

**CITY OF GRANT, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2011**

**CITY OF GRANT, MINNESOTA  
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## **INTRODUCTORY SECTION**

**CITY OF GRANT, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2011**

	<u>Term Expires:</u>
Mayor: Tom Carr	2012
Council Members	
Steve Bohnen	2014
Scott Fogelson	2014
Jeff Huber	2012
Dan Potter	2012
Clerk: Kim Points	
Treasurer: Sharon Schwarze	
Attorney: Eckber, Lammers, Briggs, Wolff & Vierling	

## **FINANCIAL SECTION**



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www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The City of Grant, Minnesota 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 assets of the governmental activities is not reasonably determined.

In our opinion, except for the effects of not maintaining detailed capital asset records as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Grant, Minnesota as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the basic financial statements, an error in the prior year's financial statements was identified resulting in the understatement of net assets of governmental activities and fund balance in the general fund. This error resulted from not recording a prepaid asset as of December 31, 2010. The financial statements include a restatement of beginning net assets on the government-wide statement of activities and beginning fund balance of the general fund to correct the error.

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

As discussed in the notes to the financial statements, the City of Grant, Minnesota adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City reporting restricted, committed, assigned and unassigned fund balances in its governmental funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2012 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule, as listed on 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.

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 30, 2012

**CITY OF GRANT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

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, 2011.

**Financial Highlights**

- The City's governmental activities net assets increased by \$52,167 during the year to \$1,881,174 at year-end.
- The fund balance of the General Fund increased by \$159,636 during the year to \$1,049,404 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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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. 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, 2011**

**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 maintains several 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, Debt Service 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 17-30 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 assets and how they have changed. Net assets, 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 assets can be used as an indicator of the City's financial position.

The City's financial position is the product of many factors. For example, the determination of the City's investment in capital assets, net of related debt 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 assets balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

**CITY OF GRANT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 1,361,946	\$ 1,190,645
Capital Assets, Net	1,011,876	1,071,876
Total Assets	<u>2,373,822</u>	<u>2,262,521</u>
Noncurrent Liabilities Outstanding	92,486	116,010
Other Liabilities	154,616	147,718
Total Liabilities	<u>247,102</u>	<u>263,728</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	650,319	729,618
Restricted	125,607	148,911
Unrestricted	1,105,248	915,196
Total Net Assets	<u>\$ 1,881,174</u>	<u>\$ 1,793,725</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,881,174 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. Cash assets increased and Land decreased with the one-time payment of \$60,000 on the long-term lease of the property on White Bear Lake.

The restricted net assets are for payment of the Debt Service used to finance the residents' portion of the cost to pave their gravel road. 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, 2011**

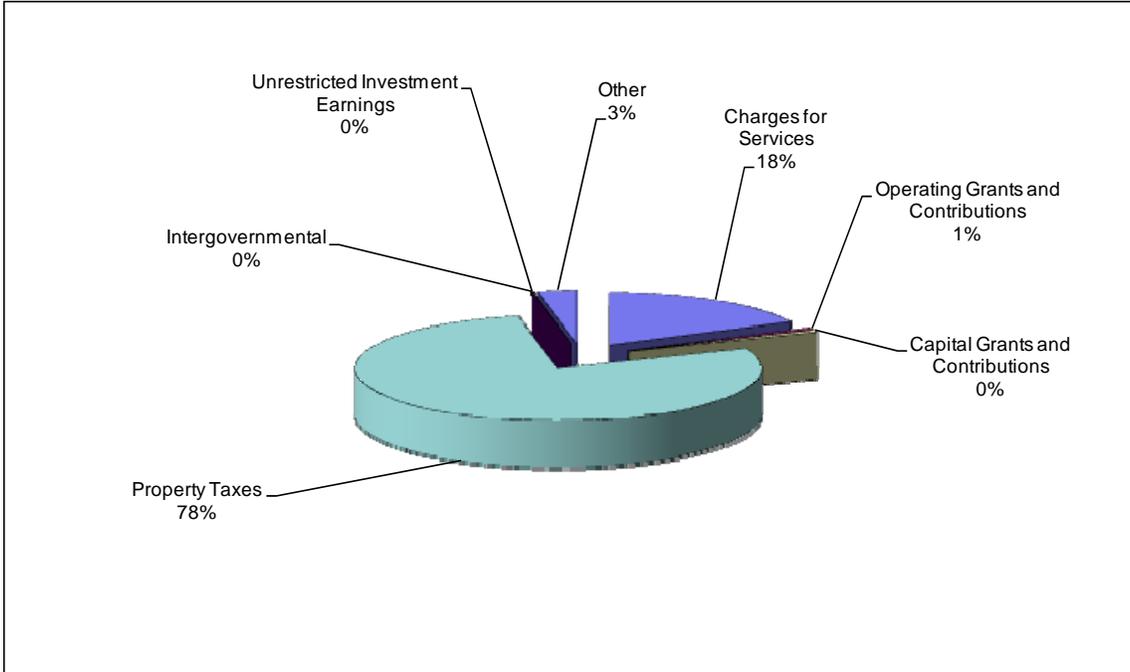
**Governmental Activities.** Governmental activities increased the City's net assets by \$52,167. Key elements of this increase are as follows:

	Governmental Activities			
	2011	2010	Annual Change	Percent Change
<b>REVENUES</b>				
Program Revenues:				
Charges for Services	\$ 203,600	\$ 171,675	\$ 31,925	19 %
Operating Grants and Contributions	7,962	19,707	(11,745)	(60)
Capital Grants and Contributions	6,643	14,865	(8,222)	(55)
General Revenues:				
Property Taxes	895,398	882,393	13,005	1
Intergovernmental	77	77	-	-
Unrestricted Investment Earnings	531	1,206	(675)	(56)
Other	35,551	5,955	29,596	497
Total Revenues	<u>1,149,762</u>	<u>1,095,878</u>	<u>53,884</u>	5
<b>EXPENSES</b>				
General Government	295,528	282,737	12,791	5
Public Safety	368,833	375,832	(6,999)	(2)
Public Works	424,466	488,504	(64,038)	(13)
Interest on Long-Term Debt	8,768	7,517	1,251	17
Total Expenses	<u>1,097,595</u>	<u>1,154,590</u>	<u>(56,995)</u>	(5)
<b>CHANGE IN NET ASSETS</b>	52,167	(58,712)	110,879	(189)
Net Assets - Beginning of Year	1,793,725	1,852,437		
Prior Period Adjustment	35,282	-		
Net Assets - Beginning of Year (as restated)	<u>1,829,007</u>	<u>1,852,437</u>	<u>(23,430)</u>	(1)
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,881,174</u>	<u>\$ 1,793,725</u>	<u>\$ 87,449</u>	5 %

