HANDBOOK FOR MINNESOTA CITIES

Chapter 25
Financial Reports, Accounting and Auditing

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145 University Ave. West
Saint Paul, MN 55103-2044
www.lmc.org
(651) 281-1200 or (800) 925-1122

12/2/2024

HANDBOOK FOR MINNESOTA CITIES

Chapter 25
Financial Reports, Accounting and Auditing

Find basic information about routine financial tasks and duties cities must perform, like use of funds in accounting, internal control procedures, financial reporting requirements, federal and state auditing requirements, depositories and investment of city funds, and city bankruptcy.

RELEVANT LINKS:

I. Accounting

This section is intended to help council members and others with limited accounting backgrounds understand some basic information about accounting procedures and requirements.

A. Funds

For governmental accounting purposes, a "fund" is a sum of money set aside for a specific purpose. A fund is not necessarily a separate bank account but is tracked separately on paper. A separate fund may be set up to:

- Gather all financial information on a particular city activity.
- Ensure that revenue from a particular source goes to a dedicated purpose.
- Provide information on the profitability of a public service enterprise.
- Allow analysis of the entire governmental operation through accounting and budgeting procedures.

Even though all money may go into a single account, the city must still separately account for each fund's cash as if each individual fund has a separate bank account. When the city overdraws the cash balance belonging to a particular fund, it cannot pay an additional order or check on that fund because there is a sufficient balance in another fund to cover the check. For example, if there is no unspent or unencumbered cash in the general fund, the city cannot use money belonging to the liquor fund to pay additional checks drawn against the general fund. Before issuing such checks, an accounting entry must first be made in the books transferring money from the liquor fund to the general fund.

Section Part I-A-3 *Interfund Transfers*.

The city must be careful to avoid transferring money belonging to any fund that by law can only be used for particular purposes. A transfer from one fund to another is called an interfund transfer and can only be done in certain circumstances. A single city bank account is for accounting convenience and control purposes, not to facilitate otherwise prohibited interfund borrowing.

RELEVANT LINKS:

Minn. Stat. § 134.11.

Again, different funds do not need to be kept in separate bank accounts. In fact, accounting procedures are frequently simplified by integrating city funds into a single, consolidated bank account. However, the money in a fund does need to be tracked and kept separate in a computer program or on paper. For example, money for a city library does not need to be kept in a separate bank account but money for the library does need to be tracked and kept in a separate fund in a computer program or on paper. Therefore, a city must use accounting methods to track library money, or the library fund, within the general bank account.

1. Use of funds

Minn. Stat. § 134.11.
Minn. Stat. § 449.09.
Minn. Stat. § 475.65.
Minn. Stat. § 18G.13.
Minn. Stat. § 429.091, subd. 4.

Cities use discrete funds whenever there is a reason to keep separate accounting records for specific activities of the city. For example, the law requires separate funds for money designated for libraries, debt servicing, municipal bonds, pest control programs, and public improvements. Although the law does not always require it, the state auditor suggests proceeds from special tax levies go into separate funds. Again, this does not mean cities need separate bank accounts for each of these activities; the law simply requires accurate accounting to separate and track monies designated for certain uses.

Government Finance Officers Association Best Practice: Fund Accounting Applications.

However, cities should establish as few separate funds as possible. Despite the advantages of separate funds (and the fact that the law often requires them), too many separate funds can complicate city accounting procedures.

2. Source of funds

Office of the State Auditor, Uniform Chart of Accounts.

Funds are classified according to the type of activities they finance and their source of revenue. The major revenue source classifications are:

- Taxes.
- Licenses and permits.
- Intergovernmental revenues.
- Charges for services.
- Fines and forfeits.
- Special assessments.
- Miscellaneous revenues.

Definitions for all funds and sources of revenue are provided by the state auditor.

RELEVANT LINKS:

3. Types of funds

Office of the State Auditor, Uniform Chart of Accounts.

The Office of the State Auditor's "Uniform Chart of Accounts" outlines the three primary categories of funds: government funds, proprietary funds, and fiduciary funds. Within each of these fund categories are several types of funds.

a. Government funds

Office of the State Auditor, Uniform Chart of Accounts.

Government funds are the funds used for most governmental functions. Government funds include:

- General fund.
- Special revenue funds.
- Debt service funds.
- Capital projects funds.
- Permanent funds.
- Governmental activities funds.

b. Proprietary funds

Office of the State Auditor, Uniform Chart of Accounts.

Proprietary funds are used to account for the city's organizations and activities that are similar to those in the private sector. Proprietary funds include:

Office of the State Auditor, Statement of Position Enterprise Fund Accounting.

- Enterprise funds (e.g. utilities or municipal liquor store), and
- Internal service funds (e.g. city vehicle maintenance fund).

c. Fiduciary funds

Office of the State Auditor, Uniform Chart of Accounts.

Fiduciary funds are made up of trust and agency funds. These funds account for assets a governmental unit holds as trustee or agent for individuals, private organizations, and other governmental units. These funds cannot be used to support the city's own operations.

4. Fund balances

Government Finance Officers Association Best Practice: Fund Balance Guidelines for the General Fund.

Fund balances are a measure of the financial resources available in a fund. It is important that the city maintains adequate levels of fund balances to deal with current and future risks and to help stabilize tax rates.

Office of the State Auditor, Statement of Position Fund Balances for Local Governments at page 6.

The Government Finance Officers Association (GFOA) and the Office of the State Auditor (OSA) recommend that cities establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.

RELEVANT LINKS:

While this amount depends on the specific circumstances of each city, the OSA recommends that, at a minimum, cities maintain an unrestricted fund balance of 35% to 50% of fund operating revenues, or no less than five months of regular general fund operating revenues or expenditures.

Office of the State Auditor, Statement of Position Fund Balances for Local Governments.

The state auditor recommends that every city adopt a formal comprehensive fund balance policy. The areas the fund balance policy should address are provided by the state auditor.

Governmental Accounting Standards Board (GASB) Website.

As with other accounting practices generally, the state auditor follows the recommendations of the Governmental Accounting Standards Board (GASB), an independent, private-sector, not-for-profit organization that establishes standards of financial accounting and reporting for state and local governments. GASB is the official source of generally accepted accounting principles (GAAP) for state and local governments.

GASB Statement No. 54 Summary.
GFOA Best Practice: Fund Balance Guidelines for the General Fund; GFOA Advisory: Special Revenue Funds Used for Budgeting, but Not Financial Reporting.

