

**CITY OF STACY  
STACY, MINNESOTA**

PETITION ENGAGEMENT

JANUARY 1, 1995, THROUGH  
DECEMBER 31, 1999

# CITY OF STACY STACY, MINNESOTA

January 1, 1995, Through  
December 31, 1999



Audit Conducted Pursuant to Request  
of the Citizens of the City of Stacy  
as Provided for in Minn. Stat. § 6.55

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

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**CITY OF STACY  
STACY, MINNESOTA**

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## Introductory Section

**CITY OF STACY  
STACY, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 1999**

<u>Office</u>	<u>Name</u>	<u>Term of Office</u>	
		<u>From</u>	<u>To</u>
Mayor	Jack Scudder	January 1, 1999	December 31, 2000
Councilors			
Elected	Mel Aslakson	January 1, 1997	December 31, 2000
Elected	Cynthia Frich	January 1, 1999	December 31, 2002
Elected	Michael Haehnel	January 1, 1999	December 31, 2002
Elected	James Ness	January 1, 1997	December 31, 2000
City Clerk (Appointed)	Connie Donahue	November 19, 1985	Indefinite
City Treasurer (Appointed)	Trudy Lundeen	August 12, 1997	Indefinite

## Financial Section



JUDITH H. DUTCHER  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Stacy

We have audited the statement of receipts, disbursements, and changes in cash balance and the related statements of classification of receipts and disbursements of the City of Stacy for the years ended December 31, 1995 through 1999, as listed in the table of contents. These financial statements are the responsibility of the City of Stacy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

As described in Note 2.A. to the financial statements, the statement of receipts, disbursements, and changes in cash balance and the related statements of classification of receipts and disbursements have been prepared on the cash basis of accounting and, accordingly, are not intended to be presented in conformity with generally accepted accounting principles.

The financial statements referred to above do not include receipts and disbursements of the Fire Department, which should be included to conform with statements prepared on the cash basis of accounting.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the cash balance and transactions of the City of Stacy as of and for the years ended December 31, 1995 through 1999.

Our audit was made for the purpose of forming an opinion on the statement of receipts, disbursements, and changes in cash balance and the related statements of classification of receipts and disbursements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Stacy. This information, marked "unaudited," has not been subjected to any audit procedures and, accordingly, we do not express an opinion on it.

*/s/ Judith H. Dutcher*

*/s/ Greg Hierlinger*

JUDITH H. DUTCHER  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2000



## **FINANCIAL STATEMENTS**

**CITY OF STACY  
STACY, MINNESOTA**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>General Fund</u>	<u>Parks Special Revenue Fund</u>	<u>Improvement Bonds of 1979</u>	<u>Wastewater Bonds of 1991</u>
<b>Cash Balance - January 1, 1995 (see Note 3)</b>	<b>\$ 131,895</b>	<b>\$ -</b>	<b>\$ 9,149</b>	<b>\$ 84,967</b>
<b>Additions to cash</b>				
Receipts, Statement A-1	\$ 126,662	\$ -	\$ 163	\$ 11,760
Transfers in	15,000	-	1,388	-
<b>Total additions</b>	<b>\$ 141,662</b>	<b>\$ -</b>	<b>\$ 1,551</b>	<b>\$ 11,760</b>
<b>Deductions from cash</b>				
Disbursements, Statement A-2	\$ 165,589	\$ -	\$ 10,700	\$ 32,970
Transfers out	4,400	-	-	-
<b>Total deductions</b>	<b>\$ 169,989</b>	<b>\$ -</b>	<b>\$ 10,700</b>	<b>\$ 32,970</b>
<b>Cash Balance - December 31, 1995</b>	<b>\$ 103,568</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,757</b>
<b>Additions to cash</b>				
Receipts, Statement A-1	\$ 133,165	\$ -	\$ -	\$ 10,970
Transfers in	20,000	-	-	20,900
<b>Total additions</b>	<b>\$ 153,165</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,870</b>
<b>Deductions from cash</b>				
Disbursements, Statement A-2	\$ 153,834	\$ -	\$ -	\$ 31,938
Transfers out	-	-	-	-
<b>Total deductions</b>	<b>\$ 153,834</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,938</b>
<b>Cash Balance - December 31, 1996</b>	<b>\$ 102,899</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,689</b>
<b>Additions to cash</b>				
Receipts, Statement A-1	\$ 140,200	\$ 23,121	\$ -	\$ 10,247
Transfers in	15,000	-	-	27,400
<b>Total additions</b>	<b>\$ 155,200</b>	<b>\$ 23,121</b>	<b>\$ -</b>	<b>\$ 37,647</b>
<b>Deductions from cash</b>				
Disbursements, Statement A-2	\$ 158,330	\$ 17,574	\$ -	\$ 31,222
Transfers out	-	-	-	-
<b>Total deductions</b>	<b>\$ 158,330</b>	<b>\$ 17,574</b>	<b>\$ -</b>	<b>\$ 31,222</b>
<b>Cash Balance - December 31, 1997</b>	<b>\$ 99,769</b>	<b>\$ 5,547</b>	<b>\$ -</b>	<b>\$ 70,114</b>

**EXHIBIT A**

<b>Debt Service Funds</b>						
<b>Sewer</b>						
<b>Improvement Refunding Bonds of 1994</b>	<b>Water Revenue Bonds of 1995</b>	<b>Wastewater Refunding Bonds of 1999</b>	<b>Well #2 Capital Project Fund</b>	<b>Enterprise Funds</b>		<b>Total All Funds</b>
				<b>Sewer and Water Fund</b>	<b>Municipal Liquor Store</b>	
\$ 27,920	\$ -	\$ -	\$ -	\$ 131,918	\$ 68,905	\$ 454,754
\$ 19,947 7,262	\$ - -	\$ - -	\$ 333,337 -	\$ 112,784 -	\$ 344,333 -	\$ 948,986 23,650
\$ 27,209	\$ -	\$ -	\$ 333,337	\$ 112,784	\$ 344,333	\$ 972,636
\$ 26,527 -	\$ - -	\$ - -	\$ 85,564 -	\$ 108,417 4,250	\$ 345,869 15,000	\$ 775,636 23,650
\$ 26,527	\$ -	\$ -	\$ 85,564	\$ 112,667	\$ 360,869	\$ 799,286
\$ 28,602	\$ -	\$ -	\$ 247,773	\$ 132,035	\$ 52,369	\$ 628,104
\$ 25,510 16,400	\$ 14,773 91,051	\$ - -	\$ - -	\$ 154,730 -	\$ 346,425 -	\$ 685,573 148,351
\$ 41,910	\$ 105,824	\$ -	\$ -	\$ 154,730	\$ 346,425	\$ 833,924
\$ 25,125 -	\$ 16,523 -	\$ - -	\$ 189,222 58,551	\$ 102,101 69,800	\$ 321,624 20,000	\$ 840,367 148,351
\$ 25,125	\$ 16,523	\$ -	\$ 247,773	\$ 171,901	\$ 341,624	\$ 988,718
\$ 45,387	\$ 89,301	\$ -	\$ -	\$ 114,864	\$ 57,170	\$ 473,310
\$ 17,741 16,400	\$ 13,587 8,500	\$ - -	\$ - -	\$ 132,947 -	\$ 371,647 -	\$ 709,490 67,300
\$ 34,141	\$ 22,087	\$ -	\$ -	\$ 132,947	\$ 371,647	\$ 776,790
\$ 29,925 -	\$ 32,626 -	\$ - -	\$ - -	\$ 108,870 52,300	\$ 370,724 15,000	\$ 749,271 67,300
\$ 29,925	\$ 32,626	\$ -	\$ -	\$ 161,170	\$ 385,724	\$ 816,571
\$ 49,603	\$ 78,762	\$ -	\$ -	\$ 86,641	\$ 43,093	\$ 433,529

**CITY OF STACY  
STACY, MINNESOTA**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>General Fund</u>	<u>Parks Special Revenue Fund</u>	<u>Improvement Bonds of 1979</u>	<u>Wastewater Bonds of 1991</u>
<b>Additions to cash</b>				
Receipts, Statement A-1	\$ 160,366	\$ 37	\$ -	\$ 11,396
Transfers in	15,000	9,500	-	27,400
<b>Total additions</b>	<b>\$ 175,366</b>	<b>\$ 9,537</b>	<b>\$ -</b>	<b>\$ 38,796</b>
<b>Deductions from cash</b>				
Disbursements, Statement A-2	\$ 157,686	\$ 14,431	\$ -	\$ 30,354
Transfers out	9,500	-	-	-
<b>Total deductions</b>	<b>\$ 167,186</b>	<b>\$ 14,431</b>	<b>\$ -</b>	<b>\$ 30,354</b>
<b>Cash Balance - December 31, 1998</b>	<b>\$ 107,949</b>	<b>\$ 653</b>	<b>\$ -</b>	<b>\$ 78,556</b>
<b>Additions to cash</b>				
Receipts, Statement A-1	\$ 189,763	\$ 16	\$ -	\$ 11,235
Transfers in	10,000	-	-	15,000
<b>Total additions</b>	<b>\$ 199,763</b>	<b>\$ 16</b>	<b>\$ -</b>	<b>\$ 26,235</b>
<b>Deductions from cash</b>				
Disbursements, Statement A-2	\$ 174,111	\$ -	\$ -	\$ 29,652
Transfers out	-	-	-	-
<b>Total deductions</b>	<b>\$ 174,111</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,652</b>
<b>Cash Balance - December 31, 1999</b>	<b>\$ 133,601</b>	<b>\$ 669</b>	<b>\$ -</b>	<b>\$ 75,139</b>

