

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2011

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

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GREENBUSH, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2011**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Scott Waage	Mayor	December 31, 2012
Brenda Sather	Councilmember	December 31, 2014
Adrian Pulczinski ¹	Councilmember	December 31, 2012
Sandy McFarlane	Councilmember	December 31, 2012
Dennis Filer	Councilmember	December 31, 2012
Appointed		
Anita Locken	Clerk/Treasurer	Indefinite

¹ Dwight Hasson resigned on June 20, 2011 and Adrian Pulczinski was appointed by the Council on July 18, 2011.

FINANCIAL SECTION



GOVERNMENTAL AUDIT SERVICES

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Greenbush

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Greenbush, Minnesota, 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 of Greenbush'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Greenbush, Minnesota, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I., the City of Greenbush has implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2012, on our consideration of the City of Greenbush'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 required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Greenbush's basic financial statements as a whole. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other schedules sections have 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 them.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

April 12, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of the City of Greenbush offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Greenbush for the fiscal year ended December 31, 2011. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net assets of governmental activities are \$1,404,786, of which \$642,675 is invested in capital assets, net of related debt, \$15,665 is restricted for specific purposes, and \$746,446 is unrestricted. The total net assets of governmental activities increased by \$16,866 for the year ended December 31, 2011. This is attributed primarily to the repayment of debt.

The total net assets of business-type activities are \$1,349,457, of which \$1,027,629 is invested in capital assets, net of related debt, and \$321,828 is unrestricted. The total net assets of business-type activities increased by \$52,175 in 2011, as a result of the completion of the water system improvements along with decreased accounts payable.

At the close of 2011, the City's governmental funds reported combined ending fund balances of \$604,346 an increase of \$124,148, from the prior year. Of the total fund balance amount, \$52,186 is legally or contractually restricted, \$357,935 is formally committed for specific purposes, \$98,099 is assigned for specific purposes, and \$96,126 is noted as the unassigned fund balance in the General Fund. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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 government'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).

In the *Statement of Net Assets* and the *Statement of Activities*, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, culture and recreation, conservation of natural resources, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the water and sewer utilities, and sanitation.

The government-wide financial statements can be found as Exhibits 1 and 2 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 of Greenbush, 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 can be divided into two categories: governmental funds and proprietary funds.

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, fund-level 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 of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Fire Department Special Project/Equipment Special Revenue Fund, the RBEG Revolving Loan Special Revenue Fund, and the Small Cities Development Program Special Revenue Fund, all of which are considered to be major funds. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Greenbush adopts annual budgets for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Proprietary Funds The City of Greenbush maintains three proprietary funds. 1) The Sanitation Enterprise Fund is used to account for the operations of the garbage collection system. 2) The Sewer Fund is used to account for the activities of the City’s sewer utilities. Financing is provided by charges to residents for services. 3) The Water Fund is used to account for the activities of the City’s water utilities. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Assets and the Statement of Activities as business-type activities. All of the enterprise funds are major.

Notes to the Financial Statements

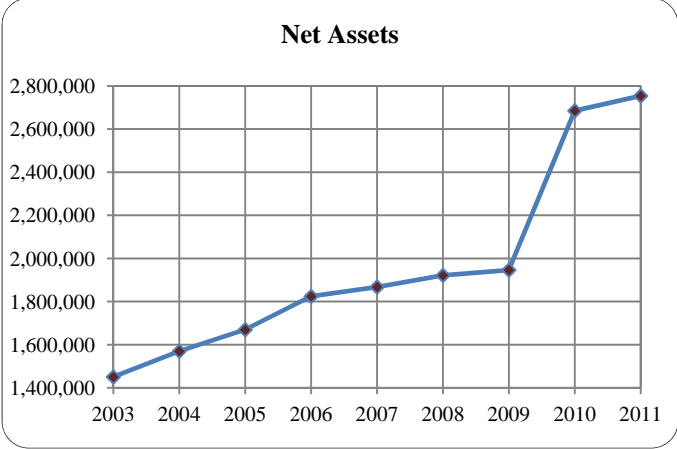
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 24 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides supplementary and other information including combining statements, budgetary comparison schedules, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the City’s financial position. The City’s assets exceeded liabilities by \$2,754,243 at the close of 2011. The largest portion of the City’s net assets (approximately 60 percent) reflects its investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment), net of related debt to acquire those assets. It should be noted that this amount is not available for future spending. Approximately one percent of the City’s net assets are restricted for public safety and 39 percent of the City’s net assets are unrestricted. The unrestricted net asset amount of \$1,068,274 as of December 31, 2011, may be used to

meet the City’s ongoing obligations to citizens.



The City’s overall financial position increased from last year. Total assets decreased by \$2,680, from the prior year, primarily due to annual depreciation of capital assets. Total liabilities decreased by \$71,721, from the prior year, due to reduced accounts payable and the elimination of contracts payable due to the completion of the water system improvements. This resulted in increased net assets of \$69,041 from the prior year.