GASB's Statement No. 54 (GASB 54) made changes to how fund balances are designated. Cities were to implement GASB 54 no later than the first fiscal year beginning after June 15, 2010. Prior to GASB 54, the classifications for fund balances were "reserved" and "unreserved," with unreserved broken down into sub-classifications "designated" and "undesignated." The new fund balance classifications under GASB 54 are:

Office of the State Auditor, Statement of Position Fund Balances for Local Governments.

- Non-spendable: These funds are not in spendable form (e.g., inventories, long-term receivables, property held for sale) or are legally or contractually required to be maintained intact (e.g., principal of endowment).
- Restricted: These funds are restricted to a specific purpose either imposed by the city or by law.
- Committed: These funds can only be used for a specific purpose. There must be some formal action by the city council to commit these funds and this can only be changed by city council action.
- Assigned: These funds are intended to be used for a specific purpose by the city council or a designee. This is a lower level of authority than committed funds. These funds are the remaining balances in governmental funds other than the general fund. They cannot be assigned into deficit.
- Unassigned: These funds are available for any purpose and are reported only in the general fund or as deficits in other funds.

GFOA Best Practice: Fund Balance Guidelines for the General Fund; Karlson, T (2010, Jan.) Top Ten Audit Adjustments. State Auditor Training Conference.

Funds that are committed or assigned should be disclosed in the financial statement notes, along with any related policies on using resources or fund balances. Committed, assigned, and unassigned funds are unrestricted fund balances.

RELEVANT LINKS:

5. Interfund transfers

An interfund transfer is the transfer of money from one fund to another. This requires only a simple bookkeeping entry when both funds are in the same bank account. If different bank accounts are involved, the transfer is more complicated and involves both cash transactions and bookkeeping entries. Regardless of the method, no interfund transfer should occur without city council authorization by resolution.

a. Typical interfund transfers

Generally, the city council can make interfund transfers unless a law prohibits it:

A.G. Op. 59-B-10 (Oct. 3, 1962).

- Transfers of utility profits to the general or other special revenue funds, if after paying all utility bills and establishing proper reserves, the city council decides there is excess money in the utility's funds. However, cities should consider any ordinance or charter provisions that may limit the use of excess money in these special funds.

A.G. Op. 59-B-10 (Nov. 2, 1961).

- In the absence of specific statutory expenditure limitations, the transfer of money from the general fund to special revenue funds for the support of activities financed through them.

A.G. Op. 1001b (Jun. 22, 1962).

- Transfer of money from a special revenue fund to the general fund when there is no further use for that special fund.

A.G. Op. 1001b (Aug. 11, 1966).
Minn. Stat. § 475.65.

- Transfer of money remaining in a bond fund, after the purpose of the issue has been accomplished, to a special sinking (debt service) fund for repayment of the bonds.

Minn. Stat. § 475.61, subd. 4.

- Transfer of any surplus levied funds from a debt service fund to the general (or any other) fund once the bonds and interest for the debt service fund have been paid.

A.G. Op. 218-R (April 12, 1950) A.G. Op. 476-A-15 (July 18, 1962).

- Transfer of money from a municipal liquor store fund to a general fund or another fund. If there are bonds or obligations that must be paid from liquor store revenue, this may affect the authority to make the transfer.

Minn. Stat. § 18G.13.

- Transfer of money from the city pest control fund to the general fund only if no disbursement has been made from the fund for five years.

Minn. Stat. § 435.203.

- Transfer of any remaining funds in an improvement fund, including special assessments, to the general fund once the associated improvements have been completed and associated obligations have been paid.

RELEVANT LINKS:

Minn. Stat. § 412.361, subd. 5.

The city council can also enter into an agreement with the public utilities commission where the commission agrees to transfer surplus utility funds to the general fund.

A city council can, of course, transfer money from one account to another within any particular fund at its own discretion.

b. Temporary interfund loans

Office of the State Auditor, Statement of Position Temporary Interfund Loans.

If a city loans money from a restricted fund to another fund due to a temporary cash shortage, generally accepted accounting principles still apply. (Restricted funds are generally dollars that are legally restricted to expenditures for specific purposes; for example, tax increment financing (TIF) district, solid waste, road funds, etc.).

Office of the State Auditor, Statement of Position Temporary Interfund Loans.

The state auditor generally discourages this practice and suggests that cities should consider legal, regulatory, or contractual requirements before making even temporary interfund transfers involving restricted funds. If a city council decides to do so, the intent and ability to quickly repay the loan is important. The state auditor also provides a sample policy for cities to follow if such loans are made. As a best practice, it is recommended that cities consult with the city attorney.

A.G. Op. 59a-22 (April 10, 1967). A.G. Op. 624a-6 (Oct. 26. 1959).

In general, interfund loans should not be subject to interest charges unless there is a specific provision in state law or city charter that authorizes the interest charges.

Minn. Stat. § 469.178, subd. 7. Minn. Stat. § 469.176, subd. 4.

State law permits temporary interfund loans for TIF districts. The city can advance or loan money to a TIF district from its general fund or other authorized fund for certain expenditures. The loan must be authorized by a resolution. The terms and conditions for repayment of the loan must be in writing and include the principal amount, the interest rate, and maximum term. State law also sets limits on the amount of interest that can be charged.

B. Accounting and internal control policies and procedures

Office of the State Auditor Statement of Position The Importance of Internal Controls.

The city should have written accounting policies and procedures. These policies and procedures make up the internal control system. The level of detail and complexity of the policies and procedures depends on the size of the city.

1. Accounting policies and procedures

The policies should indicate which employees are to perform which procedures.

RELEVANT LINKS:

Government Finance Officers Association, Best Practice: Accounting Policies and Procedures Documentation.

The policies should explain the purpose of the policies and procedures to help employees better understand and follow them. Also, the procedures should be written as they will actually be performed, not in an idealized form that is not actually followed in practice.

Having accounting policies and procedures in place will serve several purposes, including:

- Enhancing employees' understanding of their role and function in the internal control system.
- Establishing responsibilities.
- Providing guidance for employees.
- Improving efficiency and consistency of transaction processing.
- Improving compliance with established policies.
- Helping to prevent deterioration of key elements in the entity's internal control system.
- Maintaining consistency in procedures from year to year and during employee transitions.
- Helping to decrease circumvention of the entity's policies.

The state auditor recommends that accounting policies and procedures should be shared with all employees. The city may consider asking employees to sign a form acknowledging receipt of the policies and procedures and agreeing to follow them.

2. Internal controls policies

Office of the State Auditor Statement of Position The Importance of Internal Controls.

According to the state auditor, internal control procedures serve many important purposes, including:

- Protecting the city from loss or misuse of its assets.
- Ensuring that all transactions are properly authorized.
- Ensuring that the information contained in financial reports is reliable.
- Safeguarding funds.
- Providing efficient and effective management of assets.
- Permitting accurate financial accounting.