**EXHIBIT A  
(Continued)**

<b>Debt Service Funds</b>						
<b>Sewer</b>				<b>Enterprise Funds</b>		<b>Total All Funds</b>
<b>Improvement Refunding Bonds of 1994</b>	<b>Water Revenue Bonds of 1995</b>	<b>Wastewater Refunding Bonds of 1999</b>	<b>Well #2 Capital Project Fund</b>	<b>Sewer and Water Fund</b>	<b>Municipal Liquor Store</b>	
\$ 16,228	\$ 14,451	\$ -	\$ -	\$ 122,400	\$ 396,110	\$ 720,988
-	7,000	-	-	-	-	58,900
<b>\$ 16,228</b>	<b>\$ 21,451</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 122,400</b>	<b>\$ 396,110</b>	<b>\$ 779,888</b>
\$ 27,813	\$ 31,994	\$ -	\$ -	\$ 84,768	\$ 383,324	\$ 730,370
-	-	-	-	34,400	15,000	58,900
<b>\$ 27,813</b>	<b>\$ 31,994</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 119,168</b>	<b>\$ 398,324</b>	<b>\$ 789,270</b>
<b>\$ 38,018</b>	<b>\$ 68,219</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 89,873</b>	<b>\$ 40,879</b>	<b>\$ 424,147</b>
\$ 45,727	\$ 13,816	\$ 186,000	\$ -	\$ 167,955	\$ 478,872	\$ 1,093,384
-	10,000	-	-	-	-	35,000
<b>\$ 45,727</b>	<b>\$ 23,816</b>	<b>\$ 186,000</b>	<b>\$ -</b>	<b>\$ 167,955</b>	<b>\$ 478,872</b>	<b>\$ 1,128,384</b>
\$ 26,438	\$ 31,353	\$ 6,000	\$ -	\$ 140,996	\$ 475,864	\$ 884,414
-	-	-	-	25,000	10,000	35,000
<b>\$ 26,438</b>	<b>\$ 31,353</b>	<b>\$ 6,000</b>	<b>\$ -</b>	<b>\$ 165,996</b>	<b>\$ 485,864</b>	<b>\$ 919,414</b>
<b>\$ 57,307</b>	<b>\$ 60,682</b>	<b>\$ 180,000</b>	<b>\$ -</b>	<b>\$ 91,832</b>	<b>\$ 33,887</b>	<b>\$ 633,117</b>

**Total All Funds  
STACY, MINNESOTA**

**Statement A-1**

**STATEMENT OF CLASSIFICATION OF RECEIPTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>General Fund</b>					
<b>Taxes</b>					
Real and personal property	\$ 29,788	\$ 17,360	\$ 20,497	\$ 33,961	\$ 35,860
<b>Licenses and permits</b>	<b>\$ 1,315</b>	<b>\$ 5,844</b>	<b>\$ 8,165</b>	<b>\$ 4,445</b>	<b>\$ 5,154</b>
<b>Intergovernmental</b>					
<b>State grants/shared</b>					
Homestead credit	\$ 19,697	\$ 18,938	\$ 18,547	\$ 18,540	\$ 18,538
Mobile home homestead credit	6,967	6,967	6,967	7,027	7,282
Local government aid	44,412	49,056	54,053	59,621	66,395
Local performance aid	-	-	1,297	1,579	1,505
PERA aid	-	-	387	773	773
Fire aid	7,297	10,009	10,067	10,750	10,772
Department of Public Safety	-	-	2,138	-	-
<b>Total intergovernmental</b>	<b>\$ 78,373</b>	<b>\$ 84,970</b>	<b>\$ 93,456</b>	<b>\$ 98,290</b>	<b>\$ 105,265</b>
<b>Charges for services</b>					
Rental fees	\$ 4,685	\$ 4,955	\$ 5,375	\$ 5,680	\$ 7,705
Cable TV	1,303	1,380	1,222	1,514	1,832
Other fees	256	156	85	1,763	494
<b>Total charges for services</b>	<b>\$ 6,244</b>	<b>\$ 6,491</b>	<b>\$ 6,682</b>	<b>\$ 8,957</b>	<b>\$ 10,031</b>
<b>Fines</b>	<b>\$ 891</b>	<b>\$ 173</b>	<b>\$ 869</b>	<b>\$ 3,706</b>	<b>\$ 3,607</b>
<b>Miscellaneous</b>					
Interest on investments	\$ 4,401	\$ 4,399	\$ 3,604	\$ 4,971	\$ 3,736
Insurance dividends	2,919	3,927	6,292	5,591	2,812
Donations and contributions	2,051	8,471	-	-	22,032
Other	680	1,530	635	445	1,266
<b>Total miscellaneous</b>	<b>\$ 10,051</b>	<b>\$ 18,327</b>	<b>\$ 10,531</b>	<b>\$ 11,007</b>	<b>\$ 29,846</b>
<b>Total General Fund</b>	<b>\$ 126,662</b>	<b>\$ 133,165</b>	<b>\$ 140,200</b>	<b>\$ 160,366</b>	<b>\$ 189,763</b>
<b>Parks Special Revenue Fund</b>					
<b>Miscellaneous</b>					
Interest on investments	\$ -	\$ -	\$ 121	\$ 37	\$ 16
Donations and contributions	-	-	23,000	-	-
<b>Total Parks Special Revenue Fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,121</b>	<b>\$ 37</b>	<b>\$ 16</b>
<b>Improvement Bonds of 1979 Debt Service Fund</b>					
<b>Miscellaneous</b>					
Interest on investments	\$ 163	\$ -	\$ -	\$ -	\$ -

**Total All Funds  
STACY, MINNESOTA**

**Statement A-1  
(Continued)**

**STATEMENT OF CLASSIFICATION OF RECEIPTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Wastewater Bonds of 1991 Debt Service Fund</b>					
<b>Taxes</b>					
Real and personal property	\$ 10,383	\$ 10,274	\$ 9,743	\$ 10,711	\$ 10,360
<b>Miscellaneous</b>					
Interest on investments	1,377	696	504	685	875
<b>Total Wastewater Bonds of 1991 Debt Service Fund</b>	<b>\$ 11,760</b>	<b>\$ 10,970</b>	<b>\$ 10,247</b>	<b>\$ 11,396</b>	<b>\$ 11,235</b>
<b>Sewer Improvement Refunding Bonds of 1994 Debt Service Fund</b>					
<b>Taxes</b>					
Real and personal property	\$ 15,017	\$ 14,668	\$ 13,810	\$ 15,008	\$ 14,094
Special assessments	80	-	-	-	-
<b>Total taxes</b>	<b>\$ 15,097</b>	<b>\$ 14,668</b>	<b>\$ 13,810</b>	<b>\$ 15,008</b>	<b>\$ 14,094</b>
<b>Charges for services</b>					
Sewer connection fees	4,000	10,000	2,800	-	30,600
<b>Miscellaneous</b>					
Interest on investments	850	842	1,131	1,220	1,033
<b>Total Sewer Improvement Refunding Bonds of 1994 Debt Service Fund</b>	<b>\$ 19,947</b>	<b>\$ 25,510</b>	<b>\$ 17,741</b>	<b>\$ 16,228</b>	<b>\$ 45,727</b>
<b>Water Revenue Bonds of 1995 Debt Service Fund</b>					
<b>Taxes</b>					
Real and personal property	\$ -	\$ 11,684	\$ 11,602	\$ 12,686	\$ 12,354
<b>Miscellaneous</b>					
Interest on investments	-	3,089	1,985	1,765	1,462
<b>Total Water Revenue Bonds of 1995 Debt Service Fund</b>	<b>\$ -</b>	<b>\$ 14,773</b>	<b>\$ 13,587</b>	<b>\$ 14,451</b>	<b>\$ 13,816</b>
<b>Wastewater Refunding Bonds of 1999 Debt Service Fund</b>					
<b>Debt proceeds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 186,000</b>
<b>Well #2 Capital Project Fund</b>					
<b>Miscellaneous</b>					
Interest on investments	\$ 2,168	\$ -	\$ -	\$ -	\$ -
<b>Debt proceeds</b>	<b>331,169</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Well #2 Capital Project Fund</b>	<b>\$ 333,337</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Total All Funds  
STACY, MINNESOTA**