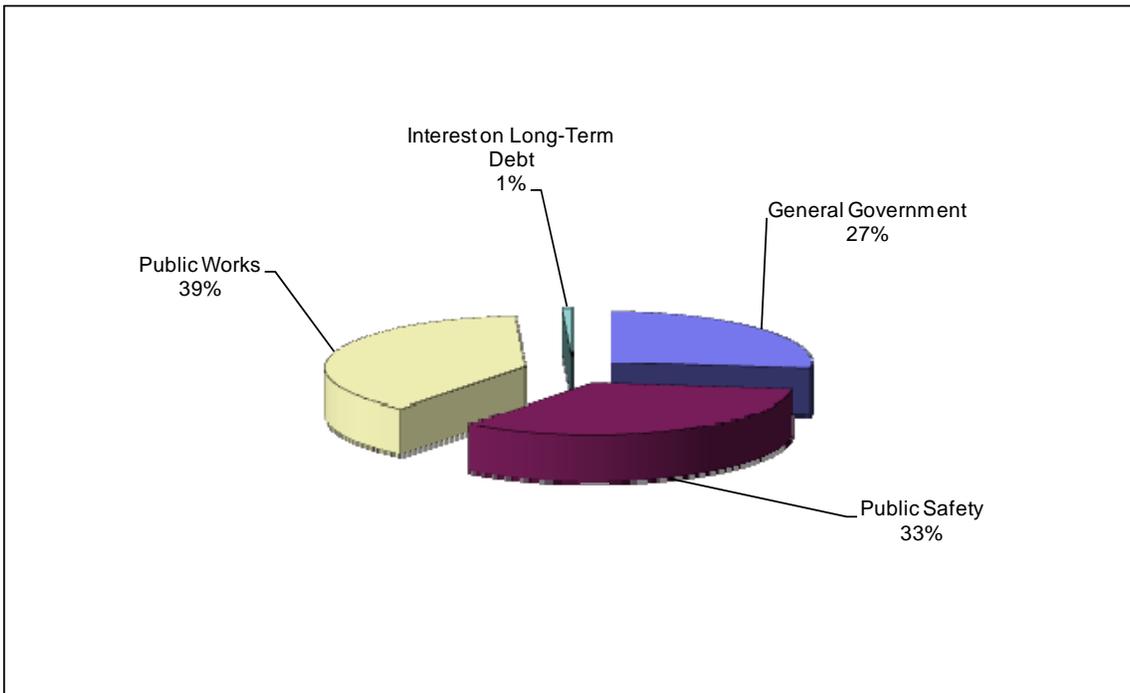
One time payments recorded in the Other Revenues category increased assets and income but will not be a recurring event. The savings in Public Works is due to a combination of reduced snow fall in 2011 and the negotiation of more favorable contracts for grading, gravel, blacktop patching and plowing. The use of local contractors has been very favorable for the City.

**CITY OF GRANT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

The following is a graphical representation of the various sources of the City's governmental revenues of \$1,149,762:



The following is a graphical representation of the various sources of the City's governmental expenses of \$1,097,313:



**CITY OF GRANT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental activities as of December 31, 2011, totals \$766,330 (net of accumulated depreciation). This investment in capital assets includes land, City Hall, office equipment and roads. The major change in capital assets is the long-term lease of the park land on White Bear Lake for \$60,000. Proceeds from this lease were used to cover the expenses incurred in connection with the property lawsuit and deferred maintenance on the City Hall.

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

	Governmental Activities	
	2011	2010
Land	\$ 142,000	\$ 202,000
Buildings and Building Improvements	47,500	47,500
Streets and Infrastructure	556,797	556,797
Equipment and Furniture	265,579	265,579
Less: Accumulated Depreciation	(245,546)	(205,068)
Capital Assets, Net	\$ 766,330	\$ 866,808

Additional information on capital assets is presented in Note 4 on page 26 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$116,011. All debt is backed by the full faith and credit of the City and special assessments on the resident's whose roads were improved.

Outstanding Debt at Year-End

	Governmental Activities	
	2011	2010
G.O. Improvement Bonds	\$ 116,011	\$ 137,190

Additional information on long-term debt is presented in Note 5 on page 27 of this report.

**CITY OF GRANT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

**Economic Factors and Next Year's Budgets and Rates**

- The City Council has prepared a balanced budget for the General Fund for 2012. The Finance Staff will continually monitor the budget and recommend any revisions that are deemed necessary to the City Council.
- City finance staff will continue monitoring the General Fund, delinquent taxes and investments in 2012 to ensure that the fund balances do not encounter any issues caused by the continued weak housing market and the general weakness in the economy.
- The City Council and financial staff will continue to be vigilant in regards to the fund balance levels and will continue to strive for conservative fiscal planning and policies that will protect the City's assets in the most economically responsible way to protect the long-term fiscal health of the City.