Government Finance Officers Association, Best Practice: Accounting Policies and Procedures Documentation.

Additionally, an internal control policy can help employees to understand their role and responsibility in the internal control system. The policy provides guidance and direction for employees.

Policies will also help employees to be consistent in procedures over time. The internal control policy should be approved by the city council.

RELEVANT LINKS:

The city council should also review the policy from time to time to ensure it is still effective, particularly if there have been changes to accounting or other systems or procedures.

Internal control procedures do not require each transaction to be independently reviewed. The city should try to balance the need to maintain the integrity of its system with the cost of the control in terms of money, time, and efficiency. The procedures should help the city identify potential problems and take appropriate actions if problems are discovered.

The state auditor recommends that internal control policies should be adopted to ensure:

- All transactions are properly authorized.
- Incompatible duties are segregated.
- Accounting records and documentation are properly designed and maintained.
- Access to both assets and records is controlled.
- Accounting data are periodically compared with the underlying items they represent.

Segregation of duties means that the work done by one employee is checked by another. Ideally, no single employee should be able to authorize a transaction, record the transaction, and obtain custody of the item resulting from the transaction. Where possible, these three elements should be done by different people.

In smaller cities, it may be difficult or not practical to segregate duties. In these situations, the state auditor recommends that management be made aware of the lack of segregation and implement other oversight procedures to make sure that employees are following other internal control policies and procedures. The state auditor also states that cities may want to implement other controls, like a mandatory vacation policy or periodic rotation of duties among employees, to allow management to see if there is any noticeable change while another person is performing the duties.

Office of the State Auditor, Statement of Position Petty Cash (Imprest) Funds; LMC information memo, *Procedures for Paying City Claims*. Office of the State Auditor, Statement of Position Internal Controls for Municipal Liquor Stores.

Particular attention should be paid to transactions that involve cash, like transactions at the municipal liquor store or with petty cash funds. Where cash is collected in more than one location, each location should implement internal control procedures. Because municipal liquor stores frequently deal with cash, they often present unique financial risks. The state auditor advises that cities should pay special attention to internal control procedures for municipal liquor stores.

RELEVANT LINKS:

Office of the State Auditor, Statement of Position Federal Check 21 Act.

The Check 21 Act allows a bank to create a digital version of an original check, thereby eliminating the need to further handle the physical document. Under the federal Check 21 Act, cities may not be able to obtain the original cancelled check, so the city should adjust its internal control procedures to have a different review process.

C. Basic accounting procedures

Office of the State Auditor, Uniform Chart of Accounts.

The state auditor's office has prepared a standard chart of accounts for use in city accounting. This comprehensive system is easily adaptable to the needs of both large and small communities. In the interest of uniformity and accounting simplicity, every city should adopt and use the chart.

Office of the State Auditor, Small City and Town Accounting System (CTAS) Information
Office of the State Auditor, CTAS Order Form.
Accounting Manual for Small Cities and Towns in Minnesota.

Additionally, the state auditor's office provides the Small City and Town Accounting System (CTAS) accounting program to local governmental units in Minnesota for a one-time $300 fee. CTAS keeps the accounting records of small cities and towns on a computer and assists the user in bookkeeping tasks; the program is available by mail or via downloads from the state auditor's web site.

Minn. Stat. § 412.141.
Minn. Stat. § 15.17.
Handbook, *Records Management*.
Minn. Stat. § 412.151.

The clerk and the treasurer must maintain records of all city financial transactions. Government records may be produced in the form of computerized records. The format in which all government records are kept, however, must be of sufficient quality to protect permanent records. Each official must keep a separate, complete set of books. This need for duplication, however, is eliminated when a city combines the positions of clerk and treasurer.

Minn. Stat. § 13.03.
Minn. Stat. § 13.03, subd. 4(e).

Because state law requires all public records, including the city's account books, to be available for public inspection at all reasonable times under the supervision of the person responsible for them, the city should keep these records in the city office that is responsible for them.

D. Accounting process

There are two accounting systems commonly used by cities: the double-entry system and the single-entry system.

1. Double entry system

Most larger cities use a computerized form of the double-entry system–a system underlying all modern accounting. As each transaction is entered, the computer software records it as both a credit in one account and as a debit in another account. For the bookkeeping system as a whole, the total of all debit balances in accounts must equal the total of all credit balances. This required balance provides a continuing accuracy check.

RELEVANT LINKS:

The ledger account summarizes all the transactions for a particular purpose. (A ledger is a book, or computerized report, in which the monetary transactions of the city are posted in the form of debits and credits.) For example, a municipal liquor store fund ledger shows a separate account of debits and credits for items such as cash, off-sale receipts, on-sale receipts, and purchase of materials for on-sale or off-sale purchases.

Cities with double-entry systems have the following records:

- Computerized financial journals. The general journal, a cash receipts ledger, a voucher or check register, a payroll register, and a bond and interest register.
- Computerized ledgers. The general ledger, revenue ledger, appropriation expenditure ledger, special assessment ledger, bonded debt ledger, interest payable ledger, and other subsidiary ledgers.

2. Single entry system

Smaller cities on a single-entry non-computerized system should use the following accounting records:

- Journals. These records should include a journal, which is a book of financial transactions as they arise in chronological order. This can include the clerk's register of money received and money disbursed, the treasurer's record of cash received and disbursed, and the treasurer's record of orders presented for payment and, if necessary, listed "not paid for want of funds."
- Books of accounts. These should include books in which the monetary transactions of the city are posted, including a receipts ledger, a disbursements ledger, a general ledger, and a bond and interest ledger.

Cities should maintain a separate set of ledgers for each separate fund.

At periodic intervals, preferably at the end of each month, an accounting report called a "balance sheet" is prepared for each individual fund and for the city as a whole. The report shows the financial condition of each fund at that particular time.

These balance sheets are one of the city's most important instruments of administrative control. In addition to checking the accuracy of the accounting records, balance sheets help keep the city council aware of the city's financial condition, the manner in which the budget is being executed, and the city's financial position. Balance sheets should supplement, not replace, other periodic reports dealing specifically with the execution of the budget.

RELEVANT LINKS:

E. Use of cost accounting

Cost accounting is one of the most useful and versatile techniques of modern management. With proper use, it can help the city council exercise competent and effective supervision, direction, and control over city work and service programs. Its most significant applications are in the fields of budgeting, planning, and expenditure control. The benefits of cost accounting overshadow the costs. Its primary benefit is in the field of comparing and projecting the cost of routine work units from period to period, or from project to project. Despite these advantages, small cities may not be able to use this approach due to limited staff.