**Statement A-1  
(Continued)**

**STATEMENT OF CLASSIFICATION OF RECEIPTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Sewer and Water Enterprise Fund</b>					
<b>Operating</b>					
Sewer usage	\$ 68,460	\$ 82,801	\$ 79,321	\$ 78,105	\$ 91,500
Water usage	24,252	38,311	39,198	36,637	42,578
Connecting fees	6,000	15,000	4,206	-	23,400
Other	1,121	1,925	725	-	810
<b>Total operating</b>	<b>\$ 99,833</b>	<b>\$ 138,037</b>	<b>\$ 123,450</b>	<b>\$ 114,742</b>	<b>\$ 158,288</b>
<b>Taxes</b>					
Certified delinquent receivable collections	\$ 7,499	\$ 6,025	\$ 6,090	\$ 4,833	\$ 6,709
Sales tax	206	293	301	246	240
<b>Total taxes</b>	<b>\$ 7,705</b>	<b>\$ 6,318</b>	<b>\$ 6,391</b>	<b>\$ 5,079</b>	<b>\$ 6,949</b>
<b>Miscellaneous</b>					
Interest on investments	\$ 3,028	\$ 3,727	\$ 3,033	\$ 2,579	\$ 2,718
Other	2,218	6,648	73	-	-
<b>Total miscellaneous</b>	<b>\$ 5,246</b>	<b>\$ 10,375</b>	<b>\$ 3,106</b>	<b>\$ 2,579</b>	<b>\$ 2,718</b>
<b>Total Sewer and Water Enterprise Fund</b>	<b>\$ 112,784</b>	<b>\$ 154,730</b>	<b>\$ 132,947</b>	<b>\$ 122,400</b>	<b>\$ 167,955</b>
<b>Liquor Store Enterprise Fund</b>					
<b>Operating</b>					
Sales	\$ 313,284	\$ 317,505	\$ 341,031	\$ 363,339	\$ 440,274
Sales tax	29,735	27,914	29,602	32,012	38,106
Interest	1,314	1,006	1,014	759	492
<b>Total Liquor Store Enterprise Fund</b>	<b>\$ 344,333</b>	<b>\$ 346,425</b>	<b>\$ 371,647</b>	<b>\$ 396,110</b>	<b>\$ 478,872</b>
<b>Total All Funds</b>	<b>\$ 948,986</b>	<b>\$ 685,573</b>	<b>\$ 709,490</b>	<b>\$ 720,988</b>	<b>\$ 1,093,384</b>



**CITY OF STACY  
STACY, MINNESOTA**

**Statement A-2**

**STATEMENT OF CLASSIFICATION OF DISBURSEMENTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>General Fund</b>					
<b>General government</b>					
<b>Mayor and council</b>					
Per diem	\$ 6,279	\$ 5,626	\$ 6,394	\$ 6,068	\$ 5,882
Employer contributions					
FICA	473	421	483	431	429
Seminars	300	135	178	-	-
Travel	69	79	77	-	-
Dues and memberships	-	20	20	-	20
<b>Clerk</b>					
Salary	5,572	6,376	5,790	5,627	6,452
Employer contributions					
PERA	259	313	238	319	393
FICA	547	587	464	396	622
Insurance	-	-	706	993	1,104
Per diem	500	499	405	400	355
Supplies	2,702	2,840	1,928	3,894	2,345
Travel	-	27	63	38	35
Dues and memberships	844	30	829	965	1,081
<b>Treasurer</b>					
Salary	3,001	2,871	1,589	-	-
Employer contributions					
PERA	-	81	77	-	-
FICA	200	412	131	-	-
Travel	-	-	14	-	-
<b>Elections</b>					
Salaries	-	1,135	-	1,191	795
Supplies	-	161	-	164	-
<b>Maintenance department</b>					
Salaries	16,316	15,914	19,249	18,117	15,863
Employer contributions					
PERA	665	765	740	872	937
FICA	1,688	1,954	1,476	1,167	1,669
Insurance	-	-	-	-	1,360
Supplies	3,818	3,487	4,012	3,291	2,524
Repairs and maintenance	3,098	1,261	1,613	4,110	1,241
<b>Legal</b>					
Contracted services	18,783	12,146	6,791	5,567	6,389
<b>Capital outlay</b>					
Office equipment	2,104	892	1,757	-	1,490
<b>Other</b>					
Utilities	2,859	3,185	3,459	2,901	2,378
Communications	1,471	1,160	1,628	1,909	2,330
Fuel	1,138	1,090	1,364	1,541	1,342
Insurance	12,065	10,009	9,885	9,122	8,813
Advertising	1,209	2,429	657	1,625	1,571
Unclassified	1,115	1,012	1,500	-	-
<b>Total general government</b>	<b>\$ 87,075</b>	<b>\$ 76,917</b>	<b>\$ 73,517</b>	<b>\$ 70,708</b>	<b>\$ 67,420</b>

**CITY OF STACY  
STACY, MINNESOTA**

**Statement A-2  
(Continued)**

**STATEMENT OF CLASSIFICATION OF DISBURSEMENTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>General Fund (Continued)</b>					
<b>Highways and streets</b>					
<b>Street maintenance</b>					
General maintenance	\$ 5,911	\$ 12,903	\$ 7,251	\$ 9,452	\$ 7,649
Snow removal	5,980	9,780	6,679	2,870	3,270
<b>Total street maintenance</b>	<b>\$ 11,891</b>	<b>\$ 22,683</b>	<b>\$ 13,930</b>	<b>\$ 12,322</b>	<b>\$ 10,919</b>
Street lighting	6,014	5,371	8,154	8,731	8,212
Engineering fees	775	-	-	-	-
<b>Total highways and streets</b>	<b>\$ 18,680</b>	<b>\$ 28,054</b>	<b>\$ 22,084</b>	<b>\$ 21,053</b>	<b>\$ 19,131</b>
<b>Public safety</b>					
Fire protection	\$ 23,982	\$ 13,973	\$ 16,050	\$ 18,462	\$ 46,965
Police protection	11,772	4,536	14,430	28,993	20,326
Rescue squad	1,713	3,798	6,971	-	-
Fire relief association	7,297	10,009	10,067	11,500	10,772
<b>Total public safety</b>	<b>\$ 44,764</b>	<b>\$ 32,316</b>	<b>\$ 47,518</b>	<b>\$ 58,955</b>	<b>\$ 78,063</b>
<b>Sanitation and waste removal</b>					
Refuse collection	<b>\$ 685</b>	<b>\$ 452</b>	<b>\$ 411</b>	<b>\$ 433</b>	<b>\$ 341</b>
<b>Culture and recreation</b>					
Park project	\$ -	\$ 9,415	\$ 10,000	\$ -	\$ 5,363
Park maintenance	7,222	2,309	1,374	2,670	1,967
Park lighting	1,704	2,221	1,558	1,503	1,826
Administration	959	1,150	1,868	1,121	-
<b>Total culture and recreation</b>	<b>\$ 9,885</b>	<b>\$ 15,095</b>	<b>\$ 14,800</b>	<b>\$ 5,294</b>	<b>\$ 9,156</b>
<b>Miscellaneous</b>					
Contract services	\$ -	\$ 1,000	\$ -	\$ 1,243	\$ -
Audit cost	4,500	-	-	-	-
<b>Total miscellaneous</b>	<b>\$ 4,500</b>	<b>\$ 1,000</b>	<b>\$ -</b>	<b>\$ 1,243</b>	<b>\$ -</b>
<b>Total General Fund</b>	<b>\$ 165,589</b>	<b>\$ 153,834</b>	<b>\$ 158,330</b>	<b>\$ 157,686</b>	<b>\$ 174,111</b>
<b>Parks Special Revenue Fund</b>					
<b>Culture and recreation</b>					
Public works	\$ -	\$ -	\$ -	\$ 1,560	\$ -
Engineering	-	-	17,574	12,871	-
<b>Total Parks Special Revenue Fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,574</b>	<b>\$ 14,431</b>	<b>\$ -</b>

