comparisons of water billed to water sold.

The City of Birchwood purchases City water from the City of White Bear Lake. The City may amend its fee ordinance to include the rate for water billing or annually state the rates set for water fees.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-3 Financial Statement Misstatements

Criteria: General ledger accounts should include all financial activity for the year and controls should be in place to ensure accuracy of all account balances.

Condition: During the course of our audit, audit staff proposed the following journal entries:

- A material entry to allocate \$27,510 of property tax receipts from the General Fund to the Sewer Fund.
- An entry to allocate \$2,708 of interest income that was incorrectly recorded in the General Fund to the Public Works Fund, Sewer Fund and Water Fund.
- An entry to record an additional \$3,335 of unrecorded payroll disbursements.
- An entry to record receipts in the amount of \$2,265 which were received in July 2009 but not recorded and deposited until January 2010.
- An entry to record voided checks in the amount of \$5,557.

Cause: Unknown.

Effect: By not having controls in place to review general ledger accounts for accuracy, there is an increased risk that financial statements misstatements may occur and not be detected and corrected on a timely basis.

Recommendation: We recommend the City review their accounting procedures and determine a course of action to gain more control over the financial statements process.

Views of Responsible Officials and Planned Corrective Action: There were changes in office staff in 2009. Measures have been and are being taken to ensure proper coding to the correct general ledger account. These procedures will ensure that year end entries will be minimal and posted into the system prior to year end. The result will be a trial balance which is more accurate and one that can be tested for accuracy. Categories in future budgets will align with the account structure; this alignment will help ensure proper coding.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-4 Inadequate Controls over Tax Reporting

Criteria: The design of an entity's internal control system should include controls to verify all tax forms are completed in a timely manner.

Condition: The auditor identified the following issues relating to tax reporting:

- No 1099's were issued in 2009 to vendors for services provided in excess of \$600.
- No W-2's were issued to the Council for 2009 wages paid.
- Minnesota quarterly withholding tax returns were not filed and withholdings were not deposited for the second and third quarters of 2009.
- Federal income taxes withheld and employer and employee social security and Medicare taxes were not deposited for July, October, November, and December.

Cause: Unknown.

Effect: There is a risk that the City will be assessed interest and/or late penalties.

Recommendation: We recommend that the City implement an internal control process that ensures timely payment of withholdings and completion of tax forms.

Views of Responsible Officials and Planned Corrective Action: The City's staffing has stabilized and the City has implemented the CTAS accounting program which allows for 1099 issuance and has begun to identify vendors that will require a 1099 to be issued.

The City Council has been advised that they are considered employees, have been provided W-4's and wages paid in 2010, and will have tax withholdings and W-2's issued for 2010 compensation.

State and Federal tax payments have been brought current, and returns have been filed including MN Wage Detail Reports.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-5 Inaccurate Financial Information Presented to the City Council

Criteria: As a mitigating control in response to the lack of segregation of duties, the City Council reviews monthly financial reports prepared by the treasurer/clerk. In order for the Council to have a clear understanding of the City's financial results, the information provided to the Council needs to accurately present the financial transactions of the City.

Condition: Audit procedures detected that financial reports provided to the Council contained inaccurate information. We noted six checks written during the year that were not included on the financial reports presented to the Council. Also, we identified one check for which the wrong amount was reported to the Council.

Cause: Unknown.

Effect: The inaccurate information reported to the Council reduces the effectiveness of their review of the monthly financial report.

Recommendation: We recommend that the individual responsible for reviewing and signing checks also periodically and randomly reviews the financial reports that are provided to Council. The supporting documentation and financial support should be initialed by the individual as evidence of their review.

Views of Responsible Officials and Planned Corrective Action: The City has begun use of the CTAS program for the City's accounting in March 2010. A listing of monthly claims for payment is provided to each City Councilmember for review and a disbursement list is presented at the regular council meetings for approval and payment of the City payables. The use of CTAS also provides for various reports that track receipts and disbursements to reflect the City's financial transactions and position. The City Council will receive regular year-to-date reports from the CTAS system.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-6 Inadequate Controls Over Bank Reconciliations

Criteria: The design of an entity's internal control system should include the timely completion of the monthly reconciliation of bank statements to the general ledger.