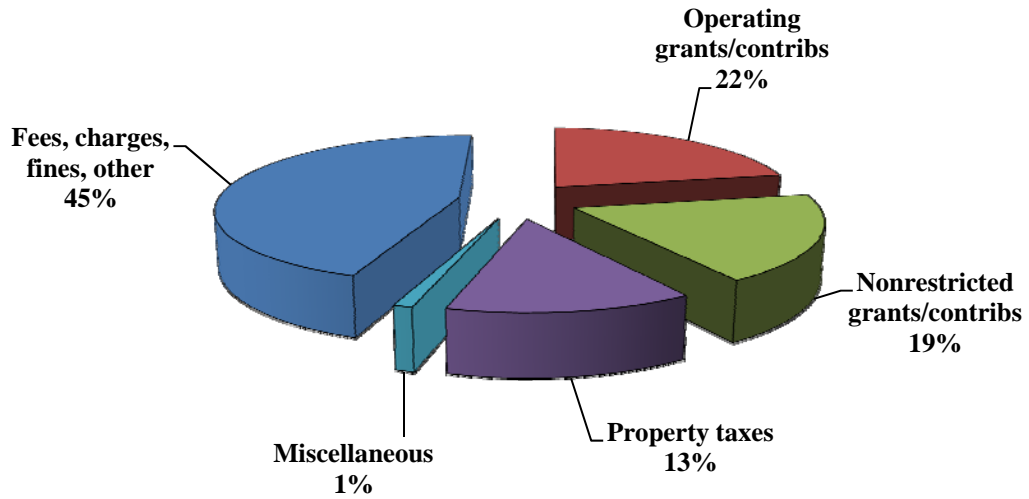
NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 787,987	\$ 664,297	\$ 327,041	\$ 352,715	\$ 1,115,028	\$ 1,017,012
Capital assets	737,989	874,092	3,365,860	3,330,453	4,103,849	4,204,545
Total assets	\$ 1,525,976	\$ 1,538,389	\$ 3,692,901	\$ 3,683,168	\$ 5,218,877	\$ 5,221,557
Other liabilities	\$ 18,832	\$ 28,767	\$ 4,356	\$ 80,882	\$ 23,188	\$ 109,649
Long-term liabilities outstanding	102,358	121,702	2,339,088	2,305,004	2,441,446	2,426,706
Total liabilities	\$ 121,190	\$ 150,469	\$ 2,343,444	\$ 2,385,886	\$ 2,464,634	\$ 2,536,355
Net assets						
Invested in capital assets, net of related debt	\$ 642,675	\$ 760,576	\$ 1,027,629	\$ 1,025,449	\$ 1,670,304	\$ 1,786,025
Restricted	15,665	16,215	-	-	15,665	16,215
Unrestricted	746,446	611,129	321,828	271,833	1,068,274	882,962
Total net assets	\$ 1,404,786	\$ 1,387,920	\$ 1,349,457	\$ 1,297,282	\$ 2,754,243	\$ 2,685,202

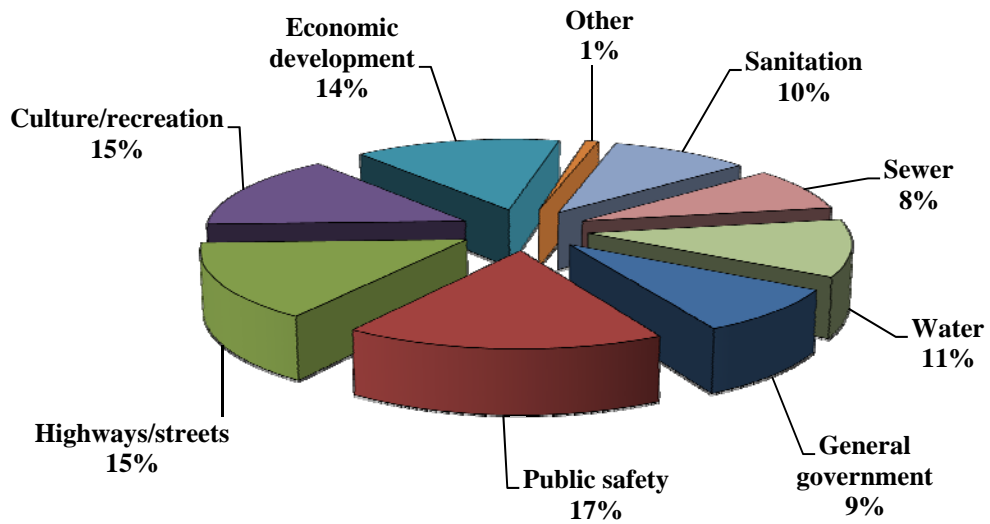
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for services	\$ 180,624	\$ 151,884	\$ 374,882	\$ 333,949	\$ 555,506	485,833
Operating grants and contributions	270,246	325,148	-	-	270,246	325,148
Capital grants and contributions	2,319	11,826	309	646,190	2,628	658,016
General Revenues and Transfers						
Property taxes	161,227	141,113	7,622	9,082	168,849	150,195
Grants and contributions not restricted to specific programs	232,864	232,888	-	-	232,864	232,888
Investment earnings	4,051	6,998	1,136	1,436	5,187	8,434
Insurance dividends	5,423	4,978	-	-	5,423	4,978
Transfers	(9,000)	(9,000)	9,000	9,000	-	-
Total revenues	\$ 847,754	\$ 865,835	\$ 392,949	\$ 999,657	\$ 1,240,703	\$ 1,865,492
Expenses						
General government	\$ 103,781	\$ 113,209	\$ -	\$ -	\$ 103,781	\$ 113,209
Public safety	203,937	185,463	-	-	203,937	185,463
Highways and streets	173,710	121,283	-	-	173,710	121,283
Culture and recreation	170,391	153,860	-	-	170,391	153,860
Conservation of natural resources	4,085	3,748	-	-	4,085	3,748
Economic development	168,988	284,738	-	-	168,988	284,738
Interest	5,996	8,875	-	-	5,996	8,875
Sanitation	-	-	114,150	87,897	114,150	87,897
Sewer	-	-	97,822	90,550	97,822	90,550
Water	-	-	128,802	77,151	128,802	77,151
Total expenses	\$ 830,888	\$ 871,176	\$ 340,774	\$ 255,598	\$ 1,171,662	\$ 1,126,774
Increase (decrease) in net assets	\$ 16,866	\$ (5,341)	\$ 52,175	\$ 744,059	\$ 69,041	\$ 738,718
Net assets, January 1	1,387,920	1,393,261	1,297,282	553,223	2,685,202	1,946,484
Net assets, December 31	\$ 1,404,786	\$ 1,387,920	\$ 1,349,457	\$ 1,297,282	\$ 2,754,243	\$ 2,685,202

