

CITY OF BIRCHWOOD, MINNESOTA

ANNUAL FINANCIAL REPORT

December 31, 2010

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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, 2010

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
Anthony Nardecchia	Council	December 31, 2010

APPOINTED

Dale Powers	City Clerk
Cindie Reiter	Interim City Treasurer

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II. FINANCIAL SECTION

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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 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, 2010, 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.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 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 accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, the business-type activities and each major fund of the City of Birchwood, Minnesota as of December 31, 2010, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2011, on our consideration of the City of Birchwood, Minnesota'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Birchwood, Minnesota's financial statements as a whole. The introductory section and other financial information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section and other financial information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 11, 2011

BASIC FINANCIAL STATEMENTS

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CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
 December 31, 2010

Statement 1

	Primary Government		Totals 2010
	Governmental Activities	Business-Type Activities	
Cash	\$628,327	\$218,810	\$847,137
Total cash	<u>\$628,327</u>	<u>\$218,810</u>	<u>\$847,137</u>
Cash balances consist of:			
Restricted	\$41,571	\$ -	\$41,571
Unrestricted	<u>586,756</u>	<u>218,810</u>	<u>805,566</u>
Total cash balance	<u>\$628,327</u>	<u>\$218,810</u>	<u>\$847,137</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, 2010

<u>Functions/Programs</u>	<u>Cash Disbursements</u>	<u>Charges For Services</u>
Primary government:		
Governmental activities:		
General government	\$219,193	\$15,969
Public safety	125,179	1,783
Highways and streets	85,477	-
Sanitation	17,620	1,116
Culture and recreation	94,975	-
Total governmental activities	<u>542,444</u>	<u>18,868</u>
Business-type activities:		
Water	83,800	51,074
Sewer	390,777	102,196
Total business-type activities	<u>474,577</u>	<u>153,270</u>
Total primary government	<u><u>\$1,017,021</u></u>	<u><u>\$172,138</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 2010
\$6,868	\$25,071	(\$171,285)	\$ -	(\$171,285)
-	-	(123,396)	-	(123,396)
-	-	(85,477)	-	(85,477)
1,578	-	(14,926)	-	(14,926)
-	3,500	(91,475)	-	(91,475)
<u>8,446</u>	<u>28,571</u>	<u>(486,559)</u>	<u>0</u>	<u>(486,559)</u>
-	-	-	(32,726)	(32,726)
-	35,702	-	(252,879)	(252,879)
<u>0</u>	<u>35,702</u>	<u>0</u>	<u>(285,605)</u>	<u>(285,605)</u>
<u>\$8,446</u>	<u>\$64,273</u>	<u>(486,559)</u>	<u>(285,605)</u>	<u>(772,164)</u>
General cash receipts:				
General property taxes		323,491	-	323,491
Grants and contributions not restricted to specific programs		238	-	238
Unrestricted investment earnings		1,332	74	1,406
Sale of investments		140,000	320,000	460,000
Other		3,932	-	3,932
Total general cash receipts		<u>468,993</u>	<u>320,074</u>	<u>789,067</u>
Change in cash balance		(17,566)	34,469	16,903
Cash balance - January 1		<u>645,893</u>	<u>184,341</u>	<u>830,234</u>
Cash balance - December 31		<u>\$628,327</u>	<u>\$218,810</u>	<u>\$847,137</u>

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

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
GOVERNMENTAL FUNDS
 December 31, 2010

Statement 3

	General Fund	Park Improvement Fund	Public Works Reserve Fund	Capital Projects Fund	Total Governmental Funds
Cash	\$513,678	\$7,550	\$41,571	\$65,528	\$628,327
Total cash	<u>\$513,678</u>	<u>\$7,550</u>	<u>\$41,571</u>	<u>\$65,528</u>	<u>\$628,327</u>
Cash balances consist of:					
Reserved for street repair	\$ -	\$ -	41,571	\$ -	\$41,571
Designated for parks	-	7,550	-	-	7,550
Designated for City projects	-	-	-	65,528	65,528
Undesignated	<u>513,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>513,678</u>
Total cash balance	<u>\$513,678</u>	<u>\$7,550</u>	<u>\$41,571</u>	<u>\$65,528</u>	<u>\$628,327</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, 2010