**CITY OF STACY  
STACY, MINNESOTA**

**Statement A-2  
(Continued)**

**STATEMENT OF CLASSIFICATION OF DISBURSEMENTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>G.O. Improvement Bonds of 1979 Debt Service Fund</b>					
<b>Debt service</b>					
Principal	\$ 10,000	\$ -	\$ -	\$ -	\$ -
Interest and fiscal charges	700	-	-	-	-
<b>Total G.O. Improvement Bonds of 1979 Debt Service Fund</b>	<b>\$ 10,700</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>G.O. Wastewater Bonds of 1991 Debt Service Fund</b>					
<b>Debt service</b>					
Principal	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Interest and fiscal charges	17,970	16,938	16,222	15,354	14,652
<b>Total G.O. Wastewater Bonds of 1991 Debt Service Fund</b>	<b>\$ 32,970</b>	<b>\$ 31,938</b>	<b>\$ 31,222</b>	<b>\$ 30,354</b>	<b>\$ 29,652</b>
<b>Sewer Improvement Refunding Bonds of 1994 Debt Service Fund</b>					
<b>Debt service</b>					
Principal	\$ 20,000	\$ 20,000	\$ 25,000	\$ 25,000	\$ 25,000
Interest and fiscal charges	6,527	5,125	4,925	2,813	1,438
<b>Total Sewer Improvement Refunding Bonds of 1994 Debt Service Fund</b>	<b>\$ 26,527</b>	<b>\$ 25,125</b>	<b>\$ 29,925</b>	<b>\$ 27,813</b>	<b>\$ 26,438</b>
<b>Water Revenue Bonds of 1995 Debt Service Fund</b>					
<b>Debt service</b>					
Principal	\$ -	\$ -	\$ 15,000	\$ 15,000	\$ 15,000
Interest and fiscal charges	-	16,523	17,626	16,994	16,353
<b>Total Water Revenue Bonds of 1995 Debt Service Fund</b>	<b>\$ -</b>	<b>\$ 16,523</b>	<b>\$ 32,626</b>	<b>\$ 31,994</b>	<b>\$ 31,353</b>
<b>Waste Water Refunding Bonds of 1999 Debt Service Fund</b>					
<b>Debt service</b>					
Issuance fees	\$ -	\$ -	\$ -	\$ -	\$ 6,000
<b>Well #2 Capital Project Fund</b>					
Construction	\$ 57,623	\$ 172,507	\$ -	\$ -	\$ -
Engineering	24,563	15,862	-	-	-
Administration	3,378	853	-	-	-
<b>Total Well #2 Capital Project Fund</b>	<b>\$ 85,564</b>	<b>\$ 189,222</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF STACY  
STACY, MINNESOTA**

**Statement A-2  
(Continued)**

**STATEMENT OF CLASSIFICATION OF DISBURSEMENTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Sewer and Water Enterprise Fund</b>					
<b>Clerk</b>					
Salary	\$ 5,703	\$ 4,934	\$ 6,040	\$ 6,629	\$ 6,755
Employer contributions					
PERA	260	225	305	319	393
FICA	471	331	337	594	505
Insurance	-	-	310	1,013	1,859
<b>Treasurer</b>					
Salary	1,281	2,671	1,791	-	-
Employer contributions					
PERA	-	81	77	-	-
FICA	187	105	78	-	-
<b>Maintenance</b>					
Salary	14,711	13,915	18,671	18,564	15,488
Employer contributions					
PERA	708	512	968	952	860
FICA	1,263	731	1,192	1,259	1,260
Insurance	-	-	-	-	415
Supplies					
Clerk	492	822	1,765	1,396	1,292
Maintenance	407	337	3,487	886	146
Communications	-	291	273	41	21
Fuel	-	392	254	-	-
Capital purchases	-	-	9,314	-	-
Engineering					
Contracted services	18,399	30,635	26,250	16,212	63,951
Sewer power	6,693	8,329	7,985	12,285	12,442
Sewer administration	15,887	24,540	10,355	13,133	25,021
Construction	20,905	-	-	-	-
Water power	5,371	3,141	5,591	5,203	5,180
Water meter deposits	3,877	3,408	745	288	2,160
Water administration	9,174	6,341	11,790	3,885	1,824
Lift station administration	2,244	-	119	-	1,030
Lift station power	384	360	486	903	394
Insurance	-	-	687	1,206	-
<b>Total Sewer and Water Enterprise Fund</b>	<b>\$ 108,417</b>	<b>\$ 102,101</b>	<b>\$ 108,870</b>	<b>\$ 84,768</b>	<b>\$ 140,996</b>

**CITY OF STACY  
STACY, MINNESOTA**

**Statement A-2  
(Continued)**

**STATEMENT OF CLASSIFICATION OF DISBURSEMENTS  
YEARS ENDED DECEMBER 31, 1995, 1996, 1997, 1998, AND 1999**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Municipal Liquor Store Enterprise Fund</b>					
Salaries	\$ 67,274	\$ 61,636	\$ 70,820	\$ 72,055	\$ 78,036
Employer contributions					
PERA	2,694	2,535	2,924	3,594	3,790
FICA	4,173	3,821	4,393	4,489	5,655
Medicare	973	894	1,025	1,049	1,132
Insurance	-	-	988	2,102	3,294
Operating supplies	4,806	3,454	4,003	4,996	5,839
Merchandise for resale					
Liquor and wine	30,370	25,968	40,342	43,397	60,365
Beer	129,339	141,337	156,162	171,705	219,401
Miscellaneous	7,662	9,763	8,469	6,832	9,195
Communications	1,660	1,495	1,285	1,505	1,420
Utilities	4,519	5,334	6,755	4,903	4,982
Freight	-	-	-	415	760
Advertising	1,902	1,093	1,016	842	3,923
Entertainment	13,400	8,400	5,200	4,100	2,332
Laundry	995	977	1,066	1,494	1,756
Insurance	30,027	17,994	13,393	13,705	8,061
State sales tax	29,735	27,914	29,602	32,012	38,106
Licenses and dues	1,321	1,552	1,645	1,579	1,490
Credit card fees	-	-	35	311	1,212
Bad checks	689	656	475	426	278
Shortages/(overages)	207	(34)	(565)	(507)	(306)
Bank service charges	342	217	239	271	172
Security fees	-	-	192	225	260
Repairs and maintenance	3,203	4,274	11,066	3,235	4,285
Rubbish	1,632	1,808	1,899	1,678	1,390
Pest control	559	536	505	599	691
ATM rental	-	-	-	-	573
Capital outlay	8,242	-	7,684	2,322	11,570
Miscellaneous	145	-	106	3,990	6,202
<b>Total Municipal Liquor Store Enterprise Fund</b>	<b>\$ 345,869</b>	<b>\$ 321,624</b>	<b>\$ 370,724</b>	<b>\$ 383,324</b>	<b>\$ 475,864</b>
<b>Total All Funds</b>	<b>\$ 775,636</b>	<b>\$ 840,367</b>	<b>\$ 749,271</b>	<b>\$ 730,370</b>	<b>\$ 884,414</b>

**CITY OF STACY  
STACY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1999

1. Description of Governmental Unit

The Financial Reporting Entity

On May 19, 1923, the town site of Stacy, Minnesota, became the Village of Stacy. Pursuant to the provisions of Minn. Laws 1973, ch. 123, all villages in Minnesota were reclassified as statutory cities on January 1, 1974.

The City Council is composed of a mayor and four Council members who must be qualified electors and are elected at-large.

The City participates in a joint fire department with the Town of Lent as described in Note 6.

City Council

The Council may create such departments and advisory boards and appoint such officers, employees, and agents for the City as may be necessary for the proper management and operation of City affairs. The Council may prescribe the duties and fix the compensation of all officers, both appointive and elective, employees, and agents when not otherwise prescribed by law. The Council may require any officer or employee to furnish a bond conditioned for the faithful exercise of his or her duties and the proper application of, and payment upon demand of, all monies officially received. Unless otherwise prescribed by law, the amount of the bonds is fixed by the Council. The bonds furnished by the clerk and treasurer are corporate surety bonds.

Specific powers of the Council are given in Minn. Stat. § 412.221.

The Council has full authority over the financial affairs of the City and provides for the collection of all revenues and other assets, the auditing and settlement of accounts, and the safekeeping and disbursement of public monies.

The Council's authority for making an annual tax levy is Minn. Stat. § 412.251.

**CITY OF STACY  
STACY, MINNESOTA**

1. Description of Governmental Unit (Continued)

Officials

The Mayor serves for a term of two years or until a successor is elected and qualifies. The Mayor is the official head of the City and is the presiding officer at all meetings of the Council.

The City operates under the optional plan "A," with the Council appointing a clerk and treasurer.

Disbursements

Pursuant to Minn. Stat. § 412.271, subd. 1, no disbursements of City funds, including funds of any municipal liquor dispensary operated by the City, may be made, except by an order drawn by the Mayor and Clerk. No order may be issued until the claim to which it relates has been audited and allowed by the Council, 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 Minn. Stat. § 412.271, subds. 4, 5, and 8.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying statement of receipts, disbursements, and changes in cash balance and the related statements of classification of receipts and disbursements are prepared on the cash basis of accounting. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. The accompanying financial statements include all the funds of the City of Stacy, except for the portion of the Stacy-Lent Area Fire Department applicable to the City of Stacy.

**CITY OF STACY  
STACY, MINNESOTA**

2. Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting

The accounts of the City are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is a separate accounting entity. The following funds are used by the City of Stacy.

Governmental Funds

General Fund

The General Fund was established to account for all general government functions. It accounts for all financial transactions not accounted for in another fund.

Special Revenue Fund

The Parks Fund was established to account for funds donated to the City by the Lion's Club. Expenditures are made from this fund for parks and community buildings.

Debt Service Funds

The Improvement Bonds of 1979 Fund was established to account for the payment of general obligation bonds issued to construct a City street and extend the City water main and sewer.

The Wastewater Bonds of 1991 Fund was established to account for the payment of general obligation bonds issued to finance wastewater improvements.



