

CITY OF GRANT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

**CITY OF GRANT, MINNESOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2014**

INTRODUCTORY SECTION

ELECTED AND APPOINTED OFFICIALS	1
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	11
STATEMENT OF ACTIVITIES	12
GOVERNMENTAL FUNDS	
BALANCE SHEET	13
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES	14
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	15
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	16
NOTES TO THE BASIC FINANCIAL STATEMENTS	17

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND	
BUDGETARY COMPARISON SCHEDULE	30
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION	32

OTHER REPORTS SECTION

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	33
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34
SCHEDULE OF FINDINGS AND RESPONSES	36

INTRODUCTORY SECTION

**CITY OF GRANT, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2014**

	<u>Term Expires:</u>
Mayor: Tom Carr	2016
Council Members	
Loren Sederstrom	2018
Larry Lanoux	2018
Jeff Huber	2016
Tina Lobin	2016
Clerk: Kim Points	
Treasurer: Sharon Schwarze	
Attorney: Eckber, Lammers, Briggs, Wolff & Vierling	

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Grant, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Grant, Minnesota (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and
Members of the City Council
City of Grant

Basis for Qualified Opinion on Governmental Activities

The City does not maintain detailed capital asset records including accumulated depreciation on each individual asset. Accounting principles generally accepted in the United States of America require that an amount for capital assets be based on historical cost records with depreciation on each asset. The amounts included in the financial statements are estimates that are not based on a listing of individual assets. The amount by which this departure would affect assets and net position of the governmental activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of not maintaining detailed capital asset records as described in the paragraph titled “Basis for Qualified Opinion on Governmental Activities,” the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City as of December 31, 2014, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the City as of December 31, 2014, and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

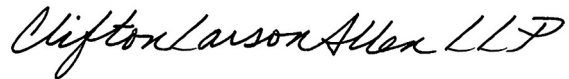
Required Supplementary Information

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

Honorable Mayor and
Members of the City Council
City of Grant

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 26, 2015

**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014.

Financial Highlights

- The City's governmental activities net position decreased by \$52,788 during the year to \$1,806,287 at year-end.
- The fund balance of the General Fund decreased by \$13,071 during the year to \$1,042,385 at year-end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements consist of the City functions that are principally supported by taxes and, to a limited extent, intergovernmental revenue. The City of Grant does not receive Local Government Aid or gas tax revenue. The governmental activities of the City include general government, public safety, and public works.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City fall under the category of governmental funds.

**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City currently maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Jasmine Avenue Improvements Fund of 2008.

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

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 17-29 of this report.

Government-Wide Financial Analysis

Beginning with the year ended December 31, 2004, the City's financial statements were presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*. Comparative information is included in these tables to highlight changes in financial position, shown in Exhibit 1.

The government-wide statements report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in the City's net position can be used as an indicator of the City's financial position.

**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

The City's financial position is the product of many factors. For example, the determination of the City's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus a liberal approach to depreciation estimates, as well as capitalization policies, will produce a very significant difference in the calculated amounts. For these reasons, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

EXHIBIT 1: CITY OF GRANT'S NET POSITION- GOVERNMENTAL ACTIVITIES

	Governmental Activities	
	2014	2013
Current and Other Assets	\$ 1,413,984	\$ 1,397,108
Capital Assets, Net	661,221	702,441
Total Assets	2,075,205	2,099,549
Current Liabilities Outstanding	268,918	240,474
Net Position:		
Net Investment in Capital Assets	661,221	702,441
Unrestricted	1,145,066	1,156,634
Total Net Position	\$ 1,806,287	\$ 1,859,075

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,806,287 at the close of the most recent fiscal year. Grant's recorded assets are largely in cash and investments. This cash balance is generally used to finance the City's expenses during the year. The City receives the vast majority of its income through the property tax system in two lump sums in July and December. Because nearly one-half of the annual income is received in December, cash balances appear larger at year-end.

Capital Assets are shown net of depreciation, where applicable. Roads are recorded after January 1, 2004 when a capital improvement is made.