Statement 4

	General Fund	Park Improvement Fund	Public Works Reserve Fund	Capital Projects Fund	Total Governmental Funds
Cash receipts:					
General property taxes	\$323,491	\$ -	\$ -	\$ -	\$323,491
Licenses and permits	9,583	-	-	-	9,583
Intergovernmental	32,985	-	-	-	32,985
Grants	-	-	-	3,500	3,500
Charges for services	992	5,900	-	-	6,892
Certified bills	1,116	-	-	-	1,116
Fine and forfeits	1,277	-	-	-	1,277
Investment income	1,332	-	-	-	1,332
Miscellaneous	4,702	-	-	-	4,702
Total cash receipts	375,478	5,900	0	3,500	384,878
Cash disbursements:					
Current:					
General government	184,193	-	-	-	184,193
Public safety	125,179	-	-	-	125,179
Highways and streets	84,627	-	850	-	85,477
Sanitation	17,620	-	-	-	17,620
Culture and recreation	19,543	-	-	40,432	59,975
Total cash disbursements	431,162	0	850	40,432	472,444
Receipts over (under) disbursements	(55,684)	5,900	(850)	(36,932)	(87,566)
Other financing sources (uses):					
Purchase of investments	(35,000)	-	-	(35,000)	(70,000)
Sale of investments	70,000	-	-	70,000	140,000
Transfers from other funds	-	1,650	-	-	1,650
Transfers to other funds	(1,650)	-	-	-	(1,650)
Total other financing sources (uses)	33,350	1,650	0	35,000	70,000
Net change in cash balances	(22,334)	7,550	(850)	(1,932)	(17,566)
Cash balance - January 1	536,012	-	42,421	67,460	645,893
Cash balance - December 31	<u>\$513,678</u>	<u>\$7,550</u>	<u>\$41,571</u>	<u>\$65,528</u>	<u>\$628,327</u>

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

CITY OF BIRCHWOOD, MINNESOTA
STATEMENT OF CASH BALANCES
PROPRIETARY FUNDS
December 31, 2010

Statement 5

	Sewer Fund	Water Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash	<u>\$173,187</u>	<u>\$45,623</u>	<u>\$218,810</u>
Total cash	<u><u>\$173,187</u></u>	<u><u>\$45,623</u></u>	<u><u>\$218,810</u></u>
Cash balances consist of:			
Unrestricted	<u>\$173,187</u>	<u>\$45,623</u>	<u>\$218,810</u>
Total cash balances	<u><u>\$173,187</u></u>	<u><u>\$45,623</u></u>	<u><u>\$218,810</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, 2010

	Sewer Fund	Water Fund	Total
Receipts:			
Special assessments	\$35,702	\$ -	\$35,702
Certified bills	3,386	1,372	4,758
Charges for services:			
Sewer fee	81,310	-	81,310
Sewer lift fees	1,074	-	1,074
Sewer rehab fees	16,426	-	16,426
Water fees	-	49,702	49,702
Investment income	73	1	74
Total receipts	137,971	51,075	189,046
Disbursements:			
Utility locates	-	296	296
Water utility expense	-	13,587	13,587
Water purchase	-	34,540	34,540
Contracted labor	7,862	-	7,862
MCES charges	46,902	-	46,902
Maintenance and supplies	13,215	-	13,215
Sewer lift stations	14,613	-	14,613
Refunds	8,602	5,377	13,979
Debt service:			
Principal	150,366	-	150,366
Interest	19,217	-	19,217
Total disbursements	260,777	53,800	314,577
Receipts over (under) disbursements	(122,806)	(2,725)	(125,531)
Other financing sources (uses):			
Purchase of investments	(130,000)	(30,000)	(160,000)
Sale of investments	260,000	60,000	320,000
Total other financing sources (uses)	130,000	30,000	160,000
Net change in cash balance	7,194	27,275	34,469
Cash balance - January 1	165,993	18,348	184,341
Cash balance - December 31	\$173,187	\$45,623	\$218,810

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.