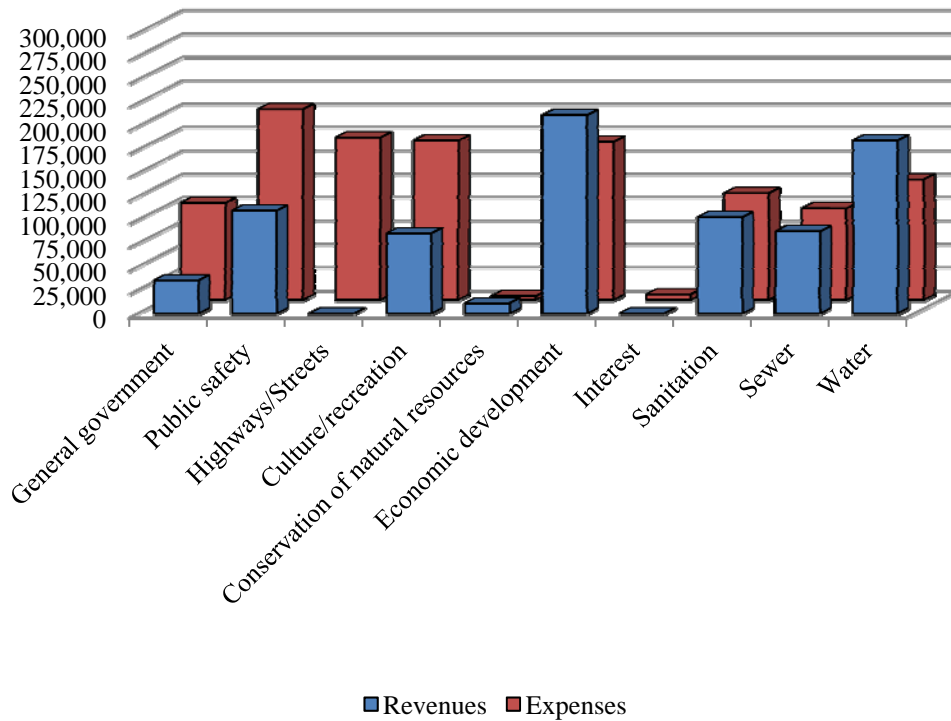
Revenues by Source



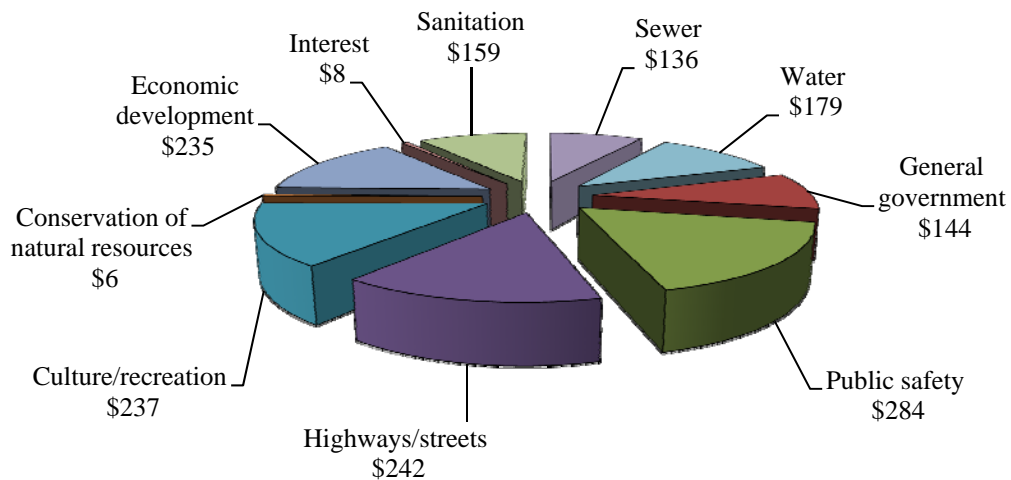
Expenses by Function



Program Revenues & Expenditures



Expenditures Per Capita 719 Population as of the 2010 Census



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2011, the City's governmental funds reported combined ending fund balances of \$604,346. Of this amount, approximately nine percent constitutes legally or contractually restricted fund balance, 59 percent constitutes formally committed fund balance, 16 percent constitutes specifically assigned fund balance, and 16 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$291,808. The General Fund's restricted fund balance was \$15,665, committed fund balance was \$180,017, and unassigned fund balance was \$96,126. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2011. Unrestricted fund balance represents 52 percent of total General Fund expenditures, while total fund balance represents 55 percent of that same amount.