Condition: During the year, bank reconciliations were not performed on a timely basis.

Cause: Turnover in the treasurer position contributed to the reconciliations not being performed on a timely basis.

Effect: Un-reconciled balances subject the City to a higher risk that errors or fraud could occur and not be detected.

Recommendation: We recommend City staff develop and follow procedures in order to reconcile its checking account bank balance to the general ledger on a timely basis.

Views of Responsible Officials and Planned Corrective Action: In 2009, the City began its accounting year using Excel. Mid-year, the City changed to QuickBooks which backed up several months of reconciliation. In 2010, the City started in QuickBooks and then switched to CTAS. Administrative staff has re-entered QuickBooks transactions into CTAS. Using year end balances of 2009, entries were made to beginning balances for 2010. The City staff will review checking transactions and deposits monthly for accuracy. The City will begin to use the CTAS for reconciliation and reconcile its balances on a monthly basis.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-7 Inadequate Controls over Signatures on Checks

Criteria: The design of an entity's internal control system should include identification of individuals authorized to sign checks and the number of signatures required on each check.

Condition: The City does not have an internal control policy in place which specifies individuals authorized to sign checks and the number of signatures required on each check. During our testing, we identified that for the first four months of the year checks were being signed by three individuals. For the remainder of the year, checks were signed by only two individuals. For several months during 2009, one of the two signers was not an authorized signer at the bank. Audit tests also identified six checks in November which were only signed by one individual.

Cause: Unknown.

Effect: The lack of an internal control policy to document controls around signatures on checks subjects City to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: We recommend that the City implement an internal control process that clearly defines individuals authorized to sign checks, and the number of signatures required on each check. We also recommend that the City immediately change the authorized signer at the bank upon staff turnover.

Views of Responsible Officials and Planned Corrective Action: Procedures and controls have been put in place for the securing of and accessibility to the City's check inventory.

Due to the staffing changes in 2009, the number of signers on the City checks was changed. Presently, the City is using a requirement of two signatures on the City checks. The City Council has, by resolution, approved who can sign the City checks. Administrative staff reviews the checks before they are sent for payables and again when the checking statement is received.

The City is working on a written Internal Control Policy that will address procedures to follow for; bill payment, receipt and deposit of City funds, writing City checks, control of financial documents and security of the City financial documents.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-8 Lack of Supporting Documentation for Disbursements

Criteria: Internal controls over cash disbursements should be designed to include the retention of vendor invoices supporting each disbursement.

Condition: Of twenty-five disbursements sampled, there was no supporting documentation for two items.

Cause: Unknown.

Effect: The lack of supporting documentation subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: We recommend that the City retain supporting documentation to substantiate all City expenditures.

Views of Responsible Officials and Planned Corrective Action: Supporting documentation requirements have been instituted for any payment issued or written checks by the City. CTAS Claims forms are attached to the supporting expense receipt or vendor invoice along with a section of the City's check stub for payment of the expense.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-9 Inadequate Controls over Void Checks

Criteria: Checks that are not used or voided should be marked as voided and retained for internal control purposes.

Condition: Audit procedures identified the following:

- Four checks that had been documented as voided in the accounting system but could not be located for our review.
- Three checks that were not mailed, were not marked as void, and were not documented as void in the accounting system.
- Two signed checks, which indicated the vendor but the amount was left blank, were not marked as voided.

Cause: Unknown.

Effect: Not retaining voided checks or marking unused checks as voided subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: We recommend that the City implement an internal control process that includes defacing and retaining unused checks.

Views of Responsible Officials and Planned Corrective Action: The new City administrative staff has implemented a voided check retention procedure, in which all voided checks are being currently defaced and retained for internal control.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-10 Delay in Depositing Receipts

Criteria: Generally, a system of internal controls would have procedures in place to ensure that all receipts are deposited in the bank on a timely basis.