**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

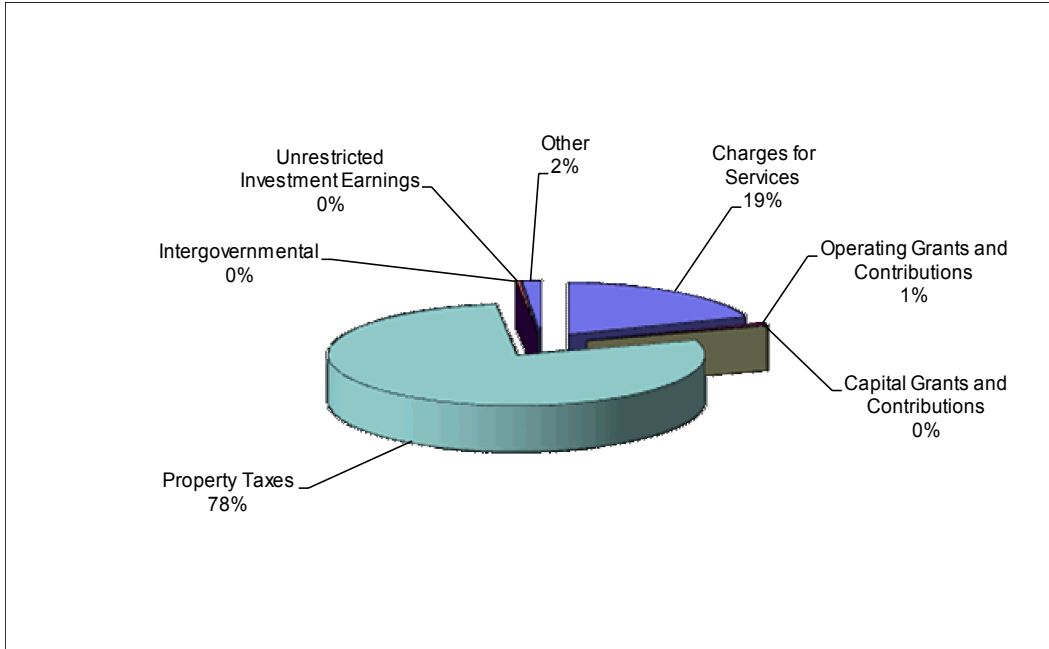
Governmental Activities. Governmental activities decreased the City's net position by \$52,788. Key elements of this decrease are as follows:

	Governmental Activities			
	2014	2013	Annual Change	Percent Change
REVENUES				
Program Revenues:				
Charges for Services	\$ 246,844	\$ 229,964	\$ 16,880	7 %
Operating Grants and Contributions	7,938	7,962	(24)	-
Capital Grants and Contributions	3,059	3,839	(780)	(20)
General Revenues:				
Property Taxes	996,538	965,843	30,695	3
Intergovernmental	155	212	(57)	(27)
Unrestricted Investment Earnings	3,126	290	2,836	978
Other	19,176	7,915	11,261	142
Total Revenues	<u>1,276,836</u>	<u>1,216,025</u>	<u>60,811</u>	5
EXPENSES				
General Government	295,691	256,768	38,923	15
Public Safety	418,778	409,195	9,583	2
Public Works	615,155	600,761	14,394	2
Interest on Long-Term Debt	-	2,259	(2,259)	(100)
Total Expenses	<u>1,329,624</u>	<u>1,268,983</u>	<u>60,641</u>	5
CHANGE IN NET POSITION	(52,788)	(52,958)	170	-
Net Position - Beginning of Year	<u>1,859,075</u>	<u>1,912,033</u>	<u>(52,958)</u>	(3)
NET POSITION - END OF YEAR	<u>\$ 1,806,287</u>	<u>\$ 1,859,075</u>	<u>\$ (52,788)</u>	(3)%