In 2011, the fund balance amount in the General Fund decreased by \$4,731. The primary reason for this decrease was increased expenditures for nearly all departments.

The fund balance of the Fire Department Special Project/Equipment Special Revenue Fund increased \$24,431 from the prior year due to an increase in revenues from gifts and contributions.

The fund balance of the RBEG Revolving Loan Special Revenue Fund decreased \$13,188 from the prior year, as a result of a new loan issued in 2011.

The fund balance of the Small Cities Development Program Special Revenue Fund increased \$111,030 from the prior year, due to the timing of expenditures which were reimbursed through Community Development Block Grants.

Proprietary Fund

The Sanitation Enterprise Fund reported an operating loss in 2011 of \$11,792. This was due to a transfer of funds to the street department for street repairs. The operating loss was covered by reserve funds.

The Sewer Enterprise Fund reported an operating loss in 2011 of \$367. This is due to major repairs to lift stations. The operating loss was covered by reserve funds.

The Water Enterprise Fund reported an operating income in 2011 of \$77,530, indicating that it is collecting fees for services at a rate higher than costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than overall final budgeted revenues by \$46,621. The largest positive variances were in intergovernmental receipts and charges for services. Actual expenditures were more than overall final budgeted expenditures by \$52,212, largely as a result of costs exceeding budgeted amounts in most departments.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounted to \$4,103,849 (net of accumulated depreciation). The total decrease in the City's investment in capital assets for the current fiscal year was approximately two percent. This decrease was primarily due to the completion of the water system improvements added to infrastructure offset by the disposal and depreciation of capital assets.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 105,412	\$ 105,412	\$ 4,000	\$ 4,000	\$ 109,412	\$ 109,412
Construction in progress	-	-	-	1,610,653	-	1,610,653
Infrastructure	-	-	3,339,362	1,689,468	3,339,362	1,689,468
Buildings and improvements	394,335	480,150	7,365	7,799	401,700	487,949
Machinery and equipment	238,242	288,530	15,133	18,533	253,375	307,063
Total capital assets	<u>\$ 737,989</u>	<u>\$ 874,092</u>	<u>\$ 3,365,860</u>	<u>\$ 3,330,453</u>	<u>\$ 4,103,849</u>	<u>\$ 4,204,545</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$2,433,545 which is backed by the full faith and credit of the government.

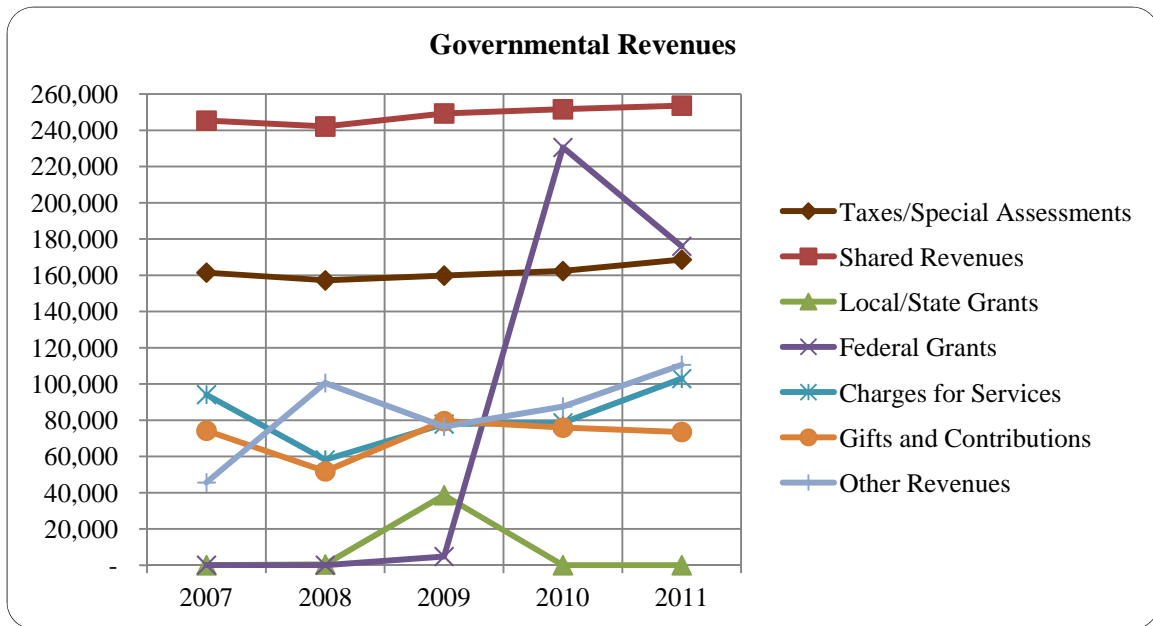
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Public Project Notes of 2001	\$ 95,314	\$ 113,516	\$ -	\$ -	\$ 95,314	\$ 113,516
G.O. Sewer Revenue Bonds of 2006	-	-	214,889	224,184	214,889	224,184
G.O. Water Revenue Note - MPFA	-	-	2,123,342	2,080,820	2,123,342	2,080,820
	<u>\$ 95,314</u>	<u>\$ 113,516</u>	<u>\$ 2,338,231</u>	<u>\$ 2,305,004</u>	<u>\$ 2,433,545</u>	<u>\$ 2,418,520</u>

