

**CITY OF GRANT, MINNESOTA**

**ANNUAL FINANCIAL REPORT**

December 31, 2010

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

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**CITY OF GRANT, MINNESOTA**  
ELECTED AND APPOINTED OFFICIALS  
December 31, 2010

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Mayor:

Tom Carr

Council Members:

Scott Fogelson

Brad Hinseth

Jeff Huber

Dan Potter

Administrator/Clerk:

Kim Points

Treasurer:

Robert Mikkelsen

Attorney:

Eckberg, Lammers, Briggs, Wolff and Vierling

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## **II. FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Grant, Minnesota, as of and for the year ended December 31, 2010, 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 of Grant, Minnesota's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the City of Grant, Minnesota's 2009 financial statements and, in our report dated July 28, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

The City of Grant, Minnesota does not maintain detailed capital asset records including accumulated depreciation and has not computed depreciation on those assets. 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Grant, Minnesota, as of December 31, 2010, and the respective changes in

financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011 on our consideration of the City of Grant, Minnesota's internal control over financial reporting and 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 do not 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 read in conjunction with this report in considering the results of our audit.

The City of Grant, Minnesota has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32 through 34, 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 of Grant, Minnesota's financial statements as a whole. The introductory section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

May 31, 2011

## **BASIC FINANCIAL STATEMENTS**

**CITY OF GRANT, MINNESOTA****STATEMENT OF NET ASSETS**

December 31, 2010

With Comparative Totals For December 31, 2009

**Statement 1**

	Primary Government	
	Governmental Activities	
	2010	2009
Assets:		
Cash and cash equivalents	\$992,589	\$942,528
Property taxes receivable	59,262	59,896
Special assessments receivable	117,012	145,390
Accounts receivable	21,782	41,521
Capital assets (net of accumulated depreciation):		
Land	202,000	202,000
Blacktop, sidewalks and streets	495,785	509,705
Furniture and equipment	169,023	188,054
Total assets	<u>2,057,453</u>	<u>2,089,094</u>
Liabilities:		
Accounts payable	109,808	70,056
Escrow accounts	5,530	8,777
Unearned revenue	11,200	-
Bonds payable:		
Due within one year	21,180	20,634
Due in more than one year	116,010	137,190
Total liabilities	<u>263,728</u>	<u>236,657</u>
Net assets:		
Invested in capital assets, net of related debt	729,618	741,935
Restricted for:		
Debt service	148,911	249,844
Unrestricted	915,196	860,658
Total net assets	<u>\$1,793,725</u>	<u>\$1,852,437</u>

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

**CITY OF GRANT, MINNESOTA**

**STATEMENT OF ACTIVITIES**

**Statement 2**

For The Year Ended December 31, 2010

With Comparative Totals For The Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	
					<u>Totals</u>	
		<u>2010</u>	<u>2009</u>			
Primary government:						
Governmental activities:						
General government	\$282,737	\$158,128	\$19,707	\$6,843	(\$98,059)	(\$57,627)
Public safety	375,832	13,547	-	-	(362,285)	(357,068)
Public works	488,504	-	-	8,022	(480,482)	(377,467)
Interest on long-term debt	7,517	-	-	-	(7,517)	(7,567)
Total governmental activities	<u>1,154,590</u>	<u>171,675</u>	<u>19,707</u>	<u>14,865</u>	<u>(948,343)</u>	<u>(799,729)</u>
Total primary government	<u>\$1,154,590</u>	<u>\$171,675</u>	<u>\$19,707</u>	<u>\$14,865</u>	<u>(948,343)</u>	<u>(799,729)</u>
General revenues:						
General property taxes					882,393	917,786
Grants and contributions not restricted to specific programs					77	77
Investment income					1,206	9,133
Miscellaneous					5,955	4,362
Proceeds from sale of capital asset					-	135,000
Total general revenues					<u>889,631</u>	<u>1,066,358</u>
Change in net assets					<u>(58,712)</u>	<u>266,629</u>
Net assets - January 1, as previously reported					1,852,437	1,540,463
Prior period adjustments					-	45,345
Net assets - January 1, as restated					<u>1,852,437</u>	<u>1,585,808</u>
Net assets - December 31					<u>\$1,793,725</u>	<u>\$1,852,437</u>