**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 ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	
	2011	2010
<b>ASSETS</b>		
Cash and Investments	\$ 1,214,116	\$ 992,589
Taxes Receivable	41,477	59,262
Special Assessments Receivable	92,577	117,012
Accounts Receivable - Net	13,776	21,782
Capital Assets:		
Non-Depreciable:		
Land	142,000	202,000
Depreciable:		
Blacktop, Sidewalks, and Streets	604,297	604,297
Furniture and Equipment	265,579	265,579
Total Capital Assets	1,011,876	1,071,876
Less: Accumulated Depreciation	(245,546)	(205,068)
Total Capital Assets, Net	766,330	866,808
Total Assets	2,128,276	2,057,453
<b>LIABILITIES</b>		
Accounts Payable	73,078	109,808
Salaries Payable	1,799	-
Escrow Accounts	42,821	5,530
Accrued Interest Payable	2,193	-
Unearned Revenue	11,200	11,200
Bonds Payable:		
Due Within One Year	23,525	21,180
Due in More than One Year	92,486	116,010
Total Liabilities	247,102	263,728
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	650,319	729,618
Restricted for Debt Service	125,607	148,911
Unrestricted	1,105,248	915,196
Total Net Assets	\$ 1,881,174	\$ 1,793,725

See accompanying Notes to Financial Statements.

**CITY OF GRANT, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
<b>Governmental Activities:</b>					
General Government	\$ 295,528	\$ 188,266	\$ 7,962	\$ -	\$ (99,300)
Public Safety	368,833	15,334	-	-	(353,499)
Public Works	424,466	-	-	6,643	(417,823)
Interest on long-term debt	8,768	-	-	-	(8,768)
<b>Total Governmental Activities</b>	<b>\$ 1,097,595</b>	<b>\$ 203,600</b>	<b>\$ 7,962</b>	<b>\$ 6,643</b>	<b>(879,390)</b>
<b>General Revenues:</b>					
Property Taxes					895,398
Grants and Contributions not Restricted for a Particular Purpose					77
Investment Earnings					531
Miscellaneous					35,551
Total General Revenues					<b>931,557</b>
<b>CHANGE IN NET ASSETS</b>					
Net Assets - Beginning of Year					1,793,725
Prior Period Adjustment (See Note 10)					35,282
Adjusted Net Assets - Beginning of Year					<b>1,829,007</b>
<b>NET ASSETS - END OF YEAR</b>					
					<b>\$ 1,881,174</b>

See accompanying Notes to Financial Statements.

**CITY OF GRANT, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2011**

	General	Debt Service Fund	Jasmine Avenue Improvements of 2008	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 1,158,511	\$ 35,223	\$ 20,382	\$ 1,214,116
Taxes Receivable	41,477	-	-	41,477
Special Assessments Receivable	-	92,577	-	92,577
Accounts Receivable	13,776	-	-	13,776
	<u>1,213,764</u>	<u>127,800</u>	<u>20,382</u>	<u>1,361,946</u>
Total Assets	<u>\$ 1,213,764</u>	<u>\$ 127,800</u>	<u>\$ 20,382</u>	<u>\$ 1,361,946</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 73,078	\$ -	\$ -	\$ 73,078
Salaries Payable	1,799	-	-	1,799
Deposits Payable	42,821	-	-	42,821
Deferred Revenue	46,662	92,357	-	139,019
Total Liabilities	<u>164,360</u>	<u>92,357</u>	<u>-</u>	<u>256,717</u>
<b>FUND BALANCES</b>				
Restricted:				
Debt Service	-	35,443	-	35,443
Committed:				
Sign Replacement	6,000	-	-	6,000
Jasmine Avenue Improvements	-	-	20,382	20,382
Assigned:				
Emergency Siren	15,000	-	-	15,000
Unassigned	1,028,404	-	-	1,028,404
Total Fund Balances	<u>1,049,404</u>	<u>35,443</u>	<u>20,382</u>	<u>1,105,229</u>
Total Liabilities and Fund Balances	<u>\$ 1,213,764</u>	<u>\$ 127,800</u>	<u>\$ 20,382</u>	<u>\$ 1,361,946</u>

See accompanying Notes to Financial Statements.