Minnesota statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2011, overall debt of the City is below the three percent debt limit.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The five-year analysis below focuses on the revenues of the City's governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Specific unemployment statistics for the City of Greenbush are not available. However, the unemployment rate for Roseau County was 4.3 percent as of December 31, 2011. This is lower than the statewide rate of 5.7 percent and the national average rate of 8.3 percent.
- Greenbush's 2010 population was 719, a decline of 65 since the 2000 census of 784.
- In 2011 the City completed construction of the water system improvements.
- The City's next large infrastructure project that is in the planning stages is to replace the watermain on 4th Street S and 5th Street S. This project would also include asphalt overlays on these streets.
- On December 19, 2011, the City of Greenbush set its 2012 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Greenbush 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 Greenbush Clerk/Treasurer, City Hall, P.O. Box 98, Greenbush, Minnesota 56726.

BASIC FINANCIAL STATEMENTS

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 217,837	\$ 190,822	\$ 408,659
Investments	289,400	88,663	378,063
Taxes receivable			
Current	5,822	-	5,822
Prior	11,898	360	12,258
Special assessments receivable			
Current	1,753	414	2,167
Prior	879	237	1,116
Accounts receivable	24,112	43,178	67,290
Accrued interest receivable	3,363	371	3,734
Due from other governments	80,891	-	80,891
Notes receivable	1,157	-	1,157
Loans receivable	138,704	-	138,704
Special assessments receivable - noncurrent	12,171	2,996	15,167
Capital assets			
Non-depreciable	105,412	4,000	109,412
Depreciable - net of accumulated depreciation	632,577	3,361,860	3,994,437
Total Assets	\$ 1,525,976	\$ 3,692,901	\$ 5,218,877
<u>Liabilities</u>			
Accounts payable	\$ 13,812	\$ 2,176	\$ 15,988
Salaries payable	2,520	978	3,498
Due to other governments	2,500	1,202	3,702
Long-term liabilities			
Due within one year	23,392	76,389	99,781
Due in more than one year	78,966	2,262,699	2,341,665
Total Liabilities	\$ 121,190	\$ 2,343,444	\$ 2,464,634
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ 642,675	\$ 1,027,629	\$ 1,670,304
Restricted for public safety	15,665	-	15,665
Unrestricted	746,446	321,828	1,068,274
Total Net Assets	\$ 1,404,786	\$ 1,349,457	\$ 2,754,243

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Program Revenues	
		Fees, Charges, Fines and Other	Operating Grants and Contributions
Functions/Programs			
Governmental activities			
General government	\$ 103,781	\$ 35,303	\$ -
Public safety	203,937	57,074	52,705
Highways and streets	173,710	-	-
Culture and recreation	170,391	44,004	41,548
Conservation of natural resources	4,085	10,639	-
Economic development	168,988	33,604	175,993
Interest	5,996	-	-
Total governmental activities	\$ 830,888	\$ 180,624	\$ 270,246
Business-type activities			
Sanitation	\$ 114,150	\$ 102,358	\$ -
Sewer	97,822	87,682	-
Water	128,802	184,842	-
Total business-type activities	\$ 340,774	\$ 374,882	\$ -
Total	\$ 1,171,662	\$ 555,506	\$ 270,246

General revenues and transfers

Property taxes
Grants and contributions not restricted to specific programs
Investment earnings
Insurance dividends
Transfers