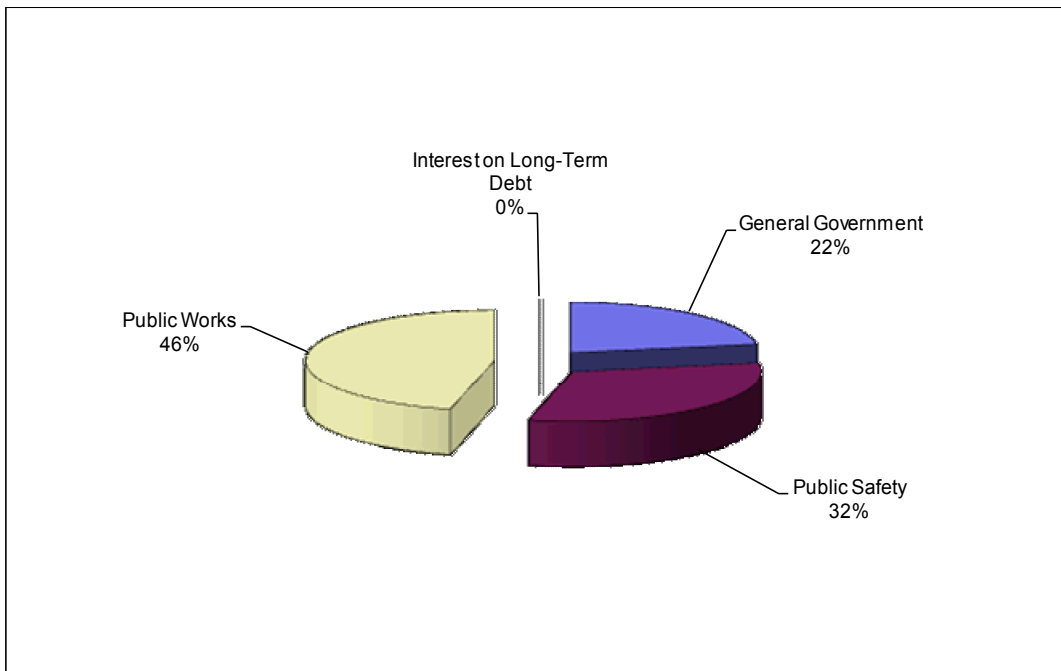
The City continues to stress reduction of overhead items reflected through reduced General Government spending. Emphasis on improved Public Works, primarily on the local road system, is reflected in the increased road spending. Snowfall continues to cause a fluctuation in spending. However, the City carries forward savings from low snow years to accommodate high snow years while keeping the property tax assessment level.

**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

The following is a graphical representation of the various sources of the City's 2014 governmental revenues of \$1,276,836:



The following is a graphical representation of the allocation of the City's 2014 governmental expenses of \$1,329,624:



**CITY OF GRANT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of December 31, 2014, totals \$661,221 (net of accumulated depreciation). This investment in capital assets includes land, City Hall, office equipment and roads.

Capital Assets at Year-End
(Net of Accumulated Depreciation)

	Governmental Activities	
	2014	2013
Land	\$ 142,000	\$ 142,000
Buildings and Building Improvements	47,500	47,500
Streets and Infrastructure	556,797	556,797
Equipment and Furniture	284,130	284,130
Less: Accumulated Depreciation	(369,206)	(327,986)
Capital Assets, Net	\$ 661,221	\$ 702,441

Additional information on capital assets is presented in Note 4 of this report.

Long-Term Debt. The City's last remaining outstanding debt issuance was paid in full in 2013 and the City had no additional debt activity in 2014. Therefore, the City had no outstanding debt balances at the end of 2014.

Economic Factors and Next Year's Budgets and Rates

- The City Council has prepared a balanced budget for the General Fund for 2014.
- The City is dependent upon the housing market for building permit revenue and the tax base.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Grant, P.O. Box 577 Willernie, Minnesota 55090-577.

BASIC FINANCIAL STATEMENTS

**CITY OF GRANT, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 1,301,504
Taxes Receivable	31,954
Special Assessments Receivable	47,075
Accounts Receivable - Net	33,451
Capital Assets:	
Non-Depreciable:	
Land	142,000
Depreciable:	
Blacktop, Sidewalks, and Streets	604,297
Furniture and Equipment	284,130
Total Capital Assets	<u>1,030,427</u>
Less: Accumulated Depreciation	<u>(369,206)</u>
Capital Assets, Net	<u>661,221</u>
Total Assets	<u>2,075,205</u>
LIABILITIES	
Accounts Payable	87,684
Salaries Payable	1,223
Escrow Accounts	157,011
Unearned Revenue	<u>23,000</u>
Total Liabilities	<u>268,918</u>
NET POSITION	
Net Investment in Capital Assets	661,221
Unrestricted	<u>1,145,066</u>
Total Net Position	<u><u>\$ 1,806,287</u></u>

See accompanying Notes to the Basic Financial Statements.