Condition: We identified the following receipts not deposited on a timely basis during 2009:

- Ten utility payment checks dated July 2009 and one utility payment check dated August 2009 totaling \$2,265 were not deposited until January 27, 2010.
- Fourteen checks dated from October 1, 2009 through November 15, 2009 totaling \$7,208 were not deposited until December 8, 2009.
- One check dated July 24, 2009 in the amount of \$467 was not deposited until December 28, 2009.
- One check dated December 1, 2009 totaling \$213,292 was not deposited until December 21, 2009.

Cause: Unknown.

Effect: By not having controls in place to ensure timely deposits, the City has an increased risk that errors or fraud could occur and not be detected in a timely manner. Additionally, delayed deposits of receipts have a negative impact on cash flow and interest earnings.

Recommendation: We recommend the City put procedures in place to ensure all receipts are deposited on a timely basis.

Views of Responsible Officials and Planned Corrective Action: Under current (new) administration, deposits are being made weekly or sooner as needed. Cash handling controls have been established and implemented.

2009-11 Inadequate Controls Over Payroll Disbursements

Criteria: Supporting documentation should exist for all transactions related to payroll.

Condition: The auditor identified the following issues relating to payroll disbursements:

- Lack of documentation for hours worked for employees. When documentation of hours worked did exist, we noted a lack of documentation of review/approval of those hours.
- Lack of documentation of employee pay rates.
- We noted one paycheck check to an employee that was not recorded in the payroll software. The check was included on the list presented to council. No supporting documentation was able to be provided for this check.
- The City disbursed checks to two former employees for hours in which they had already been paid. Both checks were returned by the former employees and properly voided by the City.

Cause: Unknown.

Effect: The lack of adequate controls results in an increased risk that financial statement misstatements or fraud may occur and not be detected.

Recommendation: We recommend that the City implement internal controls and retain supporting documentation of all payroll disbursements.

Views of Responsible Officials and Planned Corrective Action: Timesheets are required in advance of all payroll disbursements, whether employee or contract employee. Under current administration, park attendant timesheets are reviewed for accuracy by Council member tasked with park responsibilities and the clerk and/or treasurer, and City staff timesheets are reviewed by the Councilmember tasked with personnel responsibilities. Further, all disbursements are reviewed by the Council to prevent unauthorized payments by/to employees. Employee agreements are signed with all employees stating the rate of pay, benefits, and work conditions.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-12 Lack of Payment to Employee for Overtime

Criteria: The Federal Fair Labor Standards Act (FLSA) prescribes standards for overtime pay. The Act requires employers to pay covered employees not less than one and one-half times their regular rate of pay for all hours worked in excess of forty (40) in a workweek, unless the employees are otherwise exempt.

Condition: During our audit we identified one employee who was not compensated for hours worked over 40 hours at a rate of at least one and one-half times his regular rate of pay.

Cause: Unknown.

Effect: There is a risk that the City could be liable for penalties or sanctions by the Department of Labor.

Recommendation: We recommend the City implement adequate controls to identify when employees work in excess of 40 hours in a workweek, and compensate those employees in accordance with the FLSA requirements.

Views of Responsible Officials and Planned Corrective Action: Administrative staff will track all timesheets for hours worked in excess of forty (40) except where employee is exempt. When weekly hours over forty are worked, the rate for those hours will be paid at one and one-half times the hourly rate.

City of Birchwood, Minnesota
Report on Internal Control
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2009-13 Lack of Timely Payments to PERA

Criteria: Employers are responsible for withholding pension deductions from eligible salary paid to public employees whose coverage in PERA is either mandatory or voluntary under the law. Participating employers are required to remit full payment covering the employee deductions and the employer contributions for each pay period along with a *Salary Deduction Report (SDR)* containing detailed payroll data. Both the payment and the SDR are to be received by PERA within 14 calendar days after the pay date to avoid interest or late penalties.

Condition: During our audit we identified that PERA payments were not submitted timely for the months of August, September and October. The City remitted payment for the months of August through October during November 2009, however, the amount remitted was incorrect and PERA subsequently refunded the difference.

Cause: Unknown.

Effect: The City was assessed a late payment penalty.