Total general revenues and transfers

Change in net assets

Net assets - January 1

Net assets - December 31

EXHIBIT 2

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (68,478)	\$ -	\$ (68,478)
-	(94,158)	-	(94,158)
-	(173,710)	-	(173,710)
-	(84,839)	-	(84,839)
-	6,554	-	6,554
2,319	42,928	-	42,928
-	(5,996)	-	(5,996)
<u>\$ 2,319</u>	<u>\$ (377,699)</u>	<u>\$ -</u>	<u>\$ (377,699)</u>
\$ 309	\$ -	\$ (11,483)	\$ (11,483)
-	-	(10,140)	(10,140)
-	-	56,040	56,040
<u>\$ 309</u>	<u>\$ -</u>	<u>\$ 34,417</u>	<u>\$ 34,417</u>
<u>\$ 2,628</u>	<u>\$ (377,699)</u>	<u>\$ 34,417</u>	<u>\$ (343,282)</u>
	\$ 161,227	\$ 7,622	\$ 168,849
	232,864	-	232,864
	4,051	1,136	5,187
	5,423	-	5,423
	(9,000)	9,000	-
	<u>\$ 394,565</u>	<u>\$ 17,758</u>	<u>\$ 412,323</u>
	\$ 16,866	\$ 52,175	\$ 69,041
	<u>1,387,920</u>	<u>1,297,282</u>	<u>2,685,202</u>
	<u>\$ 1,404,786</u>	<u>\$ 1,349,457</u>	<u>\$ 2,754,243</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Fire Department Special Project/ Equipment Special Revenue	RBEG Revolving Loan Special Revenue	Small Cities Development Program Special Revenue	Other Governmental Funds (Statement 1)	Total Governmental Funds
Assets						
Cash and pooled investments	\$ 103,805	\$ 51,200	\$ 8,100	\$ 28,421	\$ 26,311	\$ 217,837
Investments	188,993	95,242	-	-	5,165	289,400
Taxes receivable						
Current	5,822	-	-	-	-	5,822
Prior	11,898	-	-	-	-	11,898
Special assessments receivable						
Current	1,753	-	-	-	-	1,753
Prior	879	-	-	-	-	879
Accounts receivable	1,342	22,770	-	-	-	24,112
Accrued interest receivable	794	2,442	-	-	127	3,363
Due from other governments	80	-	-	80,811	-	80,891
Notes receivable	-	-	-	1,157	-	1,157
Loans receivable	-	-	138,704	-	-	138,704
Special assessments receivable - noncurrent	12,171	-	-	-	-	12,171
Total Assets	\$ 327,537	\$ 171,654	\$ 146,804	\$ 110,389	\$ 31,603	\$ 787,987
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 5,761	\$ 8,051	\$ -	\$ -	\$ -	\$ 13,812
Salaries payable	2,520	-	-	-	-	2,520
Due to other governments	2,500	-	-	-	-	2,500
Deferred revenue - unavailable	24,948	-	138,704	1,157	-	164,809
Total Liabilities	\$ 35,729	\$ 8,051	\$ 138,704	\$ 1,157	\$ -	\$ 183,641
Fund Balances						
Restricted for						
Economic development	\$ -	\$ -	\$ 8,100	\$ 28,421	\$ -	\$ 36,521
Police NSF	2,258	-	-	-	-	2,258
Police contingency	470	-	-	-	-	470
Police DARE	12,937	-	-	-	-	12,937
Committed to						
Buildings and related equipment	27,400	-	-	-	-	27,400
Culture and recreation plan	2,617	-	-	-	14,900	17,517
Fire department equipment	-	146,442	-	-	10,199	156,641
Parks	-	-	-	-	6,377	6,377
Shop equipment	50,000	-	-	-	-	50,000
Street improvements	100,000	-	-	-	-	100,000
Assigned to						
Economic development	-	-	-	80,811	-	80,811
Public safety	-	17,161	-	-	127	17,288
Unassigned	96,126	-	-	-	-	96,126
Total Fund Balances	\$ 291,808	\$ 163,603	\$ 8,100	\$ 109,232	\$ 31,603	\$ 604,346
Total Liabilities and Fund Balances	\$ 327,537	\$ 171,654	\$ 146,804	\$ 110,389	\$ 31,603	\$ 787,987

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$ 604,346
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.	737,989
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	164,809
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences payable	\$ (7,044)
Notes payable	(95,314)
	<u>(102,358)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 1,404,786</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Fire Department Special Project/ Equipment Special Revenue	RBEG Revolving Loan Special Revenue	Small Cities Development Program Special Revenue	Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues						
Property taxes	\$ 158,311	\$ -	\$ -	\$ -	\$ -	\$ 158,311
Special assessments	10,310	-	-	-	-	10,310
Licenses and permits	2,620	-	-	-	-	2,620
Intergovernmental	253,624	-	-	175,993	-	429,617
Charges for services	77,553	2,956	-	-	22,446	102,955
Fines and forfeitures	724	-	-	-	-	724
Gifts and contributions	13,209	27,440	-	-	32,844	73,493
Investment earnings	2,526	1,452	-	-	73	4,051
Miscellaneous	38,271	7,873	6,812	9,668	40,515	103,139
Total Revenues	\$ 557,148	\$ 39,721	\$ 6,812	\$ 185,661	\$ 95,878	\$ 885,220
Expenditures						
Current						
General government	\$ 103,946	\$ -	\$ -	\$ -	\$ -	\$ 103,946
Public safety	129,335	23,290	-	-	-	152,625
Highways and streets	163,607	-	-	-	-	163,607
Culture and recreation	95,615	-	-	-	51,110	146,725
Conservation of natural resources	3,849	-	-	-	-	3,849
Economic development	2,500	-	20,000	74,631	49,602	146,733
Debt service						
Principal retirement	18,202	-	-	-	-	18,202
Interest	5,996	-	-	-	-	5,996
Capital outlay						
Culture and recreation	10,389	-	-	-	-	10,389
Total Expenditures	\$ 533,439	\$ 23,290	\$ 20,000	\$ 74,631	\$ 100,712	\$ 752,072
Excess of Revenues Over (Under) Expenditures	\$ 23,709	\$ 16,431	\$ (13,188)	\$ 111,030	\$ (4,834)	\$ 133,148
Other Financing Sources (Uses)						
Transfers in	\$ 5,000	\$ 8,000	\$ -	\$ -	\$ 25,377	\$ 38,377
Transfers out	(33,440)	-	-	-	(13,937)	(47,377)
Total Other Financing Sources (Uses)	\$ (28,440)	\$ 8,000	\$ -	\$ -	\$ 11,440	\$ (9,000)
Net Change in Fund Balance	\$ (4,731)	\$ 24,431	\$ (13,188)	\$ 111,030	\$ 6,606	\$ 124,148
Fund Balance - January 1	296,539	139,172	21,288	(1,798)	24,997	480,198
Fund Balance - December 31	\$ 291,808	\$ 163,603	\$ 8,100	\$ 109,232	\$ 31,603	\$ 604,346