**CITY OF GRANT, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	Program Revenues				Net (Expense)
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Primary Government					Governmental
Governmental Activities:					Activities
General Government	\$ 295,691	\$ 236,403	\$ 7,938	\$ -	\$ (51,350)
Public Safety	418,778	10,441	-	-	(408,337)
Public Works	615,155	-	-	3,059	(612,096)
Total Governmental Activities	\$ 1,329,624	\$ 246,844	\$ 7,938	\$ 3,059	(1,071,783)
General Revenues:					
Property Taxes					996,538
Grants and Contributions Not Restricted for a Particular Purpose					155
Investment Earnings					3,126
Miscellaneous					19,176
Total General Revenues					1,018,995
CHANGE IN NET POSITION					(52,788)
Net Position - Beginning of Year					1,859,075
NET POSITION - END OF YEAR					\$ 1,806,287

See accompanying Notes to the Basic Financial Statements.

**CITY OF GRANT, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2014**

ASSETS	General	Jasmine Avenue Improvements of 2008	Total Governmental Funds
Cash and Investments	\$ 1,281,122	\$ 20,382	\$ 1,301,504
Taxes Receivable	31,954	-	31,954
Special Assessments Receivable	47,075	-	47,075
Accounts Receivable	33,451	-	33,451
Total Assets	\$ 1,393,602	\$ 20,382	\$ 1,413,984
LIABILITIES, FUND BALANCES AND DEFERRED INFLOWS OF RESOURCES			
LIABILITIES			
Accounts Payable	\$ 87,684	\$ -	\$ 87,684
Salaries Payable	1,223	-	1,223
Deposits Payable	157,011	-	157,011
Unearned Revenue	23,000	-	23,000
Total Liabilities	268,918	-	268,918
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	24,366	-	24,366
Unavailable Revenue - Special Assessments	47,075	-	47,075
Unavailable Revenue - Other	10,858	-	10,858
Total Deferred Inflows of Resources	82,299	-	82,299
FUND BALANCES			
Committed:			
Jasmine Avenue Improvements	-	20,382	20,382
Unassigned	1,042,385	-	1,042,385
Total Fund Balances	1,042,385	20,382	1,062,767
Total Liabilities, Fund Balances and Deferred Inflows of Resources	\$ 1,393,602	\$ 20,382	\$ 1,413,984

See accompanying Notes to the Basic Financial Statements.

**CITY OF GRANT, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,062,767

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 661,221

Other long-term assets are not available to pay for current-period expenditures and, therefore, are recorded as deferred inflows in the governmental funds. 82,299

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,806,287

**CITY OF GRANT, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2014**

	General	Jasmine Avenue Improvements of 2008	Total Governmental Funds
REVENUES			
Taxes	\$ 995,914	\$ -	\$ 995,914
Special Assessments	13,038	-	13,038
Licenses and Permits	130,986	-	130,986
Intergovernmental	8,093	-	8,093
Charges for Services	35,260	-	35,260
Fines and Forfeits	10,441	-	10,441
Investment Earnings	3,126	-	3,126
Franchise Fees	70,157	-	70,157
Miscellaneous	8,318	-	8,318
Total Revenues	<u>1,275,333</u>	<u>-</u>	<u>1,275,333</u>
EXPENDITURES			
CURRENT			
General Government	269,953	-	269,953
Public Safety	402,397	-	402,397
Public Works	597,570	-	597,570
CAPITAL OUTLAY			
Public Safety	18,484	-	18,484
Total Expenditures	<u>1,288,404</u>	<u>-</u>	<u>1,288,404</u>
NET CHANGE IN FUND BALANCES	(13,071)	-	(13,071)
Fund Balance - Beginning of Year	<u>1,055,456</u>	<u>20,382</u>	<u>1,075,838</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,042,385</u>	<u>\$ 20,382</u>	<u>\$ 1,062,767</u>

See accompanying Notes to the Basic Financial Statements.