Cost accounting is a process of assembling and recording all expenses incurred in attaining a purpose, carrying on an activity or operation, completing a unit of work, or performing a specific job. Compiling the data is a highly technical task that is best performed by a person trained and skilled in accounting. The city should therefore employ an accountant on a part-time, full-time or consulting basis to supervise this work.

Cost accounting achieves the following functions:

- It is useful as a form of protection against loss, waste, and inefficiency. A comparison of unit costs with past performance and established standards gives cities a way to measure improvement or pinpoint areas of weakness or substandard performance.
- It provides data for policy determination and personnel management. Cost information may reveal which combinations of workers and equipment are the least costly for performing a certain function or accomplishing a given task. It can also be useful for comparing the efficiency and productivity of different work crews.
- Cost accounting helps determine prices and rates. Accurate cost data are essential in fixing utility charges and setting fees for the use of ambulance, hospital, recreation, and other special facilities.
- It can materially improve budgetary controls over city expenditures. A budget formulated according to a definite work program and unit cost standards (a performance budget) emphasizes the amounts actually needed to perform particular services and activities. Furthermore, it furnishes a concrete method to accurately relate costs to different levels or qualities of services.

RELEVANT LINKS:

II. Financial reporting

A. Financial reporting requirements

GASB Statement 34.

In 1999, GASB issued Statement No. 34 (GASB 34), which establishes financial reporting standards for state and local governments throughout the United States. All cities that issue audited annual financial statements must comply with some or all of the GASB 34 standards for financial reporting. The authoritative audit guide suggests it would issue an adverse opinion on financial statements that are not in compliance with GASB 34.

GASB Statement 34.

GASB 34 is a financial reporting framework that measures the overall net financial condition of the city by taking into account all the long-term assets and liabilities. One of the major aspects of GASB 34 is that long-term assets should be reported at initial cost less depreciation.

GASB Statement 34.

The initial requirements of GASB 34 are in effect for all state and local governments. GASB 34 allowed governmental subdivisions additional time to implement the retroactive reporting of infrastructure capital assets. If a government elected that option, the retroactive infrastructure reporting becomes effective in the following manner:

- Governments with total annual revenues of $100 million or more must now apply the retroactive requirement.
- Governments with total annual revenues of $10 million or more, but less than $100 million, must now apply the retroactive requirement.

GASB Statement 34.

Governments with total annual revenues below $10 million are not required to implement the retroactive requirement, but, if they elected to, they would apply the requirement beginning with fiscal years ending after June 15, 2008.

Governmental Accounting Standards Board (GASB).
Minnesota Office of the State Auditor.
Government Finance Officers Association.

For further information on GASB 34, contact the Governmental Accounting Standards Board (GASB), the Minnesota Office of the State Auditor, or the Government Finance Officers Association.

1. Capital assets under GASB 34

Office of the State Auditor State of Minnesota Guide to Local Government Capital Assets.

Cities must keep track of their capital assets in order to properly include them in financial reports and to properly depreciate them over time. The state auditor's Minnesota Guide to Local Government Capital Assets provides guidance on recording capital assets, determining depreciation, and other related issues.

RELEVANT LINKS:

Capital assets include things like land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and other tangible or intangible assets that are used in operations and that have useful lives extending beyond a single reporting period. Keep in mind that not all assets are capital assets and that not all assets need to be capitalized.

See Part II-B-2-a Asset inventories.

In order to work with capital assets and depreciation, cities should develop an accurate, complete, and up-to-date capital asset inventory. According to the state auditor, each inventory should include the following about each capital asset:

- Description.
- Year of acquisition.
- Method of acquisition (e.g., purchase, donation).
- Funding source.
- Cost or estimated cost.
- Salvage value.
- Estimated useful life.

B. Financial reports

LMC information memo, *Budget Guide for Cities.*

Each city should prepare three different types of financial statements: required annual reports; administrative reports; and a summary budget statement. A single report does not and cannot fulfill the requirements of all three kinds of statements. Many cities, however, regularly prepare only those reports the law requires, which do not achieve the goals of the other two kinds of reports.

LMC information memo, *Calendar of Important Dates*.

LMC Informational memo, *Small Cities Reporting Reminder*.

There are many deadlines imposed by state law related to financial reports. The League's Calendar of Important Dates includes financial reporting deadlines and related deadlines. The League's Small Cities Reporting Reminder includes quarterly reporting deadlines for small cities (under 2,500 in population).

1. Required annual reports

a. Treasurer's report

Minn. Stat. § 412.141.

Immediately after the close of each calendar year, the treasurer must prepare and file with the clerk a report summarizing balances, receipts, and disbursements of funds for the past year. When the city combines the two positions or delegates the bookkeeping duties of the clerk, this report is combined with reports done by the clerk.

RELEVANT LINKS:

Since the clerk must use the treasurer's report in preparing the clerk's annual report, the treasurer should complete their report as soon as possible after the close of the calendar year.

b. Annual financial report: Cities with populations over 2,500

Minn. Stat. § 471.697. Minn. Stat. § 477A.017, subd. 2. GASB Statement 34. Office of the State Auditor, Reporting and Publishing Requirements: City Audited Financial Statements For Cities Reporting in Accordance with Generally Accepted Accounting Principles.

In any city with a population of more than 2,500, according to the latest federal census, the clerk or chief financial officer must prepare an annual financial report and statements in accordance with state law, GAAP, and GASB 34.

Minn. Stat. § 471.697, subd. 1(a).

Office of the State Auditor, Reporting and Publishing Requirements: City Audited Financial Statements For Cities Reporting in Accordance with Generally Accepted Accounting Principles.

At the close of the fiscal year, the clerk or chief financial officer must prepare a financial report covering the city's operations during the preceding fiscal year. The report should include operations of any city hospital, nursing home, liquor store, and public utility commission. The report must contain financial statements and disclosures that present the city's financial position and the results of city operations in conformity with accepted accounting principles. The report, or a summary of the report, must be published using the state auditor's recommended form in a qualified newspaper of general circulation in the city. If there is no newspaper, the clerk must post copies in three of the most public places in the city no later than 30 days after the report is due in the office of the state auditor.

Minn. Stat. § 471.697, subd. 1(b).

The clerk or chief financial officer must also file the financial report in their office for public inspection and present it to the city council after the close of the fiscal year. One copy of the financial report must go to the state auditor after the close of the fiscal year.

Minn. Stat. § 471.697, subd. 1(c). LMC information memo, *Calendar of Important Dates.*

Finally, the clerk must submit an audited financial statement (attested by a certified public accountant, public accountant, or the state auditor) to the state auditor. This statement is due within 180 days after the close of the fiscal year, though for consistency's sake, the state auditor sets a due date of June 30 every year. The state auditor can extend the deadline, upon request of a city and a showing of an inability to conform. The state auditor can accept this report in lieu of the report that goes to the city council.