**CITY OF STACY  
STACY, MINNESOTA**

2. Summary of Significant Accounting Policies

C. Fund Accounting

Governmental Funds

Debt Service Funds (Continued)

The Sewer Improvement Refunding Bonds of 1994 Fund was established to account for the payment of the general obligation bonds issued to refund the 1982 capital improvement bonds.

The Water Revenue Bonds of 1995 Fund was established to account for the payment of general obligation revenue bonds issued to finance the costs of a well and pumping facility.

The Wastewater Refunding Bonds of 1999 Fund was established to account for the payment of general obligation bonds issued to refund the 1991 bonds.

Capital Projects Fund

The Well #2 Fund was established to account for the construction and engineering costs of a well and pumping facility.

Proprietary Funds

Enterprise Funds

Enterprise funds were established to account for the financing of services to the general public where most of the costs involved are recovered through charges to users of the services. The City's enterprise funds are the Sewer and Water Fund and the Municipal Liquor Store Fund.

**CITY OF STACY  
STACY, MINNESOTA**

3. Detailed Notes

Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the City of Stacy to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council. Minnesota statutes require that all City deposits be covered by insurance, surety bond, or collateral. At December 31, 1999, the City's bank deposits were \$638,817. The book value of these deposits was \$631,567.

Following is a summary of the December 31, 1999, insurance and collateral as it relates to the City's custodial credit risk for its deposits.

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the City or its agent in the City's name	\$ 139,660
Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name	499,157
Total covered deposits	\$ 638,817
Uncollateralized	-
Total Deposits	\$ 638,817

Following is a summary of certificates of deposit at December 31, 1999.

Bank	Certificate Number	Interest Rate (%)	Maturity Date	Amount
First State Bank - Wyoming	16710	4.75	January 5, 2000	\$ 14,436
First State Bank - Wyoming	18022	4.40	January 19, 2000	26,633
First State Bank - Wyoming	20980	5.15	September 16, 2000	4,007
First State Bank - Wyoming	21493	4.75	June 22, 2000	26,764
First State Bank - Wyoming	22086	4.50	February 10, 2000	180,000
Total				\$ 251,840

**CITY OF STACY  
STACY, MINNESOTA**

3. Detailed Notes (Continued)

Designations of Cash Balances

Cash balances are classified to reflect the limitations and restrictions of the respective funds:

	Fund Type				Total
	General	Special Revenue	Debt Service	Enterprise	
Designated for petty cash and change funds	\$ 150	\$ -	\$ -	\$ 1,400	\$ 1,550
Designated for ATM	-	-	-	2,000	2,000
Designated for capital improvements	71,840	-	-	-	71,840
Designated for debt service	-	-	373,128	-	373,128
Undesignated	61,611	669	-	122,319	184,599
Total Cash Balances	\$ 133,601	\$ 669	\$ 373,128	\$ 125,719	\$ 633,117

Restatement of Cash Balance

Tax revenue of \$3,694 designated for debt service was reported in the General Fund in the 1994 audited financial statements. These funds should have remained in the 1979 Improvement Bond Debt Service Fund to meet the scheduled debt service payments needed to pay off the bonds.

	General Fund	Improvement Bonds of 1979
Cash Balance - December 31, 1994	\$ 135,589	\$ 5,455
Restatement	(3,694)	3,694
Cash Balance - January 1, 1995	\$ 131,895	\$ 9,149

**CITY OF STACY  
STACY, MINNESOTA**

3. Detailed Notes (Continued)

Vacation and Sick Leave

Full-time employees are granted ten to 20 days of vacation per year depending on their years of service. Part-time employees are granted vacation time on a prorated basis based on their years of service and the average number of hours of work per week during the preceding 12-month period.

Full-time employees are also granted three paid personal leave days per year. Part-time employees are also granted personal leave days, which are prorated based upon the average number of hours of work per week during the preceding 12-month period.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. Risks of loss associated with workers' compensation claims, property, casualty, and liability are insured through participation in the League of Minnesota Cities Insurance Trust. Other risk is covered by commercial insurance. There were no significant reductions in insurance coverage from the previous year. There have been no settlements in excess of insurance for any of the past three years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

Long-Term Debt

The following is a summary of the long-term debt transactions of the City of Stacy for the years ended December 31, 1995 through 1999:

**CITY OF STACY  
STACY, MINNESOTA**

3. Detailed Notes

Long-Term Debt (Continued)

	General Obligation Bonds	General Obligation Revenue Bonds	General Obligation Special Assessment Bonds	Total
Payable - January 1, 1995	\$ 10,000	\$ 275,000	\$ 115,000	\$ 400,000
Debt issued	-	345,000	-	345,000
Debt retired	<u>(10,000)</u>	<u>(15,000)</u>	<u>(20,000)</u>	<u>(45,000)</u>
Payable - December 31, 1995	\$ -	\$ 605,000	\$ 95,000	\$ 700,000
Debt retired	<u>-</u>	<u>(15,000)</u>	<u>(20,000)</u>	<u>(35,000)</u>
Payable - December 31, 1996	\$ -	\$ 590,000	\$ 75,000	\$ 665,000
Debt retired	<u>-</u>	<u>(30,000)</u>	<u>(25,000)</u>	<u>(55,000)</u>
Payable - December 31, 1997	\$ -	\$ 560,000	\$ 50,000	\$ 610,000
Debt retired	<u>-</u>	<u>(30,000)</u>	<u>(25,000)</u>	<u>(55,000)</u>
Payable - December 31, 1998	\$ -	\$ 530,000	\$ 25,000	\$ 555,000
Debt issued	-	186,000	-	186,000
Debt retired	<u>-</u>	<u>(30,000)</u>	<u>(25,000)</u>	<u>(55,000)</u>
Payable - December 31, 1999	<u>\$ -</u>	<u>\$ 686,000</u>	<u>\$ -</u>	<u>\$ 686,000</u>

Long-term debt payable at December 31, 1999, consists of:

\$295,000 General Obligation Wastewater Revenue Bonds of 1991, due in annual installments of \$10,000 to \$35,000 through February 1, 2000, after which the proceeds from the issuance of the 1999 General Obligation Wastewater Refunding Bonds will be used to call the 2001 through 2007 maturities. The average net interest rate is 6.8667 percent. Payments on the bonds are from user charges generated from the City's wastewater treatment plant and ad valorem property taxes.

\$ 200,000

\$345,000 General Obligation Water Revenue Bonds of 1995, due in annual installments of \$15,000 to \$35,000 through February 1, 2011. The average true interest rate is 5.4824 percent. Payments on the bonds are from user charges generated from the City's water system and ad valorem property taxes.

300,000

**CITY OF STACY  
STACY, MINNESOTA**

3. Detailed Notes

Long-Term Debt (Continued)

\$186,000 General Obligation Wastewater Revenue Refunding Bonds of 1999, due in annual installments of \$21,000 to \$35,000 through February 1, 2007. The bonds were issued to refund the 2001 through 2007 maturities of the \$295,000 General Obligation Wastewater Revenue Bonds of 1991 on February 1, 2000. The interest rate is 5.10 percent. Payments on the bonds are from user charges generated from the City's wastewater treatment plant and ad valorem property taxes. The transaction, which is a current refunding, resulted in an economic gain of \$6,044 and a reduction of \$7,289 in future debt service payments.

186,000

Total Long-Term Debt

\$ 686,000

The annual requirements to amortize the general obligation bonds outstanding as of December 31, 1999, including interest payments of \$211,528, are listed below:

Year Ended  
December 31

2000	\$ 74,972
2001	96,800
2002	92,444
2003	98,777
2004	94,774
2005-2009	370,928
2010-2011	<u>68,833</u>
 Total	 <u>\$ 897,528</u>

**CITY OF STACY  
STACY, MINNESOTA**

4. Pension Plans

A. Plan Description

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

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

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF STACY  
STACY, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained by writing to PERA, 514 St. Peter Street, #200, Saint Paul, Minnesota 55102, or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minn. Stat. ch. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 8.75 and 4.75 percent, respectively, of their annual covered salary. The City is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.43%
Coordinated Plan members	5.18



**CITY OF STACY  
STACY, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

The City's contributions for the years ending December 31, 1999, 1998, 1997, 1996, and 1995, were \$6,347, \$6,083, \$5,303, \$4,512, and \$4,586, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Segment Information for Enterprise Funds

The City maintains two enterprise funds which provide sewer, water, and liquor store services and goods. Segment information for the year ended December 31, 1999, was as follows:

	Sewer and Water Fund	Liquor Store Fund
Operating receipts	\$ 158,288	\$ 478,872
Operating transfers out	(25,000)	(10,000)
Bonds payable from user charges and other sources	686,000	-

6. Joint Operation

Stacy-Lent Area Fire Department

The Stacy-Lent Area Fire Department was established on April 9, 1985, by an agreement between the City of Stacy and the Town of Lent, pursuant to the provisions of Minn. Stat. § 471.59. The agreement was established for the purpose of providing for the joint use by the parties of their presently owned firefighting equipment and fire hall, for future joint purchases of firefighting equipment, and for the joint operation of a fire department in the City and Town and in any other territory which may become lawfully included in this agreement at some later time.