**CITY OF GRANT, MINNESOTA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (13,071)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Depreciation	(41,220)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	1,503
	1,503

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (52,788)**

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The City of Grant, Minnesota was originally formed and operated pursuant to applicable Minnesota laws and statutes. On November 12, 1996, the City officially became the City of Grant. The City of Grant, Minnesota (the City) operates under the State of Minnesota Statutory Plan A form of government. The City Council, composed of an elected mayor and four elected trustees or council members, exercises legislative authority and determines all matters of policy.

Financial Reporting Entity

The accounting and reporting policies of the City relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements; GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant accounting policies.

The City's basic financial statements include the accounts of all City operations. For financial reporting purposes, the accompanying financial statements present those of the City (primary government) and component organizations over which the City exercises significant influence. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. Significant influence or accountability is based primarily on operational and financial relationships with the City. Component organizations are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component organization would render the financial statements of the City misleading.

Based on these criteria, there are no organizations considered to be component units of the City.

Basic Financial Statements

Government-Wide Statements

The government-wide financial statements, the statement of net position and the statement of activities (changes in net position) report information on all of the activities of the City as a whole. Governmental activities are normally supported by taxes and inter-governmental revenues. In general, the effect of interfund activity has been eliminated from the government-wide financial statements.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program or function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program or function, and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenue items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate fund financial statements are provided for Governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements. A fund is classified as a major fund if it is the primary operating fund of the City (General Fund) or meets certain criteria related to its assets, liabilities, deferred inflows of resources, revenues, and expenditures/expenses.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City uses funds to report on its financial position and the results of its operations. The City segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Government resources are allocated to and accounted for in individual funds based upon the purposes for which resources are to be spent and the means by which spending activities are controlled.

Governmental funds are those funds through which most governmental functions typically are financed. The City reports the following major governmental funds:

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

Jasmine Avenue Improvements of 2008 Fund – The Jasmine Avenue Improvements of 2008 capital projects fund accounts for the activity relating to the Jasmine Avenue Improvements Construction project.

CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources (cost of service) measurement focus and the accrual basis of accounting. The economic measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position.

Governmental fund financial statements are reported using a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual. Susceptible to accrual occurs when revenues become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, charges for services and investment income. Revenue sources not susceptible to accrual are recorded only when received because they are not measurable until collected. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures for principal and interest on general long-term debt, and expenditures related to compensated absences are recorded only when payment is made.

Cash and Investments

Cash and investments include cash on hand, demand deposits, and investments.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund statements, and an interfund payable in the fund with the deficit, until adequate resources are received.

Investments are stated at fair value based on quoted market prices.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by a deferred inflow of resources because it is not available to finance current expenditures. Deferred inflows of resources in governmental activities are susceptible to full accrual on the government-wide statements.

Special Assessments

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

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent and future special assessments receivable in governmental funds are completely offset by deferred inflows of resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

**CITY OF GRANT, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Assessments (Continued)

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to Minnesota Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

Capital Assets

Capital assets, which include property, buildings and improvements, equipment, and infrastructure assets, are reported in the government-wide financial statements. All capital assets are capitalized at historical cost or estimated cost if actual cost is not available. Assets with an initial and individual cost of \$5,000 or more with an estimated useful life in excess of one year are capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation. The City utilizes the prospective approach for accounting for infrastructure assets.

Capital assets acquired or constructed by governmental funds are recorded as expenditures in these funds. These capital assets are not capitalized in individual governmental funds but rather are reported only in the government-wide financial statements. Depreciation of capital assets is recorded as an allocated expense in the statement of activities for government-wide financial statements.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives of such assets are:

Assets	Years
Buildings and Structures	20 - 40
Infrastructure	25 - 40
Furniture, Fixtures and Equipment	10

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

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed in the year of the bond issuance.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

Unearned and Unavailable Revenue

Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in governmental funds in the current period. Unearned revenues also arise when the City receives resources before it has a legal claim to them or when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue or deferred inflow for unavailable revenue is eliminated and revenue is recognized.

Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements and is classified into three components:

- a) Net investment in capital assets – This component consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position – Net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation are reflected in this component.
- c) Unrestricted net position – All other aspects of net position that do not meet the definition of "restricted" or "net investment in capital assets."