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

**CITY OF GRANT, MINNESOTA**

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2010

With Comparative Totals For December 31, 2009

**Statement 3**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Jasmine Avenue Improvements of 2008</u>	<u>Total Governmental Funds</u>	
				2010	2009
<b>Assets</b>					
Cash and cash equivalents	\$940,308	\$31,899	\$20,382	\$992,589	\$942,528
Property taxes receivable	59,262	-	-	59,262	59,896
Special assessments receivable	-	117,012	-	117,012	145,390
Accounts receivable	21,782	-	-	21,782	41,521
<b>Total assets</b>	<u>\$1,021,352</u>	<u>\$148,911</u>	<u>\$20,382</u>	<u>\$1,190,645</u>	<u>\$1,189,335</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$109,808	\$ -	\$ -	\$109,808	\$70,056
Escrow accounts	5,530	-	-	5,530	8,777
Deferred revenue	51,528	117,012	-	168,540	176,806
<b>Total liabilities</b>	<u>166,866</u>	<u>117,012</u>	<u>0</u>	<u>283,878</u>	<u>255,639</u>
<b>Fund balance:</b>					
Reserved	-	31,899	-	31,899	23,651
Unreserved - undesignated	854,486	-	20,382	874,868	910,045
<b>Total fund balance</b>	<u>854,486</u>	<u>31,899</u>	<u>20,382</u>	<u>906,767</u>	<u>933,696</u>
<b>Total liabilities and fund balance</b>	<u>\$1,021,352</u>	<u>\$148,911</u>	<u>\$20,382</u>	<u>\$1,190,645</u>	<u>\$1,189,335</u>
Fund balance reported above				\$906,767	\$933,696
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				866,808	899,759
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.				157,340	176,806
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				<u>(137,190)</u>	<u>(157,824)</u>
<b>Net assets of governmental activities</b>				<u>\$1,793,725</u>	<u>\$1,852,437</u>

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

**CITY OF GRANT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2010  
With Comparative Totals For The Year Ended December 31, 2009

**Statement 4**

	General Fund	Debt Service Fund	Jasmine Avenue Improvements of 2008	Total Governmental Funds	
				2010	2009
<b>Revenues:</b>					
General property taxes	\$873,482	\$ -	\$ -	\$873,482	\$907,354
Special assessments	-	36,400	-	36,400	50,012
Franchise fees	66,638	-	-	66,638	66,073
Licenses and permits	69,741	-	-	69,741	105,546
Intergovernmental	8,040	-	-	8,040	6,545
Charges for services	29,336	-	-	29,336	53,797
Investment income	1,206	-	-	1,206	9,133
Contributions	11,000	-	-	11,000	-
Miscellaneous	19,502	-	-	19,502	155,963
<b>Total revenues</b>	<b>1,078,945</b>	<b>36,400</b>	<b>0</b>	<b>1,115,345</b>	<b>1,354,423</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	256,863	-	-	256,863	266,982
Public safety	375,832	-	-	375,832	373,669
Public works	474,584	-	-	474,584	379,767
<b>Capital outlay:</b>					
General government	6,843	-	-	6,843	33,443
Public works	-	-	-	-	58,542
<b>Debt service:</b>					
Principal payments	-	20,635	-	20,635	56,494
Interest expense	-	7,517	-	7,517	7,567
<b>Total expenditures</b>	<b>1,114,122</b>	<b>28,152</b>	<b>0</b>	<b>1,142,274</b>	<b>1,176,464</b>
<b>Revenues over (under) expenditures</b>	<b>(35,177)</b>	<b>8,248</b>	<b>0</b>	<b>(26,929)</b>	<b>177,959</b>
Fund balance - January 1, as previously reported	889,663	23,651	20,382	933,696	710,392
Prior period adjustment	-	-	-	-	45,345
Fund balance - January 1, as restated	889,663	23,651	20,382	933,696	755,737
Fund balance - December 31	\$854,486	\$31,899	\$20,382	\$906,767	\$933,696