**CITY OF GRANT, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 1,105,229</b>
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Amounts reported for governmental activities in the statement of net assets 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.	766,330
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	127,819
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General Obligation Bonds	(116,011)
Accrued Interest Payable	<u>(2,193)</u>

<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 1,881,174</u></u></b>
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**CITY OF GRANT, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2011**

	General	Debt Service Fund	Jasmine Avenue Improvements of 2008	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 900,264	\$ -	\$ -	\$ 900,264
Special Assessments	-	31,298	-	31,298
Licenses and Permits	95,697	-	-	95,697
Intergovernmental	8,039	-	-	8,039
Charges for Services	23,253	-	-	23,253
Fines and Forfeits	15,334	-	-	15,334
Investment Earnings	531	-	-	531
Franchise Fees	69,316	-	-	69,316
Miscellaneous	35,551	-	-	35,551
Total Revenues	1,147,985	31,298	-	1,179,283
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
General Government	250,579	-	-	250,579
Public Safety	371,113	-	-	371,113
Public Works	406,423	-	-	406,423
<b>CAPITAL OUTLAY</b>				
General Government	20,234	-	-	20,234
<b>DEBT SERVICE</b>				
Principal	-	21,179	-	21,179
Interest	-	6,575	-	6,575
Total Expenditures	1,048,349	27,754	-	1,076,103
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	99,636	3,544	-	103,180
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Assets	60,000	-	-	60,000
<b>NET CHANGE IN FUND BALANCES</b>	159,636	3,544	-	163,180
Fund Balance (Deficit) - Beginning of Year	854,486	31,899	20,382	906,767
Prior Period Adjustment (See Note 10)	35,282	-	-	35,282
Adjusted Beginning Fund Balance	889,768	31,899	20,382	942,049
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<b>\$ 1,049,404</b>	<b>\$ 35,443</b>	<b>\$ 20,382</b>	<b>\$ 1,105,229</b>

See accompanying Notes to 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, 2011**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 163,180

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 (40,478)

In the statement of activities, only the gain or loss on the disposal of capital assets are reported whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net cost of the capital assets disposed of.

(60,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

(29,521)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal Repayments 21,179

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Accrued Interest Payable (2,193)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 52,167

**CITY OF GRANT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**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 assets and the statement of activities (changes in net assets) 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.

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.

**CITY OF GRANT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements (Continued)**

**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, 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.

**Debt Service Fund** – The Debt Service fund accounts for debt service payments of principal, interest, and related costs to pay the debt obligations of the City.

**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 assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets.

**CITY OF GRANT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting (Continued)**

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow subsequent private-sector guidance.

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, 2011**

**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 deferred revenue because it is not available to finance current expenditures. Deferred revenue in governmental activities is 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, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues. 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, 2011**

**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.

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, 2011**

**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 deferred and amortized over the life of the bonds using the straight-line method. Bond issue costs, if material, are reported as prepaid items and amortized over the term of the related debt using the straight-line method.

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 an other 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.

**Deferred Revenue**

Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in governmental funds in the current period. Deferred 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 deferred revenue is eliminated and revenue is recognized.

**Net Assets**

Net assets represent the difference between assets and liabilities in the government-wide financial statements and are classified into three components:

- a) Invested in capital assets, net of related debt – 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 assets – Net assets 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 assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Balance**

At December 31, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**CITY OF GRANT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance (Continued)**

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 does not have a formal fund balance policy.

**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 assets 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.

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.

**CITY OF GRANT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Deposits (Continued)**

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, 2011 were \$490,187 and \$547,977, respectively, and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**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.
- 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.
- 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.