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc.).

Committed – constraints are established and modified by a resolution approved by the City Council.

Assigned – consists of internally imposed constraints approved by the City Council.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

The City adopted a formal fund balance policy in 2012 which calls for the General fund to maintain a fund balance of 50% to 75% of total general operating expenditures. The policy did not give anyone the authority to assign fund balance and this must be done by Council action.

NOTE 2 CASH AND INVESTMENTS

Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the City maintains deposits at financial institutions which are authorized by the City Council.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the City’s deposits in banks at December 31, 2014 were \$1,301,332 and \$1,324,934, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes. The City also has \$172 in petty cash on hand.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.
- General obligations rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rated “A” or better.
- Obligations of a school district with an original maturity not exceeding 13 months which is (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to Minn. Stat. § 126C.55.
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

At year-end, all of the City’s funds are cash and cash equivalents and considered deposit, therefore there are no investment balances.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City’s investment policy doesn’t specifically address custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City’s investment policy doesn’t specifically address interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City’s investment policy doesn’t specifically address credit risk. The City’s money market fund was not rated at December 31, 2014.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government’s investments in a single issuer. The City does not have an investment policy which addresses the concentration of credit risk.

CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 3 RECEIVABLE

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Deferred Inflows of Resources - Unavailable Tax Revenue	\$ 24,366	\$ -
Deferred Inflows of Resources - Unavailable Special Assessments	47,075	-
Deferred Inflows of Resources - Unavailable Grant Revenue	10,858	-
Unearned Liquor Licenses	-	11,000
Unearned - Other	-	12,000
	<u>\$ 82,299</u>	<u>\$ 23,000</u>

NOTE 4 CAPITAL ASSETS (UNAUDITED)

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 142,000	\$ -	\$ -	\$ 142,000
Capital Assets, Being Depreciated:				
Buildings and Improvements	47,500	-	-	47,500
Infrastructure	556,797	-	-	556,797
Furniture, Fixtures and Equipment	284,130	-	-	284,130
Total Capital Assets, Being Depreciated	<u>888,427</u>	<u>-</u>	<u>-</u>	<u>888,427</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	47,500	-	-	47,500
Infrastructure	102,772	13,920	-	116,692
Furniture and Fixtures and Equipment	177,714	27,300	-	205,014
Total Accumulated Depreciation	<u>327,986</u>	<u>41,220</u>	<u>-</u>	<u>369,206</u>
Total Capital Assets, Being Depreciated, Net	<u>560,441</u>	<u>(41,220)</u>	<u>-</u>	<u>519,221</u>
Governmental Activities Capital Assets, Net	<u>\$ 702,441</u>	<u>\$ (41,220)</u>	<u>\$ -</u>	<u>\$ 661,221</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 26,558
Public Safety	742
Public Works	13,920
Total Depreciation Expense, Governmental Activities	<u>\$ 41,220</u>

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 RISK MANAGEMENT

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

The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT) to protect the City in the event of a loss. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. There have been no significant reductions in insurance coverage during 2014.

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

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

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)

Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a life time annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at 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 receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. That report may be obtained on the web at mnperra.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. The City of Grant is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013, and 2012 were \$3,770, \$3,386, and \$3,262, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 7 CONTINGENCIES

At December 31, 2014, the City was not aware of any existing or pending lawsuits, claims or other actions in which the City is a defendant, the outcome of which would materially affect the financial statements.

**CITY OF GRANT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8 CELL TOWER

The City receives revenue from an agreement for the lease of space at City Hall properties. The space is used for antennas and other equipment (of the lessees) necessary to provide communications. For accounting purposes, the leases are considered to be operating leases. Lease revenue for the year ended December 31, 2014 totaled \$22,867.