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balance - total governmental funds (Exhibit 5)	\$	124,148
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Expenditures for general capital assets	\$ 10,389	
Net book value of assets disposed	(57,331)	
Current year depreciation	(89,161)	(136,103)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds</p>		
Change in		
Taxes and special assessments receivable	\$ (5,075)	
Loans receivable	14,552	9,477
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repayment of notes payable		18,202
<p>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.</p>		
Change in compensated absences payable		1,142
Change in net assets of governmental activities (Exhibit 2)	\$	<u>16,866</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Total</u>
<u>Assets</u>				
Current Assets				
Cash and pooled investments	\$ 51,903	\$ 91,135	\$ 47,784	\$ 190,822
Investments	47,287	-	41,376	88,663
Taxes receivable - delinquent	-	360	-	360
Special assessments receivable				
Current	-	207	207	414
Prior	52	60	125	237
Accounts receivable	10,600	10,380	22,198	43,178
Accrued interest receivable	198	-	173	371
Total Current Assets	\$ 110,040	\$ 102,142	\$ 111,863	\$ 324,045
Noncurrent Assets				
Special assessments receivable	\$ -	\$ 1,498	\$ 1,498	\$ 2,996
Capital assets				
Non-depreciable	-	-	4,000	4,000
Depreciable - net of accumulated depreciation	-	386,895	2,974,965	3,361,860
Total Noncurrent Assets	\$ -	\$ 388,393	\$ 2,980,463	\$ 3,368,856
Total Assets	\$ 110,040	\$ 490,535	\$ 3,092,326	\$ 3,692,901
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	\$ -	\$ 348	\$ 1,828	\$ 2,176
Salaries payable	-	489	489	978
Compensated absences payable	-	428	429	857
Due to other governments	1,006	-	196	1,202
General obligation revenue bonds payable	-	9,666	-	9,666
MPFA notes payable	-	-	65,866	65,866
Total Current Liabilities	\$ 1,006	\$ 10,931	\$ 68,808	\$ 80,745
Noncurrent Liabilities				
General obligation revenue bonds payable	\$ -	\$ 205,223	\$ -	\$ 205,223
MPFA notes payable	-	-	2,057,476	2,057,476
Total Noncurrent Liabilities	\$ -	\$ 205,223	\$ 2,057,476	\$ 2,262,699
Total Liabilities	\$ 1,006	\$ 216,154	\$ 2,126,284	\$ 2,343,444
<u>Net Assets</u>				
Invested in capital assets, net of related debt	\$ -	\$ 172,006	\$ 855,623	\$ 1,027,629
Unrestricted	109,034	102,375	110,419	321,828
Total Net Assets	\$ 109,034	\$ 274,381	\$ 966,042	\$ 1,349,457

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Total</u>
Operating Revenues				
Charges for services	\$ 102,358	\$ 87,682	\$ 184,320	\$ 374,360
Miscellaneous	-	-	522	522
Total Operating Revenues	\$ 102,358	\$ 87,682	\$ 184,842	\$ 374,882
Operating Expenses				
Personnel services	\$ -	\$ 13,666	\$ 13,667	\$ 27,333
Payroll tax/benefits	-	3,521	3,521	7,042
Contracted services	114,150	-	-	114,150
Insurance	-	1,719	4,247	5,966
Permits	-	-	1,502	1,502
Postage	-	436	472	908
Repairs and maintenance	-	2,006	-	2,006
Staff training	-	890	655	1,545
Supplies	-	40,841	28,351	69,192
Telephone	-	-	1,068	1,068
Utilities	-	2,708	5,880	8,588
Miscellaneous	-	340	1,042	1,382
Depreciation	-	21,922	46,907	68,829
Total Operating Expenses	\$ 114,150	\$ 88,049	\$ 107,312	\$ 309,511
Operating Income (Loss)	\$ (11,792)	\$ (367)	\$ 77,530	\$ 65,371
Nonoperating Revenues (Expenses)				
Property taxes	\$ -	\$ 7,622	\$ -	\$ 7,622
Special assessments	-	-	309	309
Investment earnings	606	-	530	1,136
Interest expense	-	(9,773)	(21,490)	(31,263)
Total Nonoperating Revenues (Expenses)	\$ 606	\$ (2,151)	\$ (20,651)	\$ (22,196)
Income (Loss) Before Transfers	\$ (11,186)	\$ (2,518)	\$ 56,879	\$ 43,175
Transfers in	-	-	9,000	9,000
Change in Net Assets	\$ (11,186)	\$ (2,518)	\$ 65,879	\$ 52,175
Net Assets - January 1	120,220	276,899	900,163	1,297,282
Net Assets - December 31	\$ 109,034	\$ 274,381	\$ 966,042	\$ 1,349,457