**SUPPLEMENTARY INFORMATION**

**CITY OF STACY  
STACY, MINNESOTA**

**Schedule 1**

**SCHEDULE OF LION'S CLUB DONATIONS AND DISBURSEMENTS**

<b>Donations</b>			<b>Disbursements</b>		
<b>Year Donated</b>	<b>Amount Donated</b>	<b>Intended Purpose</b>	<b>Year Disbursed</b>	<b>Amount Disbursed</b>	<b>Disbursement Purpose</b>
Prior to 1994*	\$ 81,340	Building fund	1994	\$ 16,958	Ball field fencing
1994	15,000	Park fund	1994	9,630	Ball field construction Warming house furnace
1994	10,000	Park fund	1996	2,280	Ball field construction
1996	1,655	Park fund	1996	2,175	Lawn mower
1996	2,316	Lawn mower	1996	4,670	Bleachers
1996	4,500	Park equipment	1997	995	Bleachers
1997	1,000	Park equipment	1997	6,923	Half the cost of a tractor
1997	7,000	Park building	1997	6,759	Rink construction
1997	6,000	Park building	1997/1998	3,347	Engineering fees for
1997	9,000	Park building	1998	12,156 **	community center plans
1999	15,009	Fire equipment	1999	15,009	Fire truck
1999	7,023	Fire equipment	1999	7,023	Fire truck
<b>Total Donated</b>	<b>\$ 159,843</b>		<b>Total Disbursed</b>	<b>\$ 87,925</b>	

\*Donations received prior to 1994 and invested in certificates of deposit. Amount includes accrued interest through 1999.

\*\*\$9,500 of amount disbursed was funded from donations received prior to 1994.

**Donation Summary**

Total donations	\$ 159,843
Total disbursements	(87,925)
<b>Unspent donations</b>	<b>\$ 71,918</b>
Donations and accrued interest held in certificates of deposit as of December 31, 1999	(71,840)
<b>Donations Held in Cash</b>	<b>\$ 78</b>

**Capital outlay  
STACY, MINNESOTA**

**Schedule 2**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND TRANSFERS  
STACY-LENT AREA FIRE DEPARTMENT  
CITY OF STACY SHARE  
YEAR ENDED DECEMBER 31, 1999**

**Receipts**

**Taxes**

Current property	\$	15,369
Delinquent property		110
Current mobile home		12
Game refuge (PILOT)		307
		<hr/>
<b>Total taxes</b>	<b>\$</b>	<b>15,798</b>

**Intergovernmental**

Homestead credit	\$	2,077
Mobile home homestead credit		9
		<hr/>
<b>Total intergovernmental</b>	<b>\$</b>	<b>2,086</b>

**Total Receipts**

**\$ 17,884**

Transfers in

9,487

**Total Additions**

**\$ 27,371**

**Disbursements**

**Public safety**

Fire protection	\$	12,668
Capital outlay		16,265
		<hr/>

**Total Disbursements**

**\$ 28,933**



**CITY OF STACY  
STACY, MINNESOTA**

**Schedule 3**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEARS ENDED DECEMBER 31, 1995 THROUGH 1999

**I. FINANCIAL STATEMENT AUDIT--INTERNAL CONTROLS**

99-1 Segregation of Duties

We noted that accounting duties in the following areas were not adequately segregated:

- S The City Clerk is responsible for billing sewer and water charges, collecting and preparing receipts for all payments to the City, recording and maintaining all financial activity on the City's general ledger, preparing and delivering all deposits to the bank, and performing all bank reconciliations of the City's primary checking account. In addition, the Clerk is responsible for purchasing, selling, and recording all investment activity.
  
- S The liquor store manager is responsible for both ordering and receiving all inventory items purchased, updating the liquor store's perpetual inventory system for items purchased, and assisting in the semi-annual inventory process.

Good business practices require that certain incompatible accounting functions or duties be segregated in a manner that would allow errors or irregularities to be detected timely.

We recommend that the City Council review these responsibilities and assign duties so that there is adequate separation. If it is not possible to adequately separate these duties due to limited staff, we recommend that the City Council be aware of the lack of segregation of duties and implement oversight procedures to ensure that the internal control policies and procedures are being implemented.

99-2 Pre-Signed Checks

While testing disbursements, we noted numerous instances in which blank, pre-signed checks were used to pay for items purchased out of both the City's primary checking account and the liquor store's checking account. While three signatures are required by the bank and the Council on all disbursements, the custodians of the two checking accounts have been pre-signing checks on the checking accounts that they do not maintain and using a stamp with the Mayor's signature prior to pre-signing the checks themselves. In addition, we also noted instances in which three signatures were not obtained and the checks were still issued and cashed.

A blank signed check is retained at the liquor store at all times in case of emergency purchasing needs. The process of pre-signing blank checks exposes the City to certain risks of loss or misappropriation of funds. Checks should never be pre-signed prior to Council approval for the expenditure of funds.

We recommend that the practice of pre-signing blank checks be discontinued. If situations occur in which the disbursement of funds is necessary prior to Council approval, the Council may appoint a custodian for one or more imprest funds in accordance with Minn. Stat. § 412.271, subd. 5.

99-3 Signature Cards

Signature cards for the Sewer and Water Emergency Reserve Account and a certificate of deposit that matured in 1999 had signers on the accounts that were no longer employees of the City. Failure to update changes to the signature cards could result in misappropriation of City assets.

We recommend that the City update the signature cards each time there is a change in City personnel that are authorized signers on depository accounts.

99-4 Payroll Reporting Procedures

We noted the following weaknesses in testing payroll:

- S Time cards are not signed by the employees or their supervisors. All time cards should be signed by the employee and the employee's supervisor in order to ascertain that the hours worked and leave taken are authorized and are accurately reported.

We recommend that all time cards be signed by the employee and the employee's supervisor prior to being paid.

- S Council members and the Mayor do not complete claim forms for per diems or reimbursements paid to them. They are currently relying on the City Clerk to complete the claims. Requests for reimbursements and per diems should be completed, signed, and submitted by the claimants themselves.

We recommend that the Council members and the Mayor submit their own claim forms, detailing the per diems and reimbursements to be paid.

- S Two out of ten time cards tested resulted in pay greater than warranted from the hours documented on the time cards. Hours documented on the time cards should agree with the hours paid.

We recommend that review procedures be implemented over the processing of time cards in order to ensure that employees are paid for the correct number of hours.

- S Personnel information is not maintained in an organized manner; the information is scattered among various files and locations and, in some instances, could not be located. As a result, of 17 employees tested, the City was not able to provide Employee Withholding Allowance Certificates (W-4) for five of them. In addition, it was not feasible for us to determine if the salary rates paid to some employees were the Council-authorized amounts as there is no ongoing centralized record documenting starting pay and subsequent increases.



We recommend that personnel files be maintained for all employees. Included in these files should be W-4 forms, authorizations for deductions, documentation for starting pay and subsequent increases, evaluations, and any other relevant personnel information.

- S The City does not currently have a procedure in place for the documentation of request and approval of compensated absences. Since hourly employees are not signing off, nor having their supervisors sign off on time cards completed, there is no documentation that paid time off has been approved. In addition, there is currently no documentation that paid time off for salaried employees has been approved. Failure to document supervisory approval of paid time off could result in employees being paid inappropriately.

We recommend that all paid leave be formally requested by the employee and authorized by the employee's supervisor in a documented procedure.

- S One of the 17 employees tested was paid more than the amount authorized by the City Council. The City Council approved a raise of \$7.50 per month on May 12, 1998, for the liquor store bookkeeper. However, the raise used by the bookkeeper to pay herself was \$15 per month, the raise given to other salaried employees. In addition, employees generally receive raises approved by the Council effective April 1 of each year. However, the liquor store bookkeeper has been paying these increases to herself as effective for any payroll paid April 1 or after, regardless of when the wages were earned. All paid increases should agree with what the City Council has approved.

We recommend that all wage increases be independently verified as being in agreement with approval by the City Council.

99-5 Sewer and Water Charges

In accordance with Stacy City Ordinance 403.03, subd. 2, sec. 4, the sewer volume charge for residential users is billed quarterly and is equal to the quarterly metered water usage determined for the first quarter billing period. As a result, the sewer volume charge for residential parcels should be the same amount for each of the four quarters. However, our testing showed

sewer charges over-billed by as much as \$109.20 in one quarter to sewer charges under-billed by as much as \$5.25 in one quarter. While it appears that the incorrect charges were the result of computer software problems, the errors were not corrected in subsequent billings. Sewer volume charges should be consistent with City ordinances and any variances should be immediately investigated by City management.

We recommend that City management review past sewer volume charges to determine which customers were over- or under-billed and in what amounts. The Council should then determine what action to take based upon the results of this review. In addition, the Council should implement oversight procedures to ensure that all residents are billed for sewer and water charges in accordance with City ordinances.