Minn. Stat. § 471.697, subd. 1(c).

A copy of the audited financial statement, along with any management letter or other written findings or comments by the auditor, must be provided to each city council member and the mayor no later than 30 days after the report is required to be submitted to the state auditor, and presented at a scheduled city council meeting before October 31 of the year in which the report is submitted to the state auditor.

RELEVANT LINKS:

Minn. Stat. § 471.699.

If a city does not file the statement or report in a timely manner, the state auditor is authorized to send full-time personnel to the city or to contract with private persons, firms, or corporations to complete and file the financial statement or report. The city will have to pay for these expenses.

If the city does not pay the expenses within 30 days, the amount will be deducted from the amount of state funds due to the city under any shared taxes or aids.

c. Annual financial report: Cities with populations under 2,500

Minn. Stat. § 471.698, subd. 2.
Office of the State Auditor, Reporting and Publishing Requirements: City Audited Financial Statements For Cities Reporting on the Cash or Regulatory Basis of Accounting.

In any city with a population of less than 2,500, according to the latest federal census, the clerk or chief financial officer must prepare an annual financial statement that follows the requirements in Minn. Stat. § 471.698. Any city with a population of less than 2,500, however, can choose to comply instead with the provisions for larger cities under Minn. Stat. § 471.697, in which case the provision of Minn. Stat. § 471.698 would not apply.

Minn. Stat. § 477A.017.
Office of the State Auditor, Accounting Manual for Small Cities and Towns.
See also the Office of the State Auditor, Small City and Town Accounting System (CTAS).

Unlike cities with a population of over 2,500, cities under 2,500 in population are not required by state law to report GAAP financial statements. However, these cities can follow GAAP as a good business practice or because of a contractual requirement. These cities must comply with state law and requirements set by the state auditor. These requirements are commonly known as the "minimum reporting requirements" for cities less than 2,500 in population.

Minn. Stat. § 471.698, subd. 1(a).

The city clerk or chief financial officer must prepare a detailed statement of the financial affairs of the city in the style and form prescribed by the state auditor. The statement should include operations of any city hospital, nursing home, liquor store, and public utility commission.

This statement must show the following:

- All moneys received, sources, and respective amounts.
- All disbursements for which orders have been drawn upon the treasurer.
- The amount of outstanding and unpaid orders.
- All accounts payable.
- All indebtedness.
- Contingent liabilities.
- All accounts receivable.
- The amount of money remaining in the treasury.
- All items necessary to accurately show the revenues, expenditures, and financial position of the city.

RELEVANT LINKS:

Minn. Stat. § 471.698, subd. 1(b), (c).

The clerk or chief financial officer must file the statement in their office for public inspection and present it to the city council within 45 days after the close of the fiscal year. The clerk must also publish the statement, or a summary of the statement in a form as prescribed by the state auditor, within 90 days of the close of the previous year in a qualified newspaper of general circulation in the city.

If there is no qualified newspaper, the clerk must post it in at least three public places in the city.

Minn. Stat. § 471.698, subd. 1(c).

It is not necessary to publish individual disbursements of less than $500, if disbursements aggregating $1,000 or more to any person, firm, or other entity are set forth in a schedule of major disbursements showing amounts paid out, to whom, and for what purpose, and are made a part of and published with the financial statement.

Minn. Stat. § 471.698, subd. 1(d).

The clerk or chief financial officer must submit one copy of the statement to the state auditor in the form prescribed by the state auditor. This must be done within 90 days after the close of the fiscal year.

Minn. Stat. § 471.699.

If a city does not file the statement or report in a timely manner, the state auditor is authorized to send full-time personnel to the city or to contract with private persons, firms, or corporations to complete and file the financial statement or report. The city will have to pay for these expenses. If the city does not pay the expenses within 30 days, the amount will be deducted from the amount of state funds due to the city under any shared taxes or aids.

d. Municipal liquor store financial statement

Minn. Stat. § 471.6985.

Any city operating a municipal liquor store must publish in the city's official newspaper a balance sheet using GAAP and a statement of liquor store operations within 90 days after the end of the fiscal year. At the option of the city council, the statement can be incorporated into the city's general financial reports.

Minn. Stat. § 471.6985.

The statement must be headlined, in a type size no smaller than 18 point: "Analysis of ...... (city)...... municipal liquor store operations for...... (year)....".

The statement must be written in clear and easily understandable language and must contain the following information:

- Total sales.
- Cost of sales.
- Profit as a percent of sales.
- Gross profit.
- Operating expenses.

RELEVANT LINKS:

- Operating income.
- Contributions to and from other funds.
- Capital expenditures.
- Interest paid.
- Debt retired.

The state auditor prescribes the form and style of the statement.

Minn. Stat. § 471.6985.

If the city charges the liquor store with administrative expenses, the expenses must be actual operating expenses.

Cities with stores having total sales in excess of $350,000 must submit audited financial statements to the state auditor attested to by a certified public accountant or the state auditor within 180 days after the close of the fiscal year. The state auditor may provide a time extension.

e. Other financial reports

Minn. Stat. § 471.69.

As soon as practicable after January 1 each year, the clerk or other recording officer of the city must present to the city council a statement of tax collections and other income, excluding gifts, credited to each fund of the city during each of the three previous fiscal years and their yearly average.

Minn. Stat. § 471.70.

On or before February 1 each year, the principal accounting officer must report to the county auditor the total amount of outstanding obligations and the purpose for each issued as of December 31 of the previous year.

Minn. Stat. §§ 471.71-.83.

In any city where more than 50% of the net tax capacity of taxable real and personal property, excluding money and credits, consists of unmined iron ore, the clerk must prepare and present to the city council at the first meeting of each month a special report including the information required by law.

2. Administrative reports

Administrative reports can assume a great many forms, depending on their purpose. For example, the city council should require monthly reports on the budget's execution. The city council might also order many other kinds of reports, such as interim reports on the condition of various funds, the profitability of public service enterprises, the financial status of public improvement projects under construction, accounting for grants, and cost accounting reports on any activity. A well-established system of administrative reporting is essential if the city council is to exercise effective control over city administration, regardless of the size of the city.

These reports differ from the annual financial report in several ways:

RELEVANT LINKS:

- They generally cover a shorter time period (exceptions to this rule are grant reports, which may cover a longer period of time).
- They generally deal only with particular aspects of the city financial picture.
- The purpose of the information is to increase city council control rather than to provide a picture of the total financial condition.
- They provide different information. For example, budget reports for administrative purposes should show both budgeted and actual figures, instead of just actual figures as in the annual financial statement.

a. Asset inventory

Office of the State Auditor, Statement of Position Asset Inventories. Office of the State Auditor, State of Minnesota Guide to Local Government Capital Assets.