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 *Park Improvement Fund* is used to account for City funds designated by council as reserved for park improvements.

The *Public Works Reserve Fund* is used to account for turn back funds received from Washington County which are designated for capital improvements of a type for which the City is authorized to issue bonds.

The *Capital Projects Fund* is used to account for major City capital projects, such as the tennis court project.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for collection of special assessments (for 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 is the legal level 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 three amendments to the budget during the year. The General Fund disbursements exceeded budget appropriations as follows:

	Final Budget	Actual	Over Budget
General Fund	<u>\$344,261</u>	<u>\$431,162</u>	<u>\$86,901</u>

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, 2010 carrying amount of the City's deposits with financial institutions was \$350,317, and the bank balance was \$370,969.

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, 2010, the bank balance of the City's deposits was covered by federal depository insurance or perfected collateral pledged and held in the City's name.

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

B. INVESTMENTS

Minnesota Statute 118A.05 authorizes 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.
- 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, 2010, 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	\$350,317
Money market	N/A	N/A	<u>496,820</u>
Total cash and cash equivalents			<u><u>\$847,137</u></u>

C. INVESTMENT RISKS

Custodial credit risk – investments – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The City does not have an investment policy that addresses custodial credit risk.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt investments could adversely affect the fair value of an investment. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. Minnesota Statutes limit the City’s investments to direct obligations or obligations guaranteed by the United States or its agencies, shares of certain investment companies registered or obligations guaranteed under the Federal Investment Company Act of 1940; general obligations of any state or local government with taxing powers which is rated “A” or better; revenue obligations of any state or local government with taxing powers which is rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities brokers-dealers. The City does not have an investment policy that places further restrictions on investment options.

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer.

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 General Employees Retirement Fund (GERF) 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.

GERF 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.

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 GERF and PEPFF. 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.

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. The City is required to contribute the following percentages of annual covered payroll in 2010: 11.78% for Basic Plan GERS members and 7.0% for Coordinated Plan GERS members. Employer contribution rates for the Coordinated Plan will increase to 7.25% effective January 1, 2011. The City's contributions were \$2,230 and \$4,104 for 2010 and 2009, respectively, and 2008 is unavailable.

Note 4 DESIGNATIONS AND RESERVATIONS OF CASH BALANCES

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

Park Improvement Fund:	
Designated for parks	\$7,550
Public Works Reserve Fund:	
Reserved for street repair	41,571
Capital Projects Fund:	
Designated for City projects	<u>65,528</u>
Total	<u><u>\$114,649</u></u>

Note 5 LONG-TERM DEBT

As of December 31, 2010, the long-term debt of the City consisted of the following:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/10</u>
Business-type activities:				
G.O. Improvement Bonds Series 2004B	\$252,000	4.80%	2014	\$104,500
G.O. Improvement Bonds Series 2008	192,000	4.91%	2018	<u>163,429</u>
Total				<u><u>\$267,929</u></u>

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Long-term debt activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance	Due Within One Year
Business-type activities:					
G.O. Improvement Bonds Series 2004A	\$108,000	\$ -	\$108,000	\$ -	\$ -
G.O. Improvement Bonds Series 2004B	130,500	-	26,000	104,500	26,000
G.O. Improvement Bonds Series 2008	179,795	-	16,366	163,429	17,170
Total	\$418,295	\$0	\$150,366	\$267,929	\$43,170

Estimated future maturities:

	G.O. Improvement Bonds Series 2004B		G.O. Improvement Bonds Series 2008	
	Principal	Interest	Principal	Interest
2011	\$26,000	\$5,016	\$17,170	\$8,024
2012	26,000	3,768	18,013	7,181
2013	26,000	2,520	18,897	6,297
2014	26,500	1,272	19,825	5,369
2015	-	-	20,798	4,396
2016	-	-	21,820	3,374
2017	-	-	22,891	2,303
2018	-	-	24,016	1,178
	\$104,500	\$12,576	\$163,429	\$38,123

PLEDGED REVENUE

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

Bond Issue	Use of Proceeds	Type	Revenue Pledged			12/31/2010	Current Year 2010	
			Original Amount	Percent of Total Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
G.O. Improvement Bonds Series 2004A and B	2004 Sanitary Sewer Rehab	Special Assessments	\$281,488	49%	2005-2014	\$117,076	\$144,376	\$10,150
G.O. Improvement Bonds Series 2008	2008 Sanitary Sewer Rehab	Special Assessments	150,557	39%	2008-2018	201,552	25,207	24,979

CITY OF BIRCHWOOD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

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, 2010, 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.

Note 7 INTERFUND TRANSFERS

The City established the Park Improvement Fund during 2010 through a transfer from the General Fund.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ -	\$1,650
Park Improvement Fund	<u>1,650</u>	<u>-</u>
Total	<u><u>\$1,650</u></u>	<u><u>\$1,650</u></u>

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OTHER FINANCIAL INFORMATION

CITY OF BIRCHWOOD, MINNESOTA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS

For The Year Ended December 31, 2010

(Unaudited)

Schedule 1

Page 1 of 3

	2010			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Cash receipts:				
General property taxes	\$323,000	\$323,000	\$323,491	\$491
Licenses and permits	-	-	9,583	9,583
Intergovernmental	-	-	32,985	32,985
Charges for services	-	-	992	992
Certified bills	-	-	1,116	1,116
Fine and forfeits	-	-	1,277	1,277
Investment income	-	-	1,332	1,332
Miscellaneous	-	-	4,702	4,702
Total cash receipts	323,000	323,000	375,478	52,478
Cash disbursements:				
General government:				
City council	4,300	4,300	1,847	2,453
City clerk expenses:				
Wages	40,000	40,000	51,131	(11,131)
Elections	2,450	2,450	4,311	(1,861)
Total city clerk expenses	42,450	42,450	55,442	(12,992)
Financial administration:				
Accounting	16,000	16,000	26,374	(10,374)
Assessing	5,000	5,000	5,164	(164)
Banking fees	-	-	472	(472)
Total financial administration	21,000	21,000	32,010	(11,010)
Insurance:				
General liability	1,500	1,500	4,504	(3,004)
Property	6,000	6,000	2,229	3,771
Municipal	-	-	133	(133)
Workers compensation	-	-	690	(690)
Total insurance	7,500	7,500	7,556	(56)

CITY OF BIRCHWOOD, MINNESOTA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS

For The Year Ended December 31, 2010

(Unaudited)

Schedule 1

Page 2 of 3

	2010			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Cash disbursements (continued):				
City development:				
Dues and subscriptions	\$4,900	\$4,900	\$5,275	(\$375)
Training and education	1,600	1,600	40	1,560
Total city development	6,500	6,500	5,315	1,185
Governmental building maintenance:				
Utilities	-	-	4,407	(4,407)
Repair and maintenance	36,000	36,000	11,637	24,363
Total governmental building maintenance	36,000	36,000	16,044	19,956
Cable equipment	-	-	27,891	(27,891)
Publishing and printing	1,600	1,600	2,719	(1,119)
Office supplies	4,600	6,622	6,447	175
Legal services	8,000	8,000	15,731	(7,731)
Engineering	7,500	7,500	2,818	4,682
Planning commission	495	495	475	20
Refunds	-	-	9,596	(9,596)
Other	1,486	1,486	302	1,184
Total general government	141,431	143,453	184,193	(40,740)
Public safety:				
Police service	90,000	90,000	85,637	4,363
Fire/emergency service	23,000	23,000	21,867	1,133
Building inspector fees	-	-	15,664	(15,664)
Animal control	-	-	304	(304)
Department of labor fees	-	-	692	(692)
Utility locates	-	-	1,015	(1,015)
Total public safety	113,000	113,000	125,179	(12,179)
Highways and streets:				
Street lights	13,500	13,500	14,847	(1,347)
Snow and ice removal	-	-	20,912	(20,912)
Street maintenance	23,500	42,739	48,868	(6,129)
Total highways and streets	37,000	56,239	84,627	(28,388)
Sanitation:				
Recycling	12,000	12,000	12,537	(537)
Diseased trees disposal	4,000	4,000	5,083	(1,083)
Total sanitation	16,000	16,000	17,620	(1,620)