**CITY OF GRANT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

At year-end, the City's investment balances were as follows:

Type	Total	12 Months or Less
Money Market Fund	\$ 722,771	\$ 772,771
	\$ 722,771	\$ 772,771

***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.

***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.

**NOTE 3 RECEIVABLE**

Significant receivable balances not expected to be collected within one year of December 31, 2011 are as follows:

	General	Debt Service	Total
Delinquent Property Taxes Receivable	\$ 19,997	\$ -	\$ 19,997
Special Assessments Receivable: Deferred - Debt Services	-	68,788	68,788
	\$ 19,997	\$ 68,788	\$ 88,785

**CITY OF GRANT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**NOTE 3 RECEIVABLE (CONTINUED)**

Governmental funds report deferred revenue 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 revenue and unearned revenue reported in the governmental funds are as follows:

	Unavailable	Unearned
Delinquent Property Taxes Receivable (General Fund)	\$ 35,462	\$ -
Deferred Special Assessments Receivable (Debt Service Fund)	92,357	-
Unearned Liquor Licenses	-	11,200
	<u>\$ 127,819</u>	<u>\$ 11,200</u>

**NOTE 4 CAPITAL ASSETS (UNAUDITED)**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 202,000	\$ -	\$ 60,000	\$ 142,000
Capital Assets, Being Depreciated:				
Buildings and Improvements	47,500	-	-	47,500
Infrastructure	556,797	-	-	556,797
Furniture, Fixtures and Equipment	265,579	-	-	265,579
Total Capital Assets, Being Depreciated	<u>869,876</u>	<u>-</u>	<u>-</u>	<u>869,876</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	47,500	-	-	47,500
Infrastructure	61,012	13,920	-	74,932
Furniture and Fixtures and Equipment	96,556	26,558	-	123,114
Total Accumulated Depreciation	<u>205,068</u>	<u>40,478</u>	<u>-</u>	<u>245,546</u>
Total Capital Assets, Being Depreciated, Net	<u>664,808</u>	<u>(40,478)</u>	<u>-</u>	<u>624,330</u>
Governmental Activities Capital Assets, Net	<u>\$ 866,808</u>	<u>\$ (40,478)</u>	<u>\$ 60,000</u>	<u>\$ 766,330</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 26,558
Public Works	13,920
Total Depreciation Expense, Governmental Activities	<u>\$ 40,478</u>

**CITY OF GRANT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**NOTE 5 LONG-TERM DEBT**

As of December 31, 2011, the governmental long-term bonded debt of the City consisted of the following:

	Final Maturity Date	Interest Rate	Original Issue	Balance December 31, 2011
Governmental Activities:				
General Obligation Bonds:				
G.O. Improvement Bonds - 2003	12/31/2013	4.02%	\$ 100,000	\$ 11,774
G.O. Improvement Bonds - 2008	2/1/2019	5.05%	130,000	104,237
Total Bonds			<u>\$ 230,000</u>	<u>\$ 116,011</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended	G.O. Improvement Bonds	
	Principal	Interest
2012	\$ 23,525	\$ 5,582
2013	12,352	4,516
2014	12,984	3,884
2015	13,648	3,220
2016	14,346	2,523
2017-2019	39,156	3,018
Total	<u>\$ 116,011</u>	<u>\$ 22,743</u>

Long-term debt activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
GO Improvement Bonds 2003	\$ 21,774	\$ -	\$ 10,000	\$ 11,774	\$ 11,774
GO Improvement Bonds 2008	115,416	-	11,179	104,237	11,751
Total	<u>\$ 137,190</u>	<u>\$ -</u>	<u>\$ 21,179</u>	<u>\$ 116,011</u>	<u>\$ 23,525</u>

**CITY OF GRANT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**NOTE 6 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 2011.

**NOTE 7 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, Chapter 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, 2011**

**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 GERF. That report may be obtained on the web at [mnpera.org](http://mnpera.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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. 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, 2011, 2010, and 2009 were \$3,262, \$3,143, and \$2,536, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 8 CONTINGENCIES**

At December 31, 2011, 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, 2011**

**NOTE 9 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, 2011 totaled \$21,129.

Amounts for future lease receipts are unavailable.