The city should have an asset inventory. This will help the city comply with auditing and financial reporting requirements, but it can also help determine the extent of loss if property is lost, stolen, or damaged.

An inventory can also help detect employee theft.

Office of the State Auditor, Statement of Position Asset Inventories.

The state auditor recommends that the city develop and maintain an asset inventory system. The city can have separate fixed asset inventories for financial reporting purposes (listing capital assets that meet the minimum capitalization amount) and for internal control purposes (listing fixed assets below the minimum capitalization amount).

The auditor recommends that cities:

- Identify types and purposes of assets to inventory.
- Set a minimum dollar value for assets that will be included on the asset inventory.
- Create an inventory of all assets above the minimum dollar amount and, if appropriate, an inventory of assets below the minimum threshold dollar amount.
- Assign actual or historical costs to each item.
- Assign estimated useful lives for each asset and, as appropriate for long-lived assets, schedule when that useful life should be re-evaluated.
- Assign the responsibility for knowing the location of each asset to a department head or official.
- Label each asset with identifying information, such as the name of the public entity and a unique asset number. For fixed assets below the minimum threshold dollar amount, a serial number could be used as the identifying number for those items needing specific tracking (computers, cameras, guns, etc.).
- Record the disposal of assets and the acquiring of new assets.

RELEVANT LINKS:

- Maintain supporting documentation for asset changes, including invoices for additions to capital assets, and bills of sale, trade-in evidence, or auction summaries for deletions of capital assets.
- Keep asset inventories current by conducting physical inventory inspections on a regular basis.
- Obtain authorized signatures from both departments when making transfers of assets between departments.

See also Part II-A-1 *Capital Assets under GASB 34*.

For capital assets, the city should:

- Identify and record capital asset information in the city's accounting system.
- Determine the useful life for various classes of assets to be used for depreciation purposes.
- Create general ledger account codes to record capital asset transactions.

3. Summary budget statement

Minn. Stat. § 471.6965. Contact the OSA for Summary budget publication form.

Annually, upon adoption of the city budget, the city council must publish a summary budget statement. The statement must contain information relating to anticipated revenues and expenditures in a form that is prescribed by the state auditor. The form allows for comparisons between the current year and the budget year. A note must be included that the complete budget is available for public inspection at a designated location within the city. The publication must be in one of the following:

- The official newspaper of the city, or if there is none, in a qualified newspaper of general circulation in the city.
- A city newsletter. It must be the lead story.
- Another city mailing sent to all households in the city. It must be on distinctively different colored paper than other notices sharing the envelope. The city can also include a notice notifying taxpayers when the city will begin its budget process for the current year and encouraging taxpayers to attend the hearings. A telephone number where taxpayers can check on the dates and times of those future hearings should be included.

If the summary budget statement is published in a newsletter or in another city mailing, a copy of the newsletter or mailing must be sent to any nonresident that requests a copy.

Minn. Stat. § 275.065, subd. 3b. Minn. Stat. § 6.745.

Cities over 500 in population must also report summary budget data to the county auditor for the current budget year and for the upcoming proposed budget year on or before the time they certify their proposed levy.

RELEVANT LINKS:

See Handbook, *Property Tax Levy*.

Minn. Stat. § 6.745, subd. 1. Contact the OSA for Summary budget publication form.

OMB Circular No. A-133. OMB Circular No. A-133 Aug 2017 Compliance Supplement.

Office of Management and Budget, Guidance for Federal Financial Assistance.

2 C.F.R. § 200.501.

Minn. Stat. § 471.696.

31 U.S.C. § 7502 (a)(1). 2 C.F.R. § 200.501.

31 U.S.C. § 7501(4), (5).

The reported summary budget data must contain the same information and be in the same categories and format as provided to the Office of the State Auditor and as required by state law.

In addition to the publication requirements listed above, all cities must provide summary budget data to the state auditor's office no later than January 31 of each year. The summary budget data must include (separately) any net unrealized gains or losses from investments. Cities can use the same form to comply with this state law.

III. Auditing

Audits help to control the city's financial affairs. Conducted regularly, audits ensure city accounts are being properly kept and that all financial transactions have occurred according to law. In this sense, audits are a safeguard to taxpayers and individual public officials, as well as to the city council.

A. Federal audit requirements

Many technical requirements must be met when performing a federal audit. Therefore, it is important that the auditor is familiar with all of the federal requirements. This section is intended only as a basic overview of some of the requirements. Policies, procedures, and guidelines to implement the Single Audit Act are available from the federal Office of Management and Budget (OMB).

In April 2024, the Office of Management and Budget (OMB) released its final updated version of the Uniform Guidance. As part of this guidance, the Single Audit threshold under the federal Single Audit Act was increased from $750,000 to $1,000,000. The effective date for the threshold change is for audits with periods beginning on or after October 1, 2024. For cities, periods beginning on or after October 1, 2024, means fiscal year 2025 because the fiscal year, under state law, begins on January 1.

Previously under the federal Single Audit Act, for periods prior to October 1, 2024, all local units of government that expended $750,000 or more per year in federal awards were required to obtain either a single audit or a program-specific audit.

A federal award is any federal financial assistance, such as grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance or federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

RELEVANT LINKS:

If the federal award is spent under only one federal program and the city is not subject to laws, regulations, or federal award agreements that require a financial statement audit of the city, the city can choose to have a program-specific audit conducted. If the federal award is spent under more than one federal program, the city must obtain a single audit.

31 U.S.C. § 7502 (b).

The federal audits must be conducted annually unless the city is required by constitution or state law, in effect on January 1, 1987, to undergo audits on a less frequent basis. In this situation, the city is permitted to have an audit every two years. The audit must cover both years.

31 U.S.C. § 7502 (c), (d).

Under the federal Single Audit Act, an independent auditor must conduct the audit in accordance with generally accepted government auditing standards. The audit should cover a city's entire operation. Alternatively, the city can choose to use a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered federal awards during the fiscal year; the audit includes the financial statements and schedule of expenditures of federal awards for each department.

31 U.S.C. § 7502 (e).

The auditor must make several specific determinations, including whether the city's financial statements accurately present the city's financial position. The audit also includes an evaluation of internal control systems to provide reasonable assurance that the city is managing federal financial assistance programs in compliance with applicable laws and regulations. The act also requires cities subject to the single audit requirement to ensure the proper expenditure of federal aid to recipients. The auditor then details these and other determinations in an audit report.

31 U.S.C. § 7502 (h).

Federal Audit Clearinghouse.