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

**CITY OF GRANT, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2010  
With Comparative Totals For The Year Ended December 31, 2009

**Statement 5**

Amounts reported for governmental activities in the statement of activities (statement 2) are different because:

Net changes in fund balances - total governmental funds (statement 4)			(\$26,929)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			(19,467)
Governmental funds report capital outlays 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.			
Capital outlay		6,843	
Depreciation expense		<u>(39,794)</u>	
Net adjustment			(32,951)
The issuance of long-term debt provides current financial resources for governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.			
Principal payments			<u>20,635</u>
Change in net assets of governmental activities (statement 2)			<u><u>(\$58,712)</u></u>

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

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Grant, Minnesota was originally formed and operated pursuant to applicable Minnesota laws and statutes. On November 12, 1996, the Town 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.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The City does not have any component units.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City does not have any business-type activities.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and

**CITY OF GRANT, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

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similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of, principal, interest and related costs to pay the debt obligations of the City.

The *Jasmine Avenue Improvements of 2008* accounts for the activity relating to the Jasmine Avenue Improvements Construction project.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary-fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for an allowable use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. BUDGETS**

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General Fund. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash management.

#### **E. LEGAL COMPLIANCE - BUDGETS**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The proposed budget is submitted to the mayor and City council for their review or modification.
2. Once the budget modifications have been made, the City council adopts the budget by resolution no later than December of each year. The budget is set forth at the function level for the General Fund.
3. Formal budget integration is not employed for Debt Service Funds. Debt Service Funds budgetary control is alternatively achieved through bond indenture provisions.
4. Budgets for the General Fund are adopted on a basis consistent with U.S. Generally Accepted Accounting Principles (GAAP).
5. Budget appropriations lapse at the end of the City's fiscal year.

#### **F. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

Investments are stated at fair value, based upon quoted market prices, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

**G. PROPERTY TAX REVENUE RECOGNITION**

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 7 and December 2 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

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 January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) and taxes and credits not received at 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 they are not available to finance current expenditures.

**H. MARKET VALUE HOMESTEAD CREDIT**

Property taxes on residential agricultural homestead property (as defined by State Statutes) are partially reduced by market value homestead credit (MVHC). This credit is paid to the City by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The credit is recognized as revenue by the City at the time of collection.

**I. SPECIAL ASSESSMENT REVENUE RECOGNITION**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State 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.

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. Proceeds of sales from tax forfeit properties are remitted to the City in payment of delinquent special assessments. Pursuant to State 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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 that are collected by the County by December 31 (remitted to the City the following January) are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funding are completely offset by deferred revenues.

**J. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* effective January 1, 2010. GASB Statement No. 51 required the City to capitalize and amortize intangible assets. Intangible assets include easements and computer software. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of intangible assets is not required

**CITY OF GRANT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2010

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under the provision of GASB Statement No. 51. The City has elected not to report intangible assets acquired in years prior to 2010. The City did not acquire any intangible assets for the year ending December 31, 2010.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	
Buildings and structures	20 - 40 years
Streets	25 - 40 years
Furniture and equipment	5 -10 years

**K. LONG-TERM OBLIGATIONS**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**L. FUND EQUITY**

In the fund financial statements, governmental funds report reservations of fund balance for amounts not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**M. USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**N. COMPARATIVE TOTALS**

The basic financial statements and required supplementary information include certain prior-year summarized comparative information in total but not at the level of detail required for a

presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City 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 bonds.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes and treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) Unrated general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and
- f) Time deposits that are fully insured by any Federal agency.