**NOTE 10 PRIOR PERIOD ADJUSTMENT**

During the audit, it was noted that an error occurred resulting in the understatement of fund balance in the General fund due to not recording a prepaid asset for fire protection services as of December 31, 2010. The financial statements include a restatement of beginning fund balance and beginning net assets on the government-wide statement of activities to correct the error in the amount of \$35,282.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF GRANT, MINNESOTA  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2011**

	Original and Final Budget	Actual Amounts	Variance with Final Budget
<b>REVENUES</b>			
Taxes	\$ 911,853	\$ 900,264	\$ (11,589)
Intergovernmental:			
PERA Aid	-	77	77
Recycling Grant	6,500	7,962	1,462
Licenses and Permits	96,500	95,697	(803)
Charges for Services			
Cable Salary Reimbursement	1,000	2,124	1,124
Tower Rental	19,000	21,129	2,129
Fines and Forfeits	14,000	15,334	1,334
Investment Earnings	3,000	531	(2,469)
Franchise Fees	65,000	69,316	4,316
Miscellaneous	1,300	35,551	34,251
Total Revenues	1,118,153	1,147,985	29,832
<b>EXPENDITURES</b>			
<b>GENERAL GOVERNMENT</b>			
Mayor and Council:			
Salaries	15,631	14,695	936
Finance	1,500	290	1,210
Elections	200	-	200
Total Mayor and Council	17,331	14,985	2,346
Finance:			
Clerk Salaries	44,000	46,142	(2,142)
Payroll Taxes and Benefits	6,446	7,351	(905)
Treasurer	6,459	4,000	2,459
Total Finance	56,905	57,493	(588)
Consultants:			
City Attorney	62,500	55,133	7,367
Audit and Accounting Fees	16,000	17,718	(1,718)
Engineering	22,000	24,094	(2,094)
Assessor	28,500	10,865	17,635
Total Consultants	129,000	107,810	21,190
Other Services and Charges	55,600	70,291	(14,691)
Capital Outlay	-	20,234	(20,234)
Total General Government	258,836	270,813	(11,977)
<b>PUBLIC SAFETY</b>			
Fire Protection:			
Contractual Services	218,400	205,010	13,390
Police Protection:			
Other Services and Charges	103,000	103,359	(359)
Animal Control	3,000	1,225	1,775
Building Inspections and Zoning	64,575	61,519	3,056
Total Public Safety	388,975	371,113	17,862

**CITY OF GRANT, MINNESOTA  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>EXPENDITURES (CONTINUED)</b>			
<b>PUBLIC WORKS</b>			
Streets:			
Engineering	6,400	10,253	(3,853)
Gravel and Road Maintenance	313,000	258,211	54,789
Snow and Ice Removal	110,000	69,179	40,821
Other Services and Charges	3,000	3,815	(815)
Total Streets	<u>432,400</u>	<u>341,458</u>	<u>90,942</u>
Pump House:			
Maintenance, Services and Charges	500	643	(143)
City Hall:			
Utilities	2,000	1,394	606
Maintenance, Services and Charges	5,150	6,622	(1,472)
Total City Hall	<u>7,150</u>	<u>8,016</u>	<u>(866)</u>
Recycling:			
Contractual Services	51,000	51,890	(890)
Miscellaneous	6,150	4,416	1,734
Total Public Works	<u>497,200</u>	<u>406,423</u>	<u>90,777</u>
Total Expenditures	<u>1,145,011</u>	<u>1,048,349</u>	<u>96,662</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(26,858)	99,636	126,494
<b>OTHER FINANCING SOURCES</b>			
Proceeds from Sale of Assets	-	60,000	60,000
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (26,858)</u>	159,636	<u>\$ 186,494</u>
Fund Balance - Beginning of Year		854,486	
Prior Period Adjustment (See Note 10)		<u>35,282</u>	
Beginning Fund Balance (as restated)		<u>889,768</u>	
<b>FUND BALANCE - END OF YEAR</b>		<u>\$ 1,049,404</u>	