99-6 Petty Cash Controls

During our review, we noted the following control weaknesses regarding petty cash:

- S Documentation approving the establishment of the Clerk's petty cash fund and the liquor store's change fund could not be located. Approval of the funds should be made by the City Council and documented in the Council minutes.
- S The change fund in the liquor store was \$432 less than the \$1,400 reportedly-approved amount. The petty cash balance in the Clerk's office had cash and receipts that exceeded the reportedly-approved amount of \$100 by \$55.93. The petty cash fund for the maintenance shop could not be located by the supervisor for several days; and when it was finally located, cash and receipts exceeded the approved amount of \$50 by \$23.90. For all of these funds, cash and receipts on hand and readily available should reconcile with Council-approved amounts.
- S The City Council does not review actual receipts when approving the reimbursement of these funds. Rather, the Council approves replenishment of the full amount, regardless of what has been spent. This causes the funds to have excess cash on hand when compared to

the originally-approved amounts. Petty cash reimbursements approved by the Council should be based on the submission of receipts by the custodian of the fund. The custodian should be held personally responsible for any discrepancies between receipts and amounts requested.

We recommend that the City Council formally approve all petty cash and change funds if the Council determines they are necessary. We also recommend that the Council implement oversight procedures to ensure that the funds are reconcilable with receipts retained. The City Council should replenish the funds based on a claim submitted by the funds' custodians and supported by actual receipts attached to the claim.

99-7 Timeliness of Deposits

Twenty-two out of 125 collections were not deposited within 14 days of the check issuance date. The largest of these collections tested and not deposited timely was \$6,805. Timely deposits prevent unnecessary handling of funds, decrease the risk of potential misappropriation or loss of funds, and increase investment earnings.

We recommend that deposits be made in a timely manner.

99-8 Municipal Liquor Store Check Numbers

The liquor store bookkeeper uses the financial software program QuickBooks to manage all financial activity of the liquor store. Throughout our testing, we noted numerous instances in which check numbers entered to QuickBooks did not agree with actual checks issued. Duplicate check numbers were used, and large gaps in check numbers were noted. Consistency between check numbers entered to QuickBooks and actual checks issued allows for the assurance that all disbursements have been recorded and accounted for in the financial accounting system of the liquor store.

We recommend that the liquor store bookkeeper implement procedures to ensure that check numbers recorded on the QuickBooks system agree with actual checks issued.

99-9 Municipal Liquor Store - Reconciliation of Daily Deposits

We noted that for 99.8 percent of the days tested, liquor store deposits did not agree or reconcile to sales as recorded on the sales register tapes. The differences ranged from one cent to \$3,703.38. The average difference for the five years tested was \$16.77 short per day. Due to the inadequate or nonexistent documentation of reasons for the differences, we were not able to determine if the cause was human error, voids/over-rings, or irregularities.

The current procedures for the off-sale area of the liquor store do not include running a register total at the end of each employee's shift. Rather, a sales report is run at the end of the month resulting in the inability to identify when and by whom the differences originate. Balancing out at the end of each shift would allow any differences between cash taken in and sales made to be identified and reviewed immediately.

We recommend the City Council review procedures in place regarding liquor store close-out procedures and take the necessary actions to reduce both the frequency and amounts of these consistent differences.

99-10 Municipal Liquor Store - Voiding Receipts

While reviewing daily cash sheets prepared by liquor store employees, we noted weaknesses in the procedures used to document voids and over-rings. When receipts are voided or over-rings occur, the employee responsible is not always documenting the incident by means of signing, explaining, and retaining the voided receipt or over-rung transaction. In addition, the liquor store manager is not always signing off on or retaining the voided transactions or over-rings so as to document that they have been reviewed for explanation of the differences. No one appears to be reviewing voided transactions or over-rings made by the liquor store manager.

We recommend that all voided and over-rung transactions be initialed and explained by the employee responsible for the transaction, reviewed by a supervisor for appropriateness, and retained as documentation for the differences between cash register sales tapes and daily cash sheets.

**II. MINNESOTA LEGAL COMPLIANCE**

99-11 City Treasurer Functions Inconsistent With Statutory Requirements

On August 12, 1997, the City Council appointed the liquor store bookkeeper as the City Treasurer without any additional pay. Minn. Stat. §§ 412.141, 427.03, 412.871; and 118A.02 define some of the duties of a treasurer in a statutory city operating under Plan A, such as Stacy. They include:

1. Receive and keep all city money, including prompt entry of all receipts in an account book.
2. Keep City funds as far as possible on deposit with banks designated by the City Council.
3. Pay out money upon the written order of the mayor and clerk.
4. At the close of the year, prepare and file with the clerk a detailed report of balances, receipts, and disbursements by funds for the year.
5. Upon receipt of fees, fines, and other payments due to the city, to give out receipts for them.
6. Handle investment and depository accounts according to council instructions.

The Treasurer is not performing any of these duties. She is performing only the duties of the liquor store bookkeeper, and the City Clerk is performing all of these duties in addition to those responsibilities normally associated with a City Clerk. Under Minn. Stat. § 412.591, subd. 2, statutory cities operating under Plan A, such as Stacy, may by ordinance combine the offices of clerk and treasurer, thereby assigning the duties that would normally be carried out by the treasurer to the now combined position of clerk-treasurer. However, such ordinance has not been passed by the Council.

When the City Council appointed the liquor store bookkeeper to also be the City Treasurer, the Council failed to also ensure that the duties normally carried out by a treasurer were assigned to the newly appointed Treasurer. The Council apparently did not recognize that the liquor store bookkeeper would not be able to perform duties required of a city treasurer since the bookkeeper does not work for the City during normal business hours.

Since the City Clerk is, in substance, responsible for the duties normally associated with a combined clerk-treasurer position, the City Council could have passed an ordinance combining the position. Under Minn. Stat. §§ 412.591, subd. 2, and 412.02, subd. 3, where Plan A cities have combined a clerk-treasurer position (as they have in substance for the City of Stacy) and revenues are in excess of \$100,000 (as in Stacy), an annual audit is required.

We recommend that the City Council either pass an ordinance combining the positions of clerk and treasurer, subjecting itself to an annual audit as required in Minn. Stat. §§ 412.591, subd. 2, and 412.02, subd. 3, or assign the appropriate duties to the Treasurer.

99-12 Audits Not Performed in Accordance With State Statute

Minn. Stat. § 471.6985, subd. 2, requires a city with a municipal liquor store that has sales in excess of \$350,000 to submit audited financial statements to the State Auditor's Office that have been attested to by a certified public accountant, public accountant, or the State Auditor's Office within 180 days after the close of the fiscal year. In 1998 and 1999, the City's liquor store had sales exceeding the \$350,000 threshold, but no audit was performed.

We recommend that the City have audits in accordance with Minn. Stat. § 471.6985, subd. 2.

99-13 Acceptance of Donations

The City received donations totaling \$15,494 between June 4, 1996, and October 4, 1999, which the City Council did not formally accept in a resolution. Minn. Stat. § 465.03 requires donations to be formally accepted by the City Council in a resolution.

We recommend that all donations to the City be formally acknowledged and accepted in accordance with Minn. Stat. § 465.03.

99-14 Claims Paid Without Council Approval

We noted numerous instances in which disbursements were made from the City's general and liquor store operations that were not approved by the City Council. These included a wide variety of disbursements, including the use of cash collected from liquor store sales to pay for items such as karaoke, bands, small grocery items, and cleaning services.

Minn. Stat. § 412.271, subd. 1, requires all claims to be audited and allowed by the City Council, except when issued for: 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 or as provided in Minn. Stat. § 412.271, subd. 4; and an imprest fund established in accordance with Minn. Stat. § 412.271, subd. 5; or if the City has delegated the authority to approve claims under Minn. Stat. § 412.271, subd. 8.

We recommend that the all claims be paid pursuant to Minn. Stat. § 412.271.

99-15 Disbursements Not Meeting the Public Purpose Doctrine

During our review of disbursements, we noted several items purchased with City funds and that did not meet a public purpose by benefiting the City as a whole. They included: the payment of long distance phone charges at the municipal liquor store for personal phone calls not reimbursed to the City; the tax attributable to personal items purchased at Sam's Club; and general consumption items such as donuts, coffee, cream, and cookies.

Public funds may be expended only for a public purpose (Minn. const. art. X, § 1). The Minnesota Attorney General has consistently held that "in-kind" benefits may not be provided to public employees unless there is specific statutory authority to do so (Ops. Atty. Gen. 359b, October 24, 1989, and 161b-12, January 24, 1989).

We recommend that the City discontinue paying for items that do not meet a public purpose.

99-16 Lack of Support for Claims Paid

During our audit, we noted payments made by the City and the City's liquor store that did not have a written, itemized claim to support the disbursement. In some instances, the payment was made based upon an oral agreement and, in other cases, the claim was never received. Minn. Stat. § 471.38, subd. 1, requires every person or the person's agent claiming payment to put such claim in writing by items.