Recommendation: We recommend the City implement controls to submit PERA payments and reports within the time frame required.

Views of Responsible Officials and Planned Corrective Action: The City's administrative staff will submit Salary Deduction Reports (SDRs) as required along with full payment to PERA in a timely manner.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-14 Lack of Supporting Documentation for Council Pay Increase

Criteria: The City Council should approve an increase in compensation before the start of the upcoming year.

Condition: The City was unable to provide supporting documentation for the \$100 increase in each Council member's 2009 salary.

Cause: Unknown.

Effect: The lack of supporting documentation subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: We recommend that all changes to the Council member's compensation be approved by the Council and documented in meeting minutes.

Views of Responsible Officials and Planned Corrective Action: The City Council will annually identify the amount of pay earned by the members of the City Council at its first meeting of the year.

City of Birchwood, Minnesota
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2009-15 Lack of Physical Access Restrictions to Accounting Software

Criteria: The design of an entity's internal control system should include appropriate safeguards so that misstatements due to error or fraud are prevented or detected in a timely manner. This includes restricting physical access to accounting software.

Condition: During our audit it came to our attention that during the year, passwords to the accounting software and utility software had been written down and taped to the computer.

Cause: Unknown.

Effect: By not having physical access controls in place there is an increased risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: We recommend the City implement adequate controls which include appropriate safeguards to prevent unauthorized access to accounting software.

Views of Responsible Officials and Planned Corrective Action: The City staff has removed visible notes containing passwords and codes from City computers and software. Password and codes have been changed which should curb non-staff access. Passwords are on file with the City attorney.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-16 Inadequate Controls over Certified Bills Collected at the City

Criteria: Certified bills are included on residents' property tax bills and are collected by the County and remitted to the City. Payments on certified bills collected at the City must be communicated to the County.

Condition: During our audit we identified one instance in which the City collected payment on a delinquent utility account that had been certified to the County and did not notify the County of the payment.

Cause: Unknown.

Effect: The resident will either pay twice for the certified bill or will have an erroneous delinquent balance on the County records.

Recommendation: We recommend the City implement controls which include appropriate safeguards so that residents are directed to make certified bill payments to the County and any City collections of certified utility bills are communicated to the County.

Views of Responsible Officials and Planned Corrective Action: In 2009, no delinquent bills were certified to the County. Staff turnover contributed to this happenstance. This should not present itself in 2010. Also in 2010, the City outsourced its utility billing, and the cities of Little Canada and Birchwood staff will work to identify delinquent accounts for certification which will allow for two reviews of delinquent certifications and payments. The City will no longer accept payments from residents for accounts that have been certified to the County; they will be directed to Washington County.

The City will have a record of all payments made on special assessments for debt service, as provided by Washington County, in order to have accurate information in calculating pay-offs of the special assessments for debt service accounts.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-17 Inadequate Controls over Monitoring of Volunteers

Criteria: Controls should be in place to limit the activities volunteers are allowed to assist with. This should include limiting volunteers' access to the financial accounting system and access to cash.

Condition: The auditor identified one occasion where a volunteer was allowed to take a cash deposit to the bank and one occasion where a volunteer was allowed to process accounts payable transactions. In addition, it is our understanding that volunteers had access to the financial accounting system and financial records and documentation during 2009.

Cause: Unknown.

Effect: Allowing volunteers to handle cash and to have access to financial systems and records results in an increased risk that errors or fraud may occur and not be detected.

Recommendation: We recommend that the City develop written policies and procedures which clearly state the authorized tasks and access limitations for volunteers.

Views of Responsible Officials and Planned Corrective Action: The City uses a log to track the work of volunteers in all aspects of City business. Volunteers were used in early 2010 due to lack of staffing but signed into a log when on site. The City passed a motion restricting the use of volunteers for anything related to financial matters.

City of Birchwood, Minnesota
Report on Internal Control
Schedule of Findings and Responses

2009-18 Lack of Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. The segregation of these accounting functions helps detect and prevent fraud.

Condition: During the year, substantially all accounting procedures are performed by one or at times, two individuals.