At December 31, 2010, the carrying amount of the City's deposits were (\$57,703) and the bank balance was \$47,320.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State Statutes require that insurance, surety bonds or collateral protect all City deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. As of December 31, 2010, the bank balance of the City's deposits was covered by federal depository insurance or covered by collateral pledged and held in the City's name.

**B. INVESTMENTS**

Minnesota Statutes authorize the City to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	
	<u>Fair Value</u>	<u>Less Than 1</u>
Brokered certificates of deposit	\$300,000	\$300,000
Money market fund	750,120	750,120
Total	<u>\$1,050,120</u>	<u>\$1,050,120</u>
Total investments		\$1,050,120
Deposits		(57,703)
Petty cash		172
Total cash and investments		<u>\$992,589</u>

### C. INVESTMENT RISKS

Custodial credit risk – investments – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The City does not have an investment policy that addresses custodial risk. However, investments in securities are held by the City’s broker-dealer of which \$500,000 is insured through SIPC. Each broker-dealer has provided additional protection by providing additional insurance. This insurance is subject to aggregate limits applied to all of the broker-dealers’ accounts.

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. State law limits investments to commercial paper to those rated in the highest quality category by at least two nationally recognized rating agencies; in any security of the State of Minnesota or any of its municipalities which is rated “A” or better by a national bond rating service for general obligation and rated “AA” or better for a revenue obligation; a general obligation of the Minnesota Housing Finance Agency to those rated “A” or better by a national bond rating agency; mutual funds or money market funds whose investments are restricted to securities described in MS 118A.04. The City’s investment policy does not place further restrictions on investment options.

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

**CITY OF GRANT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

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**Note 3 RECEIVABLES**

Significant receivables balances not expected to be collected within one year of December 31, 2010 are as follows:

	<u>Major Fund</u>		<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	
Special assessments receivable	\$ -	\$91,988	\$91,988
Delinquent property taxes	<u>15,912</u>	<u>-</u>	<u>15,912</u>
Total	<u><u>\$15,912</u></u>	<u><u>\$91,988</u></u>	<u><u>\$107,900</u></u>

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 were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$40,328	\$ -
Deferred special assessments receivable (Debt Service Fund)	117,012	-
Unearned liquor licenses	<u>-</u>	<u>11,200</u>
Total deferred/unearned revenue for governmental funds	<u><u>\$157,340</u></u>	<u><u>\$11,200</u></u>

**CITY OF GRANT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**Note 4 CAPITAL ASSETS (UNAUDITED)**

Capital asset activity for the year ended December 31, 2010 as previously reported was as follows:

<b>Primary Government</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$202,000	\$ -	\$ -	\$202,000
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>202,000</u>	<u>0</u>	<u>0</u>	<u>202,000</u>
Capital assets, being depreciated:				
Buildings	47,500	-	-	47,500
Blacktop, sidewalk and streets	556,797	-	-	556,797
Furniture and equipment	258,736	6,843	-	265,579
Total capital assets, being depreciated	<u>863,033</u>	<u>6,843</u>	<u>0</u>	<u>869,876</u>
Less accumulated depreciation for:				
Buildings	47,500	-	-	47,500
Blacktop, sidewalk and streets	47,092	13,920	-	61,012
Furniture and equipment	70,682	25,874	-	96,556
Total accumulated depreciation	<u>165,274</u>	<u>39,794</u>	<u>0</u>	<u>205,068</u>
Total capital assets being depreciated - net	<u>697,759</u>	<u>(32,951)</u>	<u>-</u>	<u>664,808</u>
Governmental activities capital assets - net	<u>\$899,759</u>	<u>(\$32,951)</u>	<u>\$0</u>	<u>\$866,808</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$25,874
Public works	13,920
Total depreciation expense - governmental activities	<u>\$39,794</u>