The city must prepare a reporting package that includes the city's financial statements, schedule of expenditure of federal awards, corrective action plan (if necessary), and the auditor's report. The city must transmit the reporting package to the Federal Audit Clearinghouse and make it available for public inspection.

31 U.S.C. § 7502 (a)(2).
2 C.F.R. § 200.501.

States or local governments that spend a total amount of federal financial assistance of less than $1,000,000 in any fiscal year are generally exempt from the above federal audit requirements. However, the city must comply with any federal law provisions that require the city to maintain records concerning federal awards provided to the city.

B. State audit requirements

Office of the State Auditor, Audit FAQs.

The criteria for when a state audit is required depend on several factors, such as population, whether the clerk and treasurer positions are combined, and the total revenues. In general, state audit requirements are as follows:

RELEVANT LINKS:

- Cities over 2,500 in population, according to the latest census, must have an annual audit in accordance with GAAP.
- Cities less than 2,500 in population, according to the latest census, with a separate clerk and treasurer are not generally required to have an audit.
- Standard Plan and Plan A cities less than 2,500 in population, according to the latest census, with a combined clerk-treasurer position must have an annual audit if the total revenues exceed the amount specified by the Office of the State Auditor. Originally, the specified revenue amount was $150,000 but has been adjusted for inflation using the annual implicit price deflator. For the year ending December 31, 2023, the audit threshold is $274,000. The audit must be performed by the state auditor or a certified public accountant in accordance with minimum procedures prescribed by the state auditor.

Minn. Stat. § 412.591.
Office of the State Auditor, Audit FAQs.
Office of the State Auditor, Current Audit Revenue Thresholds.

- Standard Plan and Plan A cities less than 2,500 in population, according to the latest census, with a combined clerk-treasurer position must have an Agreed-Upon Procedures engagement once in every five-year period if the total revenues are less than the amount specified by the Office of the State Auditor.

  Originally, the specified revenue amount was $150,000 but has been adjusted for inflation using the annual implicit price deflator. For the year ending December 31, 2023, the audit threshold is $274,000. This engagement-audit shall be for a one-year period to be determined at random by the auditing individual. The state auditor has provided guidance for the individual contracted to perform the Agreed-Upon Procedures engagement.

Minn. Stat. § 412.591.
Minn. Stat. § 412.02, subd. 3.

Office of the State Auditor, Current Audit Revenue Thresholds.
Office of the State Auditor, Agreed-Upon Procedures engagements.

An annual audit is required in any city where the city council passes an ordinance that delegates the clerk's bookkeeping functions to the treasurer.

Minn. Stat. § 412.151, subd. 2.

A city council must make a thorough examination of the accounts of a bonded officer in the event of:

Minn. Stat. § 574.23.

- The filing of a new official bond or other security.
- The expiration of a term of office.
- The official's death, resignation, or removal from office.

This requirement may be satisfied by having an audit of the accounts.

If, upon the expiration of the term, death, resignation, or removal of any bonded officer, the required examination of the officer's accounts reveals any irregularities, they must be immediately reported to the surety that bonded the officer and to the officer involved.

Any public officer or employee, including the city council, must promptly report in writing to the state auditor any evidence of theft, embezzlement, or unlawful use or misuse of public funds.

Minn. Stat. § 609.456.
Reporting Financial Concerns to the OSA. OSA Reporting Form.

RELEVANT LINKS:

Minn. Stat. § 6.67.

Any public accountant who audits city books must report any evidence of misfeasance, nonfeasance, or malfeasance to the state auditor and to the county attorney.

C. Using audits effectively

Minn. Stat. § 471.697, subd. 1(c).

Office of the State Auditor, Audit FAQs.

City councils in cities with a population of 2,500 or more are required to review the audit and the accompanying management letter or written findings at a city council meeting. Smaller cities, whether or not they have an audit, should also review either the audit or financial statements prepared by the city clerk or treasurer at a city council meeting.

An audit's primary function is to give an opinion as to whether a city's financial statements are accurately presented. However, the financial analyses and management reports done in conjunction with the annual audit serve as an early warning system to detect future financial problems.

An audit is a series of procedures designed to evaluate a city's internal controls, to test a representative sample of its financial transactions, and to study the methods used to develop financial statements. These procedures allow the auditor to render an opinion on the city's financial statements.

Major components of an audit include the annual financial report, the audit opinion, the management letter and audit recommendations, the report on legal compliance, and the single audit report if the city received sufficient federal funding.

The scope of an audit and its cost will vary from city to city depending on the breadth and complexity of city operations. Cities that operate diverse businesses, such as golf courses, liquor stores, or public utilities, will require more extensive audit procedures. Cities with debt and special assessment funds should review these funds annually to ensure revenues are adequate to repay bonds as scheduled.

The audit opinion does not indicate the financial health of a city, nor does it indicate if a city has been operating efficiently.

The audit opinion does not certify that each number contained in the financial report is correct because it is based on only a sample of the city's financial transactions and procedures.

Audits provide valuable information that helps city officials make important policy decisions. Because audit reports are sometimes difficult to understand, city council members should ask the auditor questions in order to fully understand the report. Some questions to ask include:

RELEVANT LINKS:

- How is our city doing financially? The answer will be based on how close the fund balances are to the amounts planned in the budget.
- Are financial statements consistent with the adopted budget? Significant variations should be identified and the reasons for the variations discussed.
- What steps can our city take to improve financial operations and our financial health? Auditors may have suggestions for internal controls and should be asked to comment on actions taken during the last fiscal year to address concerns raised in prior audits.
- Are revenues generated by enterprise funds adequate to cover expenses and debt service requirements? If not, a rate adjustment may be needed.
- Is the city using revenues from one fund to subsidize another? Many cities use revenues from liquor stores to fund other city services, for example. The extent and rationale for the subsidy should be examined.
- Is the city relying on a revenue source that may be susceptible to change?
- Are there any lawsuits or other contingencies that could affect city finances?

D. Preparing for an audit

Struss, C. (2010, Jan). Preparing for Your Audit. State Auditor Training Conference.

Preparing for the audit ahead of time can help the city have a more effective and efficient audit. Here are some tips for preparing for a city audit:

- Have city staff prepare financial statements whenever possible. This is likely to save the city some money on its audit because it is generally cheaper to have staff prepare the statements than an auditor.
- Complete financial statements and reports as soon as possible after year end.
- Balance and reconcile statements, accounts, and other financial documents regularly throughout the year instead of waiting until the end of the year.
- Prepare reports, schedules, papers, and other supporting documents that will be needed for the audit and can be prepared before the audit begins.
- Regularly review and update or revise policies and procedures to make sure they stay current and in compliance with current laws.
- Select one staff person to be the primary contact for the auditors and have all communications go through that person.
- Communicate with all departments about the audit and explain what is needed; improved understanding generally leads to improved cooperation, which can save time and energy.