Cause: A lack of segregation of duties is common to organizations of this size due to the limited number of staff. However, controls are typically put into place to mitigate the risks posed by the lack of segregation of duties.

Effect: The lack of an ideal segregation of duties and mitigating controls allowed errors and fraud to occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Views of Responsible Officials and Planned Corrective Action: In 2010, the City hired a part-time person whose duties included a list of activities that would maintain a minimum level of segregation of duties. In July 2010, the City hired a permanent clerk and retained the interim treasurer. The clerk assumed the duties of the part-time person related to segregation of duties. Despite having a small accounting staff, the City recognizes the need to continually implement practices that will insure all transactions and adjustments are well-documented, reviewed for accuracy and approved for payment.

Also, the City is working towards establishing practices and procedures to compensate for the lack of segregation of duties, including having all claims for disbursement to be made to be approved by the City Council and requiring two signatures for any check used for disbursement.

City of Birchwood, Minnesota
Report on Internal Control
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2009-19 Oversight of Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation, of the financial statements in accordance with the cash basis of accounting.

Condition: Like many similarly sized organizations, the City has requested assistance from us, the auditors, with drafting financial statements and related notes. This is a common practice and an allowable non audit service under the AICPA Ethics Interpretation 101-3. However, other than relying on the auditors, the City staff does not perform sufficient procedures to detect if there were misstatements or omission of disclosures to the financial statements.

Cause: The City has not established procedures to detect misstatements or omissions of disclosures in the financial statements prepared by the auditors.

Effect: By not having such controls, there is an increased risk that errors or omissions in financial statements prepared by the auditors would not be detected by City management.

Recommendation: We recommend that the City remain aware of this matter. Any change would need to be viewed from a cost/benefit perspective.

Views of Responsible Officials and Planned Corrective Action: The City is aware of the situation, but a cost/benefit analysis of the issue does not support the allocation of additional employees or resources at this time. Certain other safeguards will be maintained (Council oversight and creation of and review of monthly financial statements) which will provide satisfactory mitigation of the issue.



HLB Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

**REPORT ON COMPLIANCE WITH MINNESOTA LEGAL
COMPLIANCE AUDIT GUIDE FOR LOCAL GOVERNMENT**

To the Honorable Mayor and
Members of the City Council
City of Birchwood, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Birchwood, Minnesota as of and for the year ended December 31, 2009 and have issued our report thereon dated August 30, 2010.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* 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, except that we did not test for compliance in contracting and bidding because the City did not enter into any contracts or other applicable transactions, and tax increment financing because the City does not have any tax increment districts.

The results of our tests indicate that for the items tested, the City of Birchwood, Minnesota complied with the material terms and conditions of applicable legal provisions, except as described as findings 2009-20 through 2009-27.

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

HLB Tautges Redpath, Ltd.
HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

August 30, 2010

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Local Government

2009-20 Broker Certification form

Criteria: Minnesota Statutes require the City to annually obtain a certification from each investment broker. Minnesota Statute 118A.04, subdivision 9 reads as follows:

Subd. 9. **Broker; statement and receipt.** (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision. 1.

Condition: The City did not obtain the required broker forms for calendar year 2009.

Cause: Unknown.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend the City annually obtain broker certification forms prior to January 1 of each year.

Views of Responsible Officials and Planned Corrective Action: The Broker Certification Form will be sent to the broker before end of year 2010 and will be on file for 2011. In the future, the City will do this before the beginning of each year.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Local Government

2009-21 Public Purpose Expenditure

Criteria: The Minnesota State Constitution, Art. X § I requires that public entities expend public funds only if the expenditures are authorized by law and have a public purpose.

Condition: During 2009, the City purchased flowers for a funeral. Based on the State of Minnesota Office of the State Auditor's Statement of Position, this is an improper expenditure unless specifically statutorily-authorized.

Cause: Unknown.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend that the City establish procedures to document the public purpose of all expenditures. Additionally, we recommend that the City not expend funds for items that do not have a clear public purpose.