**CITY OF GRANT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**Note 5 LONG-TERM DEBT**

As of December 31, 2010, the governmental long-term bonded debt of the financial reporting entity consisted of the following:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Original Issue</u>	<u>Payable 12/31/10</u>
<u>Governmental Activities:</u>				
General Obligation Improvement Bonds of 2003	4.02%	12/31/2013	\$100,000	\$21,774
General Obligation Improvement Bonds of 2008	5.05%	2/1/2019	<u>130,000</u>	<u>115,416</u>
Total City indebtedness			<u><u>\$230,000</u></u>	<u><u>\$137,190</u></u>

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

<u>Year Ending December 31</u>	<u>G.O. Improvement Bonds</u>	
	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$21,179	\$6,550
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	15,080	1,790
2018	15,850	1,018
2019	<u>8,226</u>	<u>210</u>
Total	<u><u>\$137,190</u></u>	<u><u>\$29,293</u></u>

**CITY OF GRANT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

CHANGE IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Improvement Bonds of 2003	\$31,774	\$ -	\$10,000	\$21,774	\$10,000
General Obligation Improvement Bonds of 2008	126,050	-	10,634	115,416	11,179
Total	<u>\$157,824</u>	<u>\$0</u>	<u>\$20,634</u>	<u>\$137,190</u>	<u>\$21,179</u>

All long-term bonded indebtedness outstanding at December 31, 2010 is backed by the full faith and credit of the City.

REVENUE PLEDGED

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

Bond Issue	Use of Proceeds	Revenue Pledged				Remaining Principal and Interest	Current Year	
		Type	Percent of total debt service	Debt service as a % of net revenues	Term of Pledge		Principal and Interest paid	Pledged Revenue received
2008 Improvement bonds	Infrastructure improvements	Special assessments	100%	N/A	2008-2019	\$143,383	\$16,869	\$36,400

**Note 6 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. PLAN DESCRIPTION**

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

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

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

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

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

## **B. FUNDING POLICY**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. The City was required to contribute the following percentages of annual covered payroll in 2010: 7.0% for Coordinated Plan GERP members. Employer contribution rates for the Coordinated Plan will increase to 7.25% effective January 1, 2011. The City's contributions to the Coordinated Plan General Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$3,143, \$2,536, and \$2,156, respectively.

## **Note 7 COMMITMENTS AND CONTINGENCIES**

### **A. 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.

Property, casualty, and automobile insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements.

The City continues to carry commercial insurance for all other risks of loss, including employee health and disability insurance.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**B. LITIGATION**

The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the City attorney, remotely recoverable by plaintiffs.

**Note 8 DESIGNATIONS AND RESERVATIONS OF FUND EQUITY**

At December 31, 2010, the City had designated and reserved portions of its various fund equities through legal restriction and City Council authorization. A summary of such designations is as follows:

	December 31,	
	2010	2009
Major fund:		
Reserved for debt service	\$31,899	\$23,651

**Note 9 CELL TOWER**

The City receives revenue from an agreement for the lease of space at Town 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 operating leases. Lease revenue for the year ended December 31, 2010 totaled \$21,749.