**CITY OF GRANT, MINNESOTA  
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED DECEMBER 31, 2011**

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			
Finance:			
Clerk Salaries	\$ 44,000	\$ 46,142	\$ (2,142)
Consultants:			
Audit and Accounting Fees	16,000	17,718	(1,718)
Engineering	22,000	24,094	(2,094)
Other Services and Charges	55,600	70,291	(14,691)
Capital Outlay	-	20,234	(20,234)
Public Safety:			
Police Protection	103,000	103,359	(359)
Streets:			
Engineering	6,400	10,253	(3,853)
Other Services and Charges	3,000	3,815	(815)
City Hall:			
Maintenance, Services, and Charges	5,150	6,622	(1,472)
Recycling			
Contractual Services	51,000	51,890	(890)

## **OTHER REPORTS SECTION**



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## REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities and each major fund which collectively comprise the basic financial statements of the City of Grant, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 30, 2012.

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories with the exception of tax increment financing which did not apply and as a result was not tested.

The results of our tests indicate that for the items tested, the City of Grant, Minnesota, complied with the material terms and conditions of applicable legal provisions except with regards to retaining critical documentation as they were unable to locate the original documentation for one of the outstanding bond issuances.

This report is intended solely for the information and use of the City of Grant, Minnesota, management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 30, 2012



**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 the 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Honorable Mayor and  
Members of the City Council

### **Limited Segregation of Duties**

**Condition:** Due to the City's limited number of office personnel, segregation of the accounting functions that is necessary to ensure adequate internal accounting control may not be possible. This is not unusual in an operation the size of the City; however, the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

**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.

**Effect:** The City is unable to maintain segregation of incompatible duties.

**Cause:** Limited number of personnel involved in the finance office.

**Recommendation:** This area should be reviewed periodically and consideration given to improving the segregation of duties. In making this review, it is most important to consider the benefit derived as weighed against the cost of the improvements. Management feels it is currently not economically feasible for the City to hire additional staff in order to adequately segregate all incompatible duties. Therefore, the City Council needs to be sufficiently involved in the oversight process and controls and responsibilities should be reviewed periodically.

### **Management Response:**

The City Council continues to be aware of the lack of segregation of duties and actively reviews the monthly statements and bill list to maintain controls. At this time it is not economically feasible to add staff.

### **Material Audit Adjustments - Internal Control over the Financial Reporting Process**

**Condition:** The audit firm proposed, and the City posted to its general ledger accounts, journal entries to correct misstatements for cash, receivables, accounts payable, escrow deposits, fund balance, payroll, revenues, and expenditures. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control processes.

**Criteria:** The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

**Effect:** Significant audit adjustments were required to bring the financial statements into accordance with U.S. generally accepted accounting principles (GAAP).

Honorable Mayor and  
Members of the City Council

**Material Audit Adjustments - Internal Control over the Financial Reporting Process (Continued)**

**Cause:** The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**Recommendation:** We recommend the City continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**Management Response:**

The City will continue to work with the auditors to improve accounting procedures.

**Oversight of the Financial Reporting Process**

**Condition:** The City does not have an internal control policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls. A prior period adjustment was discovered in the current year relating to a prepaid expense that was not recorded in the prior year.

**Criteria:** The City must be able to prevent or detect a material misstatement in the annual financial statements, including footnote disclosures.

**Effect:** Departures from accounting principles generally accepted in the United States of America would not necessarily be detected by management.

**Cause:** The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

**Recommendation:** The City should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial.

**Management Response:**

The City's internal staff does not have the resources to provide internal control over the annual financial reporting under GAAP. However, annual financial statements are closely reviewed and discussed with the audit firm. The City relies on the audit firm to prepare annual financial statements. The additional cost of providing internal annual financial reporting outweighs the benefits that would be derived.

Honorable Mayor and  
Members of the City Council

**Compliance and Other Matters**

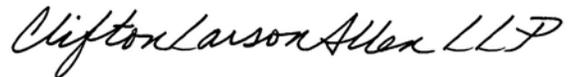
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

We noted certain matters that we reported to the management of the City of Grant in a separate letter dated May 30, 2012.

\* \* \* \* \*

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

This report is intended solely for the information and use of the City Council, management, the Office of the Minnesota State Auditor, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 30, 2012