We recommend that the City comply with Minn. Stat. § 471.38, subd. 1, by requiring written documentation in the form of a claim prior to payment.

99-17 Declaration Form Missing

The City is not always requiring declaration for payment consistent with Minn. Stat. §§ 412.271, subd. 2, and 471.391, subd. 1, which state that, prior to payment, a declaration for payment should be signed by the claimant 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."

In order to satisfy this requirement, we recommend that all City and liquor store checks be reprinted with the following statement on the reverse side of every check: "The undersigned payee, in endorsing this order-check, declares that the same is received in payment of a just and correct claim against the City of \_\_\_\_\_, and that no part of such claim has heretofore been paid." See Minn. Stat. § 412.271, subd. 2. When the check is endorsed below this declaration by the payee, this statement will be sufficient as the required declaration of the claim.

99-18 Stamping of Claims

Minn. Stat. § 412.271, subd. 3, requires the City Clerk to endorse each claim with either "disallowed" or "allowed in the sum of \$\_\_\_\_," if approved by the City Council in whole or in part and specifying any items rejected. The City is not stamping any of its claims in this manner.



We recommend that the City review its procedures for the payment of claims and implement changes so as to comply with Minn. Stat. § 412.271, subd. 3.

99-19 Municipal Liquor Store - Illegal Donation

In February 1997, the City's municipal liquor store donated three bottles of liquor to the local Ducks Unlimited banquet. The Minnesota Attorney General has ruled that donations to people, corporations, or private institutions are not allowed absent specific statutory authority (Ops. Atty. Gen. 285a, March 5, 1959; 442a-17, January 17, 1938).

We recommend that the City discontinue donations to private entities.

99-20 Security for Deposits

During our audit, we noted that, at December 31, 1998, one of the City's official depositories was deficient by \$28,981 of the necessary collateral to secure City deposits. Minn. Stat. § 118A.03, subd. 3, states that:

The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day.

It is the City's responsibility, not the depository's, to ensure that sufficient collateral has been pledged by the depository to adequately secure City deposits pursuant to state statute.

We recommend that the City comply with Minn. Stat. § 118A.03, subd. 3, to ensure that the necessary collateral is pledged to secure City deposits.

99-21 Assignment of Collateral

We were not presented with documentation demonstrating that the City had a perfected interest in pledged collateral. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable.

Minn. Stat. § 118A.03 requires that, to the extent that deposited funds exceed available federal deposit insurance, the City must obtain an assignment of pledged collateral in an amount equal to 110 percent of the amount on deposit plus accrued interest. The City is not complying with this requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment, federal law requires that the City obtain a written assignment of collateral which is approved by the depository bank's board of directors or loan committee and is a continuous official record of the bank. See 12 U.S.C. § 1823(e).

We recommend the City obtain the documentation indicating it has perfected a security interest in pledged collateral.

99-22 Salary Advances

Employees were paid up to one month in advance of their scheduled pay date. During 1995, the former City Treasurer regularly paid herself at the beginning of the month for that month's services. In addition, the City Clerk processes payroll prior to the pay period end when situations, such as a planned vacation, prevent the Clerk from being present on the scheduled pay date. Public entities, such as cities, can only pay "claims." Minn. Stat. §§ 412.271 and 471.38. Employees who have not performed services for the City have no claim that can legally be paid by the City. Paying employee advances violates state law.

We recommend the City not violate state law. If this creates an impractical situation for the City because payroll must be processed and paid prior to the scheduled pay date, we recommend the City Council consider implementing a hold-back period so that the payroll is for services already performed.

**III. MANAGEMENT PRACTICES**

99-23 Sherman Oaks Plat Three Development

The City signed a Developer's Contract on March 15, 1995, with AMW, Inc., governing the development of the neighborhood of Sherman Oaks, Plat 3. The president of AMW is a City Council member who has served on the Council since September 9, 1996.

**Schedule 3**  
**(Continued)**

This agreement required the developer to install and pay for all construction and related costs incurred by the developer or the City. Included in these related costs was an agreement that: "The Developer shall reimburse the City for costs incurred in the enforcement of this contract, including engineering and attorney's fees." These reimbursements were to be made to the City by the developer within 30 days after receipt.

Our analysis determined that \$10,542 of engineering fees were not reimbursed to the City because \$5,637 was related to engineering fees on Foster Avenue, a street adjoining but not part of Sherman Oaks, Plat 3, development; \$825 was for barrel testing done on the City's new well and pumping facility located near Sherman Oaks; \$688 was for start-up costs incurred and paid by the City prior to the developer's contract; and approximately \$2,300 was for costs incurred by the developer that the City Council agreed on July 11, 2000, should not have been the responsibility of the developer. The City was not able to provide us with any support for the final \$2,300 reduction and, according to our analysis, this reduces the unpaid balance to \$1,092. The City Council, however, appears to consider this issue closed and settled.

Payments made to reimburse the City for engineering costs incurred were made anywhere from 106 to 1,765 days (4.84 years) after the City paid the original invoice. While the process of the City paying the original invoices and then seeking reimbursement falls within the contract agreements, the length of time it took for the developer to reimburse the City was far in excess of the agreed-upon 30 days. It appears that the delay in reimbursement was caused by the developer not being invoiced in a timely manner in addition to the refusal of the developer to reimburse the City even after he was invoiced. The contract does not require interest to be charged to the developer for accounts past due.

The engineering firm charges a 30 percent premium on private development work performed. The City Council's decision to reduce or not collect the \$10,542 in engineering fees resulted in the City paying the premium normally reserved for private developers.

We recommend that the City structure all future developments in a manner that requires all costs, including engineering and legal, to be paid directly by the developer rather than seeking reimbursement by the developer after payment by the City.

99-24 Non-Sufficient Fund Collections by the Liquor Store

The liquor store manager attempts to collect on non-sufficient fund checks written to the liquor store through a process of writing letters and phoning the writer of the check. If the collection attempt is successful, the manager collects and retains a \$25 fee.

It was explained to the auditors that the justification for retaining the \$25 fee is that these collection attempts are made on the manager's personal time. While we were not presented with a City policy on procedures for collecting non-sufficient fund checks, in no case should an employee be able to use his or her position with the City for personal benefit, especially when the activity falls within the course of their normal duties. It would not be unusual for a liquor store manager to be responsible for collecting on non-sufficient funds.

We recommend that all amounts collected on non-sufficient funds checks be deposited in the City's checking account.

99-25 Liquor Store - Check Cashing

The liquor store is cashing personal checks for customers of their on-sale operations. This practice causes the City to be susceptible to losses incurred from checks returned due to insufficient funds and increases the related costs of collection and loss of available funds.

We recommend that the liquor store discontinue the practice of cashing personal checks for customers.

99-26 Election Judge Pay

The City Clerk is routinely designated by the City Council as an election judge. For compensation as an election judge, the City Clerk is paid the same hourly rate approved by the Council that all of the other election judges are paid. However, in addition to receiving the hourly rate for election judge duties, we noted instances in which the Clerk was also receiving compensation from the City for performing the duties of the City Clerk at the same time. Unless a vacation day is used, no one should be compensated twice for performing two different functions at the same time.

We recommend that, prior to designating a City employee to serve as an election judge, the City Council consider the day of the election and whether or not it will interfere with the employee's normal duties. If it is determined that it will not interfere, the employee should use vacation time or not be compensated as a City employee for those hours.

99-27 Fixed Assets

The City does not maintain records for its general fixed assets and its enterprise fixed assets that include historical costs, depreciation expense, or location of the assets. Fixed assets should be identified and records maintained of their location to provide adequate safeguarding of the assets.

We recommend that, in order to improve the safeguarding of assets, the City maintain records of its fixed assets, including their location and cost.



JUDITH H. DUTCHER  
STATE AUDITOR

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## REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Members of the City Council  
City of Stacy

We have audited the statement of receipts, disbursements, and changes in cash balance and the related statements of classification of receipts and disbursements of the City of Stacy as of and for the years ended December 31, 1995 through 1999, and have issued our report thereon dated September 27, 2000. We qualified our opinion on the financial statements because of the omission of the Fire Department. We conducted our audit in accordance with generally accepted auditing standards.

### Internal Control Over Financial Reporting

The management of the City of Stacy is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements on the cash basis.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 99-1 through 99-10. We also consider finding 99-11 to be a reportable condition even though it is included in the section for Minnesota Legal Compliance.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider items 99-1, 99-2, 99-4, 99-5, 99-8, 99-9, and 99-11 to be material weaknesses.

#### Minnesota Legal Compliance

We conducted our audit in accordance with generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The *Minnesota Legal Compliance Audit Guide for Local Government* contains five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Stacy complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 99-11 through 99-22.

This report is intended for the information of the City Council and management and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/ Judith H. Dutcher*

*/s/ Greg Hierlinger*

JUDITH H. DUTCHER  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2000