RELEVANT LINKS:

- Inform auditors about current events in your city (e.g., new employees, contentious issues, new projects).
- Follow up on oral and written comments from auditor before next audit.

E. Conducting audits

Someone other than the regular city bookkeeper or accountant should do the audit; either the state auditor's office or private accountants can perform the task. Regardless of the method a city chooses, the city council should reach a clear understanding with the auditor in advance of the actual audit on the following points:

- The kind of audit to be performed.
- The time period to be covered by the audit.
- Provisions for a more extensive investigation if one is indicated by circumstances disclosed during the audit.
- The time when the audit is to begin.
- The date when the audit report will be completed and delivered, to whom it will be submitted, and the number of copies that will be provided.
- Information and supplies the city must furnish or make available to facilitate the audit.
- The basis of compensation to the auditor, allowance for expenses, and terms of payment. The city council does not need to take bids for an auditor's services. Audit services are a professional service that are not subject to competitive bidding (municipal contracting) procedures.

1. Types of audits

Audits are broadly classified into different categories, including:

- General audits (either complete or limited); includes all city financial transactions and records.
- Special audits (either complete or limited); limited to some particular activity, such as a municipal liquor store, or to an examination of all transactions during a specific period of time.
- Cash audits (either complete or limited).
- Legal compliance audits.

Both general and special audits can be either complete or limited in scope. A complete audit covers all books of account, including supporting documents, to check for legality, mathematical accuracy, and complete accountability. A limited audit is an examination of selective items based on the assumption that they are representative of all items and would reflect any possible errors.

RELEVANT LINKS:

A cash audit, as its name implies, examines of all the cash transactions for a stated time period. Cash audits can also be either complete or limited in nature.

Office of the State Auditor, Legal Compliance Audit Guide for Cities, 2022.

A legal compliance audit reviews actions to ensure conformance with state law including, but not limited to, the open meeting law, unclaimed property, acceptance of gifts and public purpose expenditures.

F. Methods of securing audits

1. Audits by the state auditor

Minn. Stat. § 6.54.
Minn. Stat. § 6.55.
Office of the State Auditor, Petition and Request Audits.

The state auditor will conduct an audit of the city's books upon the request of either the city council or the citizens of the city. The auditor can also conduct an audit if they feel it is in the public's interest; however, this rarely happens.

Minn. Stat. § 6.55.

The city council can pass a resolution and submit a written request, signed by a majority of city council members, asking the state auditor to examine the books, records, accounts, and affairs of the city, or of any organizational unit, activity, project, enterprise, or fund of the city. The audit may pertain to the city books, records, accounts, and affairs—or to any city organizational unit, activity, project, enterprise, or city fund. (The clerk must certify that the written request is signed by a majority of the city council members and that the city council passed the required resolution). Any independent board or commission in the city can also request an audit from the state auditor.

Minn. Stat. § 6.54.

The state auditor must examine the books, records, accounts, and affairs of the city or of any organizational unit, activity, project, enterprise, or fund of the city after receiving a petition signed by a number of registered voters equal to at least 20% of those voting in the last presidential election. Thirty days before a petition goes to the state auditor, it must go to the appropriate city clerk or chief administrative officer and the county auditor. The county auditor must determine and certify whether the required number of registered voters signed the petition. The petition must contain a statement that the city will bear the cost of the audit.

Both the petition and the request can designate the kind of audit desired by the petitioners. At the very least, it must cover all transactions relating to cash received and disbursed. Under most conditions, the audit cannot cover more than a six-year period.

2. Audits by independent public accountants

Minn. Stat. § 412.222.
Minn. Stat. ch. 326A.

The city council can also employ public accountants on a monthly or yearly basis to audit the city's books.

RELEVANT LINKS:

A public accountant, for this purpose, is a certified public accountant or a licensed certified public accounting firm. A public accountant's audit must follow the state auditor's prescribed minimum audit procedures.

G. Audit costs

Minn. Stat. § 6.62.
Minn. Stat. § 6.57.
Minn. Stat. § 6.59.

A city can levy to pay for regular audits. If a city council or city residents request an audit by the state auditor, and the city fails to pay the state auditor's claim, the law provides for payments by indirect special tax levy. Cities can contest in court the state auditor's claim or bill for services.

Private accountants do not have a standard schedule of fees for city audits, but most firms take similar factors into account when making their charges. The major factor is the training and experience of the person assigned to do the work. Similarly, the state auditor's fee depends on the civil service classification of the auditor working on the assignment, or on the costs to the state auditor of contracting for accounting services.

IV. Depositories and investment of funds

LMC information memo, *City Deposits and Investments.*
Office of the State Auditor, Statement of Position Deposits of Public Funds (Depositories and Collateral).

Cities can deposit funds in a variety of financial institutions. Cities can also make investments with city funds. The LMC information memo, City Deposits and Investments, provides more information and detail on both deposits and investments.

Minn. Stat. § 427.01.
Minn. Stat. §§ 118A.01-.03.
LMC information memo, *City Deposits and Investments.*

A depository is the place (or places) in which a city keeps its money. The council of every city must, by resolution, designate or re-designate at least one depository for city funds. The city can designate as a depository any financial institution, defined as a savings association, commercial bank, trust company, credit union, or industrial loan and thrift company. The city can designate more than one institution. There is no limit on the amount a city can deposit in one institution, although the city council can limit these amounts by resolution. Accounts that exceed the Federal Deposit Insurance Corporation (FDIC) guaranteed amount must be protected with additional collateral.

Cities that have checking accounts through the League's 4M Fund must designate a bank or thrift institution as a depository for the funds.

Minn. Stat. § 118A.04.
LMC information memo, *City Deposits and Investments.*

Cities have authority to invest any funds they do not presently need. These city investments are subject to certain statutory limitations and conditions. The law only authorizes certain types of investments for cities.

V. Bankruptcy of cities

Minn. Stat. § 471.831.

Prior to 1997, no unit of local government could go bankrupt in Minnesota.

RELEVANT LINKS:

11 U.S.C. §§ 901-946.

Now under the federal bankruptcy laws, any municipality, including any city, can file a petition and seek any relief available.

Housing and redevelopment authorities and economic development authorities can also seek this remedy for financial difficulties. To date, no city or other unit of local government in Minnesota has gone bankrupt.

VI. How this chapter applies to home rule charter cities

Everything in this chapter applies to home rule cities. City councils in charter cities should examine their charters for provisions dealing with audits, depositories, and investing idle funds.