Amounts for future lease receipts are unavailable.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The City of Grant contracts with various outside parties to provide services to the City. For 2015 the City has entered into annual contracts with the Cities of Mahtomedi and Stillwater to provide fire services to the City of Grant. These contracts are in the amounts of \$125,619 and \$108,533, respectively. The City has also entered into an annual contract with the Washington County Sheriff's Department to provide police services for 2015. This contract is in the amount of \$119,433.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GRANT, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014**

	Original and Final Budget	Actual Amounts	Variance with Final Budget
REVENUES			
Taxes	\$ 994,252	\$ 995,914	\$ 1,662
Special Assessments	20,400	13,038	(7,362)
Intergovernmental:			
PERA Aid	-	155	155
Recycling Grant	8,000	7,938	(62)
Licenses and Permits	72,800	130,986	58,186
Charges for Services:			
Cable Salary Reimbursement	2,000	14,942	12,942
Tower Rental	21,750	20,318	(1,432)
Fines and Forfeits	10,000	10,441	441
Investment Earnings	1,500	3,126	1,626
Franchise Fees	70,260	70,157	(103)
Miscellaneous	6,120	8,318	2,198
Total Revenues	<u>1,207,082</u>	<u>1,275,333</u>	<u>68,251</u>
EXPENDITURES			
GENERAL GOVERNMENT			
Mayor and Council:			
Salaries	15,865	14,316	1,549
Finance	500	-	500
Elections	5,000	4,129	871
Total Mayor and Council	<u>21,365</u>	<u>18,445</u>	<u>2,920</u>
Finance:			
Clerk Salaries	53,766	53,560	206
Payroll Taxes and Benefits	7,980	8,312	(332)
Treasurer	4,000	4,000	-
Total Finance	<u>65,746</u>	<u>65,872</u>	<u>(126)</u>
Consultants:			
City Attorney	52,500	74,153	(21,653)
Audit and Accounting Fees	11,500	12,000	(500)
Engineering	22,000	29,227	(7,227)
Assessor	23,600	26,038	(2,438)
Total Consultants	<u>109,600</u>	<u>141,418</u>	<u>(31,818)</u>
Other Services and Charges	55,419	44,218	11,201
Total General Government	<u>252,130</u>	<u>269,953</u>	<u>(17,823)</u>
PUBLIC SAFETY			
Fire Protection:			
Contractual Services	216,838	227,333	(10,495)
Police Protection:			
Other Services and Charges	115,954	112,775	3,179
Animal Control	1,500	866	634
Building Inspections and Zoning	42,500	61,423	(18,923)
Capital Outlay	20,000	18,484	1,516
Total Public Safety	<u>396,792</u>	<u>420,881</u>	<u>(24,089)</u>

**CITY OF GRANT, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
EXPENDITURES (CONTINUED)			
PUBLIC WORKS			
Streets:			
Engineering	\$ 6,400	\$ 9,015	\$ (2,615)
Gravel and Road Maintenance	400,900	411,684	(10,784)
Snow and Ice Removal	105,000	88,111	16,889
Other Services and Charges	1,300	1,950	(650)
Total Streets	<u>513,600</u>	<u>510,760</u>	<u>2,840</u>
Pump House:			
Maintenance, Services and Charges	500	1,178	(678)
City Hall:			
Utilities	1,400	1,992	(592)
Maintenance, Services and Charges	13,678	28,528	(14,850)
Total City Hall	<u>15,078</u>	<u>30,520</u>	<u>(15,442)</u>
Recycling:			
Contractual Services	52,000	52,169	(169)
Miscellaneous	3,600	2,943	657
Total Public Works	<u>584,778</u>	<u>597,570</u>	<u>(12,792)</u>
 Total Expenditures	 <u>1,233,700</u>	 <u>1,288,404</u>	 <u>(54,704)</u>
 NET CHANGE IN FUND BALANCE	 <u><u>\$ (26,618)</u></u>	 <u>(13,071)</u>	 <u><u>\$ 13,547</u></u>
 Fund Balance - Beginning of Year		 <u>1,055,456</u>	
 FUND BALANCE - END OF YEAR		 <u><u>\$ 1,042,385</u></u>	

CITY OF GRANT, MINNESOTA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

The General Fund budget is legally adopted on a basis consistent with U.S. Generally Accepted Accounting Principles. The legal level of budgetary control is at the department level. The following is a listing of expenditures that exceeded budget appropriations.