Amounts for future lease receipts are unavailable.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF GRANT, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget -	2009 Actual Amounts
	Original	Final		Positive (Negative)	
<b>Revenues:</b>					
General property taxes	\$893,643	\$893,643	\$873,482	(\$20,161)	\$863,426
Franchise taxes	63,000	63,000	66,638	3,638	66,073
License and permits	70,500	70,500	69,741	(759)	105,546
<b>Intergovernmental:</b>					
<b>State:</b>					
PERA aid	-	-	78	78	77
Recycling grant	7,986	7,986	7,962	(24)	6,468
<b>Charges for services:</b>					
Cable salary reimbursement	1,500	1,500	7,587	6,087	34,514
Tower rental	17,000	17,000	21,749	4,749	19,283
Investment income	10,000	10,000	1,206	(8,794)	9,133
Contributions	-	-	11,000	11,000	-
<b>Miscellaneous:</b>					
Fines and forfeits	14,000	14,000	13,547	(453)	16,601
Proceeds from sale of capital asset	-	-	-	-	135,000
Miscellaneous income	2,000	2,000	5,955	3,955	4,362
<b>Total revenues</b>	<b>1,079,629</b>	<b>1,079,629</b>	<b>1,078,945</b>	<b>(684)</b>	<b>1,260,483</b>
<b>Expenditures:</b>					
<b>General government:</b>					
<b>Mayor and council:</b>					
Salaries	15,546	15,546	14,562	984	14,625
Expense	1,500	1,500	4,832	(3,332)	1,110
Election expense	1,600	1,600	2,628	(1,028)	470
<b>Total mayor and council</b>	<b>18,646</b>	<b>18,646</b>	<b>22,022</b>	<b>(3,376)</b>	<b>16,205</b>
<b>Finance:</b>					
Clerk salaries	38,000	38,000	42,998	(4,998)	37,574
Payroll taxes and benefits	5,472	5,472	11,158	(5,686)	5,410
Miscellaneous	-	-	1,499	(1,499)	-
Treasurer	6,459	6,459	5,331	1,128	4,844
<b>Total finance</b>	<b>49,931</b>	<b>49,931</b>	<b>60,986</b>	<b>(11,055)</b>	<b>47,828</b>
<b>Consultants:</b>					
City attorney	58,500	58,500	33,946	24,554	46,034
Audit and accounting fees	15,000	15,000	15,396	(396)	15,000
Engineering	22,000	22,000	22,494	(494)	23,224
Assessor	27,500	27,500	24,129	3,371	26,437
<b>Total consultants</b>	<b>123,000</b>	<b>123,000</b>	<b>95,965</b>	<b>27,035</b>	<b>110,695</b>
<b>Other services and charges</b>	<b>61,550</b>	<b>61,550</b>	<b>77,890</b>	<b>(16,340)</b>	<b>92,254</b>
<b>Capital outlay</b>	<b>-</b>	<b>-</b>	<b>6,843</b>	<b>(6,843)</b>	<b>33,443</b>
<b>Total general government</b>	<b>253,127</b>	<b>253,127</b>	<b>263,706</b>	<b>(10,579)</b>	<b>300,425</b>

**CITY OF GRANT, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For The Year Ended December 31, 2010  
With Comparative Actual Amounts For The Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
Public safety:					
Fire protection:					
Contractual services	\$211,860	\$211,860	\$214,205	(\$2,345)	\$207,967
Police protection:					
Other services and charges	102,600	102,600	104,826	(2,226)	101,945
Animal control	2,000	2,000	1,105	895	2,722
Building inspection and zoning	47,300	47,300	55,696	(8,396)	61,035
Total public safety	<u>363,760</u>	<u>363,760</u>	<u>375,832</u>	<u>(12,072)</u>	<u>373,669</u>
Public works:					
Streets:					
Engineering	6,400	6,400	3,017	3,383	5,774
Gravel and road maintenance	280,450	280,450	281,380	(930)	248,947
Snow and ice removal	110,000	110,000	112,003	(2,003)	62,306
Other services and charges	4,000	4,000	2,898	1,102	2,474
Total streets	<u>400,850</u>	<u>400,850</u>	<u>399,298</u>	<u>1,552</u>	<u>319,501</u>
Pump house:					
Maintenance, services and charges	1,000	1,000	327	673	113
City hall:					
Utilities	2,000	2,000	1,886	114	1,710
Maintenance, services and charges	4,700	4,700	4,524	176	5,593
Total City hall	<u>6,700</u>	<u>6,700</u>	<u>6,410</u>	<u>290</u>	<u>7,303</u>
Recycling:					
Contractual services	50,000	50,000	54,506	(4,506)	49,462
Miscellaneous	3,500	3,500	14,043	(10,543)	3,388
Total public works	<u>462,050</u>	<u>462,050</u>	<u>474,584</u>	<u>(12,534)</u>	<u>379,767</u>
Total expenditures	<u>1,078,937</u>	<u>1,078,937</u>	<u>1,114,122</u>	<u>(35,185)</u>	<u>1,053,861</u>
Revenues over (under) expenditures	<u>\$692</u>	<u>\$692</u>	(35,177)	<u>(\$35,869)</u>	206,622
Fund balance - January 1, as previously reported			889,663		637,696
Prior period adjustment			-		45,345
Fund balance - January 1, as restated			<u>889,663</u>		<u>683,041</u>
Fund balance - December 31			<u>\$854,486</u>		<u>\$889,663</u>

**CITY OF GRANT, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**NOTE TO RSI**  
December 31, 2010

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**Note A**    **BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the function level for the General Fund.