CITY OF BIRCHWOOD, MINNESOTA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS

For The Year Ended December 31, 2010

(Unaudited)

Schedule 1

Page 3 of 3

	2010			Variance- Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Cash disbursements (continued):				
Culture and recreation:				
Parks	\$15,569	\$15,569	\$19,543	(\$3,974)
Total culture and recreation	<u>15,569</u>	<u>15,569</u>	<u>19,543</u>	<u>(3,974)</u>
Total cash disbursements	<u>323,000</u>	<u>344,261</u>	<u>431,162</u>	<u>(86,901)</u>
Receipts over (under) disbursements	<u>-</u>	<u>(21,261)</u>	<u>(55,684)</u>	<u>(34,423)</u>
Other financing sources (uses):				
Purchase of investments	-	-	(35,000)	(35,000)
Sale of investments	-	-	70,000	70,000
Transfers out	-	-	(1,650)	(1,650)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>33,350</u>	<u>33,350</u>
Net change in cash balances	<u>\$0</u>	<u>(\$21,261)</u>	(22,334)	<u>(\$1,073)</u>
Cash balance - January 1			<u>536,012</u>	
Cash balance - December 31			<u>\$513,678</u>	

CITY OF BIRCHWOOD, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
For The Year Ended December 31, 2010
(Unaudited)

Schedule 2

<u>Fund and Vendor</u>	<u>Amount</u>
General fund:	
Residents utilities	\$2,954
Washington County	3,248
Ramsey Washington Cable Commission	1,141
Total general fund	<u>7,343</u>
Sewer fund:	
Residents utilities	<u>16,401</u>
Water fund:	
Residents utilities	<u>8,863</u>
Total receivables	<u><u>\$32,606</u></u>

CITY OF BIRCHWOOD, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE
For The Year Ended December 31, 2010
(Unaudited)

Schedule 3

<u>Fund and Vendor</u>	<u>Amount</u>
General fund:	
City of WBL Building Inspections	\$377
Eckberg Lammers Attorney	885
On Site Sanitation Inc.	103
Metropolitan Council	3,248
Washington County	1,141
Waste Management	909
Xcel Energy	1,661
PERA	259
Nikki Aune	35
MN Department of Labor and Industry	73
Elfering & Associates	297
IRS - US Treasury	3,075
MN Department of Revenue	254
Mary Wingfield	1,500
Employees	2,779
Total general fund	<u>16,597</u>
Sewer fund:	
City of White Bear Lake	2,256
Xcel Energy	464
Payments to residents	3,092
Total sewer fund	<u>5,812</u>
Water fund:	
City of White Bear Lake	6,989
Payments to residents	3,092
Total water fund	<u>10,081</u>
 Total payables	 <u><u>\$32,490</u></u>

OTHER REQUIRED REPORTS

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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*

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, 2010 which collectively comprise the City of Birchwood, Minnesota's basic financial statements, and have issued our report thereon dated May 11, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Birchwood, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures 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 of Birchwood, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Birchwood, Minnesota's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as identified in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting 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 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 described in the

accompanying Schedule of Finding and Responses as items 2010-1 and 2010-2 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 described in the accompanying Schedule of Findings and Responses as items 2010-3 through 2010-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Birchwood, Minnesota's financial statements are free of 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*.