	Final Budget	Actual	Actual in Excess of Budget
General Fund			
Consultants:			
City Attorney	\$ 52,500	\$ 74,153	\$ (21,653)
Audit and Accounting Fees	11,500	12,000	(500)
Engineering	22,000	29,227	(7,227)
Assessor	23,600	26,038	(2,438)
Public Safety:			
Fire Protection:	216,838	227,333	(10,495)
Building Inspections and Zoning	42,500	61,423	(18,923)
Streets:			
Gravel and Road Maintenance	400,900	411,684	(10,784)
Engineering	6,400	9,015	(2,615)
Other Services and Charges	1,300	1,950	(650)
Pump House:			
Maintenance, Services and Charges	500	1,178	(678)
City Hall:			
Utilities	1,400	1,992	(592)
Maintenance, Services, and Charges	13,678	28,528	(14,850)
Recycling			
Contractual Services	52,000	52,169	(169)

OTHER REPORTS SECTION



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**INDEPENDENT AUDITORS' REPORT
ON MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and
Members of the City Council
City of Grant, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the City of Grant as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 26, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, with the exception of tax increment financing which did not apply and as a result was not tested.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Grant failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 26, 2015



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

Honorable Mayor and
Members of the City Council
City of Grant, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the City of Grant, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Grant's basic financial statements, and have issued our report thereon dated May 26, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2014-001 to 2014-003.

Honorable Chairman and
Members of the Board
City of Grant

The City of Grant's Response to Findings

The City of Grant's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Grant's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 26, 2015

**CITY OF GRANT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2014**

2014-001

Material Weakness – Oversight of the Financial Reporting Process

Condition: The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America (GAAP). As such, the City relies on the audit firm to prepare the annual financial statements and related footnote disclosures.

Criteria: Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting financial statements to correct material misstatements.

Effect: The City relies on the audit firm to prepare the financial statements.

Cause: The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The City relies on the audit firm to prepare the annual financial statements, related footnote disclosures, and to verify balances are correct at year-end. However, they have reviewed and approved the annual financial statements and related footnote disclosure.

Recommendation: We recommend the City continued to evaluate its internal control processes to determine if additional internal control procedures should be implemented to modify year-end reconciling procedures.

Management Response: Due to the small size of the City's staff and the additional costs necessary to ensure proper controls are in place, the City has decided that the costs of implementing necessary controls for preparing the City's financial statements outweigh the benefits that would be derived. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the fair presentation of the financial statements without significant increases in the costs of implementing these controls.

CITY OF GRANT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2014

2014-002

Material Weakness – Limited Segregation of Duties

Condition: We noted during testing that the City has not properly segregated duties over certain areas. The City Council and management should be aware of this condition and should seek to adequately segregate duties which would reduce the chance of misstatement of the financials due to error or fraud.

Criteria: Generally a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. We noted that not all classes of transactions are segregated such that no one person has individual responsibility over them.

Effect: Lack of segregation of duties increases the possibility that error or irregularities in the financial statements may occur and not be detected on a timely basis.

Cause: The City has limited personnel to utilize in developing accounting policies to adequately segregate financial responsibilities.

Recommendation: We recommend that the City continued to evaluate its internal control structure to determine if additional procedures implemented or personnel added to ensure that controls are properly in place and accounting functions are properly segregated.

Management's Response: Due to the small size of the City's staff and the additional costs necessary to ensure proper controls are in place, the City has decided that costs of implementing the necessary controls outweigh the benefits that would be derived. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the segregation of duties without significantly increasing the costs of implementing those controls.

**CITY OF GRANT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2014**

2014-003

Material Weakness – Capital Asset Records

Condition: The City does not maintain detailed capital assets records including accumulated depreciation on each individual asset; therefore, we were unable to perform adequate audit procedures over the balances.

Criteria: Accounting principles generally accepted in the United States of America require that an amount for capital assets be based on historical cost records with depreciation on each asset.

Effect: The amounts included in the financial statements are estimates that are not based on a listing of individual assets.

Cause: The City has not established formal policies and procedures over the process of tracking capital assets as they are purchased and disposed of and calculating the corresponding accumulated depreciation.

Recommendation: We recommend that the City establish procedures to label and track each capital asset when it is purchased and calculate the yearly depreciation expense and accumulated depreciation. These procedures should include removal of the asset from the capital asset records when it is sold or disposed of.

Management's Response: The City will continue to review its policies and procedures surrounding capital assets and implement changes and improvements wherever practical.