### **III. OTHER REQUIRED REPORTS**

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

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

We have audited the financial statements of the governmental activities and each major fund of the City of Grant, Minnesota as of and for the year ended December 31, 2010, which collectively comprise the City of Grant, Minnesota's basic financial statements and have issued our report there on dated May 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2010-1 through 2010-6 that we consider to be significant deficiencies in internal

City of Grant, Minnesota  
Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters

control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City of Grant, Minnesota, in a separate letter dated May 31, 2011.

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

This report is intended solely for the information and use of the City of Grant, Minnesota's City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.



HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

May 31, 2011

City of Grant, Minnesota  
Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Schedule of Findings and Responses

**2010-1 Lack of Segregation of Duties**

*Criteria:* Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

*Condition:* The same employee is responsible for maintaining the cash disbursements journal, maintaining the cash receipts journal and preparing the bank deposit.

*Cause:* This condition is common to organizations of this size due to the limited number of staff in the finance department.

*Effect:* The lack of an ideal segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner.

*Recommendation:* Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

*Views of Responsible Officials and Corrective Action Plan:* 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.

City of Grant, Minnesota  
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## **2010-2 Oversight of Financial Statement Preparation**

*Criteria:* Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation of the financial statements in accordance with generally accepted accounting principles.

*Condition:* Audit standards specify that an organization may not rely exclusively on its auditors to perform the financial statement process. In our viewpoint, this will result in many, if not most, small to mid-size organizations receiving a finding regarding financial statement preparation.

Like many similarly sized organizations, the City has requested assistance from us, the auditors, with drafting financial statements and related notes. This is a common practice and an allowable nonaudit service under the AICPA Ethics Interpretation 101-3. However, other than relying on the auditors, City staff does not perform sufficient procedures to detect if there were misstatements or omissions of disclosures to the financial statements.

*Cause:* The City has not established procedures to detect misstatements or omissions of disclosures in the draft financial statements prepared by the auditors.

*Effect:* By not having such controls, there is an increased risk that errors or omissions in draft financial statements prepared by the auditors would not be detected by City management.

*Recommendation:* We recommend the City review this matter and determine a course of action. Any change would need to be viewed from a cost/benefit perspective. Options for the City include:

1. Remain aware of the situation, however due to the increased cost, make the choice to make no changes to current procedures.
2. Implement internal procedures as determined practical.
3. Hiring additional internal or 3<sup>rd</sup> party resources to assist with the financial statement process.

*Views of Responsible Officials and Corrective Action Plan:* The City will continue to work with the auditors to improve accounting procedures. The City Council will diligently monitor the monthly financial reports and bills to maintain proper supervision.

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**2010-3 Audit adjustments**

*Criteria:* A City's controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

*Condition:* During the course of our audit, we identified adjustments to accounts payable, accounts receivable, payroll, net assets, cash and deferred revenue.

*Cause:* In our viewpoint, the guidance provided by auditing standards combined with the complexity of governmental accounting will result in most local governments receiving a finding of this regard.

*Effect:* There is an increased risk that financial statement misstatements may occur.

*Recommendation:* We recommend City staff continue to attempt to appropriately record these types of transactions.

*Views of Responsible Officials and Corrective Action Plan:* The City will continue to work with the auditors to improve accounting procedures.

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**2010-4 Bank Reconciliations**

*Criteria:* Bank reconciliations should be reconciled monthly to the general ledger on a timely basis.