We noted certain other matters that we reported to management of the City of Birchwood, Minnesota in a separate letter dated May 11, 2011.

The City of Birchwood, Minnesota's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Birchwood, Minnesota's response, and accordingly, we express no opinion on it.

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

May 11, 2011

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

2010-1 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 adjust receipts and offset disbursements for return of overpayment from Flex Court in the amount of \$14,587.
- An entry to gross up property taxes and record disbursement in the amount of \$5,996 related to County taking back PILOT (payment in lieu of taxes) erroneously given to the City during 2009.
- An entry to record \$2,027 of delinquent utilities as charges for services in the Sewer fund which were originally recorded as property taxes in the General Fund.

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 internal controls and determine a course of action to gain more control over the financial statements process.

Views of Responsible Officials and Planned Corrective Action: Measures have been taken and continue to be identified to ensure proper coding to the correct general ledger account. Atypical transactions that occur will have more research for CTAS entries. These procedures will ensure that year end entries will be minimal and posted into the system prior to year end. Year end adjustments for unusual items will be made by journal entry if necessary for year end financial statement presentation. The result will be a trial balance which is more accurate and reflects actual revenues and expenses of the City.

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

2010-2 Over Payment of Invoices

Criteria: The design of an entity's internal control system should include controls to prevent or detect and correct overpayment of invoices in a timely manner.

Condition: The City over paid the invoice for the Tennis Court resurfacing by approximately \$14,500. The error was not detected by the City's internal controls. A member of the parks commission detected the error approximately one month after the overpayment being made.

Cause: Unknown.

Effect: By not having controls in place to prevent or detect the overpayment of invoices, there is an increased risk that overpayment may occur and not be detected and corrected on a timely basis.

Recommendation: We recommend the City implement internal controls to prevent or detect and correct over payment of invoices in a timely manner.

Views of Responsible Officials and Planned Corrective Action: The City now has two staff members who will aid in review of payments made to corresponding invoices. The City has also educated commission and committee members of the importance that vendors work directly with City staff for purchases and expense transactions. Further, staff will review invoices received against vendor invoices for contracted service consistency.

2010-3 Implementation of Controls Over Payroll Disbursements

Criteria: The City's internal controls over payroll disbursements include review and approval of employee time cards by the employee liaison. In order for this control to be effective the review and approval needs to be documented and performed on a timely basis.

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

- Out of ten payroll disbursements tested, two of the related time cards were not signed by the employee and were missing evidence of review and approval by the employee liaison.
- Out of ten payroll disbursements tested, two of the related time cards were reviewed and approved two and three months after the disbursement had been made.
- Out of ten payroll disbursements tested, one of the related time cards could not be located.

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 follow their documented internal control procedures and ensure that all time cards are maintained, reviewed and approved by the employee liaison or other designated individual on a timely basis.

Views of Responsible Officials and Planned Corrective Action: Under current administration, timesheets are reviewed for accuracy before payroll is issued. A new timesheet format was instituted to accommodate signatures and date by both employee and council liaison. Both employee and councilmember will endeavor to sign the timesheet in a timely manner.

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

2010-4 Inadequate Controls over Certifying Special Assessments to County

Criteria: Special assessments to be certified to the County should be certified based on the amount of principal due. The County then calculates the amount of interest due and bills property owners for principal and calculated interest.

Condition: It was communicated to us that the City had certified special assessments to the County based on the total amount of the principal and future interest due.

Cause: Unknown.

Effect: As currently certified, the property owners will be over charged for the interest portion of their special assessment.

Recommendation: We recommend the City identify the amount of overpayment for each property owner and work with the County to adjust the assessment roll to the correct amount.

Views of Responsible Officials and Planned Corrective Action: Certification of the debt service special assessments did include a miscalculation of interest. To adjust for this error, the City will abate and recertify the remaining balance of the debt service term in November 2011 for the balance of the bond term for 2012 and forward.