Views of Responsible Officials and Planned Corrective Action: Expenditures of the City will be reviewed by staff for relevance to public purpose and by Council before approval of disbursement. Relevant documentation of expense will be on file at City offices.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Local Government

2009-22 Prompt Payment of Bills

Criteria: Minnesota Statute 471.425, subdivisions 2 and 4 read as follows:

471.425 Prompt payment of local government bills

Subdivision 2. **Payment required.** A municipality must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the municipality in good faith disputes the obligation. Standard payment period is defined as follows:

(a) For municipalities who have governing boards which have regularly scheduled meetings at least once a month, the standard payment period is defined as within 35 days of the date of receipt.

Subdivision 4. **Payment of interest on late payments required.**

(a) Except otherwise provided in this section, a municipality shall calculate and pay interest to a vendor if the municipality has not paid the obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period as defined in subdivision 2.

(b) The rate of interest calculated and paid by the municipality on the outstanding balance of the obligation not paid according to the terms of the contract or during the standard payment period shall be 1-1/2 percent per month or part of a month.

(d) The minimum monthly interest penalty payment that a municipality shall calculate and pay a vendor for the unpaid balance for any one overdue bill of \$100 or more is \$10. For unpaid balances of less than \$100, the municipality shall calculate and pay the actual interest penalty due the vendor.

Condition: Two instances were identified where bills were not paid within the standard payment period and interest on these bills was not paid.

Cause: Unknown.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend the City implement procedures to follow required statutes.

Views of Responsible Officials and Planned Corrective Action: The City staff will present all invoices received between regular meetings to the Council for approval and payment within the 35 day receipt period a defined by statute. Unless vendor agreements are in place late payment of invoice will include payment of interest or finance as allowed by statute. Staff will communicate to regular vendors the need to submit invoices early in the month to allow for time to process the payment and get it on the disbursement list.

2009-23 Lack of documentation of approval of payroll

Criteria: Minnesota Statute 412.271 subdivision 2 reads as follows:

Subd. 2. **Claims, payment.** Except for wages paid on an hourly or daily basis, where a claim for money due on goods or services furnished can be itemized in the ordinary course of business the person claiming payment, or the claimant's agent, shall prepare the claim in written items and sign a declaration that the claim is just and correct and that no part of it has been paid; but the council may in its discretion allow a claim prepared by the clerk prior to such declaration by the claimant, if the declaration is made by an endorsement on the order-check by which the claim is paid as provided below. Whenever work for which wages are to be paid on an hourly or daily basis is done by employees of the city, the clerk shall keep a payroll giving the name of each employee and the number of hours or days worked by each and the timekeeper, supervisor, or other officers or employee having knowledge of the facts shall sign a declaration that the facts recited on the payroll are correct to the best of the declarant's information and belief; and when any claim for wages listed on a payroll is paid, the employee shall sign a declaration, which may be a part of the payroll, to the effect that the employee has received the wages and done the work for which wages have been paid. The declarations relating to claims or payrolls shall be in substantially the following form: "I declare under the penalties of perjury (here insert, if claimant: that this claim is just and correct and no part of it has been paid; if timekeeper, supervisor, officer or employee having knowledge of the facts; that to the best of my information and belief the items of this payroll are correct; if employee who has been paid: that I have received the wages stated on this payroll opposite my name and have done the work for which the wages were paid.)

.....

Date Signed

The effect of this declaration shall be the same as if subscribed and sworn to under oath.

Condition: Certain payrolls tested lacked the required declaration that the facts recited on the payroll are correct.

Cause: Unknown.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend that the City take steps to ensure that all payrolls have the appropriate declaration.

Views of Responsible Officials and Planned Corrective Action: The required declaration will be added to the timesheets used by the City. The City's personnel coordinator signs all timesheets.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
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2009-24 Lack of Resolution for Acceptance of Grants

Criteria: Minnesota Statute 465.03 reads in part as follows:

465.03 Gifts to municipalities.

Any city, county, school district or town may accept a grant or devise of real or personal property and maintain such property for the benefit of its citizens in accordance with the terms prescribed by the donor. Nothing herein shall authorize such acceptance or use for religious or sectarian purposes. Every such acceptance shall be by resolution of the governing body adopted by a two-thirds majority of its members, expressing such terms in full.