*Condition:* Bank reconciliations were not performed on a timely basis.

*Cause:* Unknown.

*Effect:* Unreconciled balances subject the City to a higher risk that errors or fraud could occur and not be detected.

*Recommendation:* We recommend City staff develop and follow procedures in order to reconcile its checking account bank balance to the general ledger on a timely basis.

*Views of Responsible Officials and Corrective Action Plan:* The City Council appointed a new Treasurer in 2011 and the Treasurer reconciled the remaining 2010 bank statements and is reconciling 2011 in a timely manner.

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**2010-5 Reconciliation of General Ledger to Financial Statements**

*Criteria:* The City's general ledger should agree to the published financial statements.

*Condition:* The beginning balance of certain accounts within the general ledger did not agree to prior year published financial statements.

*Cause:* Unknown.

*Effect:* Monthly financial reports contain inaccurate information.

*Recommendation:* We recommend the City post all audit adjustments and reconcile internal general ledger to the published financial statements.

*Views of Responsible Officials and Corrective Action Plan:* The City will make the adjusting journal entries for 2010 and reconcile to the audited financial statements.

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**2010-6 Recording of Payroll Tax Expense**

*Criteria:* The payroll tax expense per the general ledger should reconcile to the underlying record/reports.

*Condition:* The City did not properly record payroll tax expense for 2010.

*Cause:* Unknown.

*Effect:* The effect of not recording the above mentioned adjustment is to overstate payroll tax expense.

*Recommendation:* We recommend the City reconcile payroll tax expense in the general ledger to what was actually paid.

*Views of Responsible Officials and Corrective Action Plan:* The City is continuing to work with the Auditors and their accounting assistants on this payroll taxes.



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

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

We have audited the financial statements of the City of Grant, Minnesota, as of and for the year ended December 31, 2010 and have issued our report thereon dated May 31, 2011.

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

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 as described in this report.

This report is intended solely for the information and use of the City of Grant, Minnesota's City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
White Bear Lake, Minnesota

May 31, 2011

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

**2010-7 Out-of-State Travel Policy.**

*Criteria:* Minnesota Statute 471.665 provides certain specific reimbursement/allowance requirements for mileage as follows:

**471.661 OUT-OF-STATE TRAVEL.**

By January 1, 2006, the governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must develop a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government. The policy must be approved by a recorded vote and specify:

- (1) when travel outside the state is appropriate;
- (2) applicable expense limits; and
- (3) procedures for approval of the travel.

The policy must be made available for public inspection upon request and reviewed annually. Subsequent changes to the policy must be approved by a recorded vote.

*Condition:* Minnesota Statutes require that governing bodies adopt an out-of-state travel policy and review it annually.

*Cause:* Unknown.

*Effect:* The effect of noncompliance is not determinable.

*Recommendation:* We recommend the City establish procedures to review their out-of-state travel policy on an annual basis

*Views of Responsible Officials and Corrective Action Plan:* The City will adopt an out of state travel polity in 2011.

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## 2010-8 Broker Certification Form

*Criteria:* Minnesota Statutes require the City to annually obtain a certification from each investment broker. Minnesota Statute 118A.04, subdivision 9 reads as follows:

Subd. 9. **Broker; statement and receipt.** (a) For the purpose of this section and section 118A.05, the term "broker" means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity.

(b) Prior to completing an initial transaction with a broker, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds.

(c) A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.

(d) The state auditor shall prepare uniform notification forms which shall be used by the government entities and the brokers to meet the requirements of this subdivision.

*Condition:* The City did not obtain the required broker forms for calendar year 2010.

*Cause:* Unknown.

*Effect:* The effect of noncompliance is not determinable.

*Recommendation:* We recommend the City annually obtain broker certification forms prior to January 1 of each year.

*Views of Responsible Officials and Corrective Action Plan:* This document was requested on the last day of the audit and our banker and investment advisor were unavailable. This will be provided in a timely manner for the 2011 audit.

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