To correct for the added interest for pay 2011, the City has notified those property owners affected, of the debt service projects to advise them they will received a refund for the added interest paid in 2011. This refund will be sent in first quarter 2012 after confirmation of paid special assessments by the County. Refunds range from \$21.17 to \$45.45 per property owner.

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

2010-5 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.

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 ideal segregation of duties and mitigating controls increase the risks that errors and/or fraud could 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 July 2010, the City hired a permanent Clerk and retained the Treasurer. Despite having a small 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.

The City established practices and procedures to accomplish the greatest degree of segregation of duties with limited staff. The City recognizes its limited staff cannot allow for full segregation of duties and the cost/benefit does not justify added staff.

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

2010-6 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.



REPORT ON COMPLIANCE WITH MINNESOTA LEGAL
COMPLIANCE AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

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, 2010 and have issued our report thereon dated May 11, 2011.

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 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 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, except that we did not test for compliance with 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 2010-7 through 2010-10.

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

May 11, 2011

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Political Subdivisions

2010-7 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 2010 until September 22, 2010.

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 was received from the broker in December 2010 and is on file for 2011.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Political Subdivisions

2010-8 Out-of-State Travel Policy

Criteria: Minnesota Statute 471.661 requires an out-of-state travel policy 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 Travel Policy in 2011 in accordance with Minnesota Statutes.

City of Birchwood, Minnesota
Report on Compliance with Minnesota Legal
Compliance Audit Guide for Political Subdivisions

2010-9 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. Minnesota Statute 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 two payroll checks which were signed only by the Treasurer.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend that the City work with its Attorney to amend procedures to ensure compliance with Minnesota Statute 412.271.

Views of Responsible Officials and Planned Corrective Action: By mid-2010, the City was staffed with a separate Clerk and Treasurer which allowed for the Clerk to present claims to the Treasurer for payment processing, presentation to the Council for approval and issuance of checks with two signatures. The City will review with the City Attorney the statutory requirements of signatures on checks.

In 2011, parties approved by resolution for signatory responsibility are available to sign payroll when due. The City will also begin direct deposit for administrative staff in 2011.

2010-10 Delegation of Authority for Paying Certain Claims

Criteria: Minnesota statutes require the adoption of a resolution delegating the authority to pay claims. Minnesota Statute 412.271, Subdivision 8 reads in part as follows:

412.271 Disbursements.

Subd. 8. **Delegation of authority for paying certain claims.** A city council, at its discretion, may delegate its authority to pay certain claims made against the city to a city administrative official. City councils opting to delegate their authority to review claims before payment pursuant to this subdivision shall have internal accounting and administrative control procedures to ensure the proper disbursement of public funds. The procedures shall include regular and frequent review of the city administrative officials' actions by the council. A list of all claims paid under the procedures established by the city council shall be presented to the council for informational purposes only at the next regularly scheduled meeting after payment of the claim. A city council that delegates its authority to pay certain claims made against the city must adopt a resolution authorizing a specified city administrative official to pay the claims that meet the standards and procedures established by the council. A city council of a city that does not prepare annual audited financial statements which have been attested to by an independent certified public accountant, public accountant, or the state auditor, may not delegate its authority for paying certain claims against the city pursuant to this subdivision.

Condition: Auditor noted that routine claims were paid during the year before being approved by the Council. Auditor noted discussion in council minutes indicating that the Clerk has been given authority to pay claims prior to being presented to the Council, however no formal resolution as approved.

Cause: Unknown.

Effect: The effect of noncompliance is not determinable.

Recommendation: We recommend that the City designate the authority to pay claims by formal council resolution to comply with Minnesota Statute 412.271.

Views of Responsible Officials and Planned Corrective Action: The City Council has provided authority to pay certain claims via staff direction by motion, however, will provide such authority via resolution in 2011 as required by Minnesota Statute 412.271.

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