Condition: During the year, the City received a recycling grant from Washington County which was not accepted by resolution.

Cause: The City has not implemented procedures to ensure that all grants are being accepted by resolution.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend the City consider implementing procedures to comply with Minnesota Statute 465.03.

Views of Responsible Officials and Planned Corrective Action: In 2010, the City began use of resolution to accept monetary grants and donations of gifts, money or physical devises to the City.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
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2009-25 Out-of-State Travel Policy

Criteria: Minnesota Statute 471.661 provides certain specific reimbursement/allowance requirements for mileage as follows:

471.661 Out-of-State Travel

By January 1, 2006, the governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must develop a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government. The policy must be approved by a recorded vote and specify:

- (1) when travel outside the state is appropriate;
- (2) applicable expense limits; and
- (3) procedures for approval of the travel.

The policy must be made available for public inspection upon request and reviewed annually. Subsequent changes to the policy must be approved by a recorded vote.

Condition: The City has not adopted an out-of-state travel policy for elected officials.

Cause: Unknown.

Effect: The effect of non-compliance is not determinable.

Recommendation: We recommend the City adopt an out-of-state travel policy in accordance with Minnesota Statute 471.661.

Views of Responsible Officials and Planned Corrective Action: The City Council will approve an Out-of State Policy Travel Policy in 2010 in accordance with the statute.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
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2009-26 Orders Not Drawn by Mayor and Clerk

Criteria: Minnesota statutes require that disbursements made on orders are drawn by the mayor and clerk upon the treasurer. MS 412.271, Subdivision 1 reads in part as follows:

412.271 Disbursements.

Subdivision 1. **Method.** No disbursement of city funds, including funds of any municipal liquor dispensary operated by the city, shall be made except by an order drawn by the mayor and clerk upon the treasurer. Except when issued for the payment of judgments, salaries and wages previously fixed by the council or by statute, principal and interest on obligations, rent and other fixed charges, the exact amount of which has been previously determined by contract authorized by the council, and except as otherwise provided in subdivisions 4, 5, and 8, no order shall be issued until the claim to which it relates has been audited and allowed by the council.

Condition: Audit procedures identified six checks written in November 2009, that were signed only by the mayor.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend that the City amend procedures to comply with Minnesota Statute 412.271.

Views of Responsible Officials and Planned Corrective Action: By mid-2010, the City was staffed with separate clerk and treasurer which allowed for the clerk to present claims to the treasurer for payment processing and presentation to the Council for approval of disbursements and issuance of checks with two signatures. Disbursements paid electronically as required by statute (ex. PERA, Federal and State Tax payments, etc.) will be reviewed by clerk and provided to treasurer for payment and included in monthly disbursement list to the City Council.

2009-27 Missing Declaration for Payment

Criteria: Minnesota Statutes require that municipalities have a declaration for payment signed to the effect that such amount, claim, or demand is just and correct and that no part of it has been paid. Minnesota Statute 471.391 reads as follows:

471.391 Declaration form.

Subdivision 1. **Sufficiency.** The declaration provided for in section 471.38 is sufficient if in the following form: "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid.

.....
"Signature of Claimant"

Subd. 2. **Above check endorsement.** The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof by the payee, the following statement: "The undersigned payee, in endorsing this check (or order-check) declares that the same is received in payment of a just and correct claim against the county (county board of education for unorganized territory, school district, town or city), and that no part of it has heretofore been paid." When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim.

Condition: The check stock used by the City did not include the required declaration.

Cause: Unknown.

Effect: The City was not in compliance with this issue and was not meeting the requirements of Minnesota Statute 471.391.

Recommendation: We recommend the City implement procedures to ensure that a declaration for payment is obtained for all disbursements.

Views of Responsible Officials and Planned Corrective Action: As of March 2010, this has been corrected. The City has purchased a stamp for the required declaration and the checks will be stamped before issuance. Signers of the checks will review for required declaration.

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