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

	Sanitation Enterprise	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 100,863	\$ 85,221	\$ 175,619	\$ 361,703
Payments to employees	-	(17,641)	(17,641)	(35,282)
Payments to suppliers	(114,113)	(61,775)	(42,638)	(218,526)
Net cash provided by (used in) operating activities	\$ (13,250)	\$ 5,805	\$ 115,340	\$ 107,895
Cash Flows from Noncapital Financing Activities				
Property taxes received	\$ -	\$ 7,688	\$ -	\$ 7,688
Transfers in	-	-	9,000	9,000
Net cash provided by (used in) noncapital financing activities	\$ -	\$ 7,688	\$ 9,000	\$ 16,688
Cash Flows from Capital and Related Financing Activities				
Principal paid on bonds	\$ -	\$ (9,295)	\$ -	\$ (9,295)
Interest paid on bonds	-	(9,773)	-	(9,773)
Principal paid on Public Facilities Authority notes	-	-	(65,590)	(65,590)
Interest paid on Public Facilities Authority notes	-	-	(21,490)	(21,490)
Capital outlay for construction in progress	-	-	(166,959)	(166,959)
Proceeds from debt issued	-	-	153,474	153,474
Special assessments received	-	764	764	1,528
Net cash provided by (used in) capital and related financing activities	\$ -	\$ (18,304)	\$ (99,801)	\$ (118,105)
Cash Flows from Investing Activities				
Investment earnings received	\$ 697	\$ -	\$ 610	\$ 1,307
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (12,553)	\$ (4,811)	\$ 25,149	\$ 7,785
Cash and Cash Equivalents at January 1	111,743	95,946	64,011	271,700
Cash and Cash Equivalents at December 31	\$ 99,190	\$ 91,135	\$ 89,160	\$ 279,485

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (11,792)	\$ (367)	\$ 77,530	\$ 65,371
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities				
Depreciation expense	\$ -	\$ 21,922	\$ 46,907	\$ 68,829
Decrease (increase) in assets				
Accounts receivable	(1,555)	(2,461)	(9,291)	(13,307)
Special assessments receivable	(52)		-	(52)
Increase (decrease) in liabilities				
Accounts payable	(78)	(12,898)	516	(12,460)
Salaries payable	-	(345)	(345)	(690)
Compensated absences payable	-	428	429	857
Due to other governments	227	(474)	(406)	(653)
Total adjustments	\$ (1,458)	\$ 6,172	\$ 37,810	\$ 42,524
Net cash provided by (used in) operating activities	\$ (13,250)	\$ 5,805	\$ 115,340	\$ 107,895

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

I. Summary of Significant Accounting Policies

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The Charter of the City of Greenbush was adopted in 1905, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, culture and recreation, conservation of natural resources, economic development, water and sewer utilities, and sanitation, as authorized by its charter.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental, and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The Fire Department Special Project/Equipment Special Revenue Fund is used to account for and report contributions, intergovernmental revenues, and miscellaneous revenues contributed by volunteer firemen committed to fire department equipment and assigned to public safety.

The RBEG Revolving Loan Special Revenue Fund is used to account for and report loans to commercial properties restricted for economic development.

The Small Cities Development Program Special Revenue Fund is used to account for and report program income and grants restricted and assigned to economic development for residential and commercial rehabilitation funded by small cities development program grants.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The City reports the following major enterprise funds:

The Sanitation Enterprise Fund is used to account for the operations of the garbage collection system. Financing is provided by charges to residents for services.

The Sewer Enterprise Fund is used to account for operations of the sewer system. Financing is provided by charges to residents for services.

The Water Enterprise Fund is used to account for operations of the water system. Financing is provided by charges to residents for services.

Additionally, the City reports the following fund type:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund 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 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand and demand deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of the funds are invested by the City Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Investment earnings on cash and investments are allocated to the funds. City funds also participate in a pooled checking account for operating purposes. Pooled investment earnings for 2011 were \$2,526. Total investment earnings for 2011 were \$5,187.

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Roseau County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2002 through 2011 and deferred special assessments collectible in 2012 and beyond. Taxes receivable are offset by deferred revenue for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

Accounts receivable consist primarily of charges for services for sanitation, sewer and water.

Notes and loans receivable consist of rehabilitation and business loans. Notes and loans receivable are offset by deferred revenue for the balance outstanding as of year-end.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances from/to other funds" (i.e., the non-current portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed. During the current period, the City did not have any capitalized interest.

The City of Greenbush has elected to report infrastructure acquired prior to periods ending after June 30, 1980.

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-30
Buildings and improvements	30
Machinery and equipment	5-15

5. Compensated Absences

The liability for compensated absences reported in financial statements consists of the unpaid, accumulated annual vacation balance. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Deferred Revenue

Governmental funds report deferred revenue in conjunction 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 conjunction with resources that have been received, but not yet earned.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. In the fund financial statements, governmental fund types recognize the face amount of debt as other financing sources when issued.

8. Net Assets and Fund Balance

Certain funds of the City are classified as restricted net assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantor, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial statements and in accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City does not have any non-spendable fund balance as of December 31, 2011.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by formal action of the City Council and do not lapse at year-end. To remove the constraint on specified used of committed resources the City Council shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Clerk/Treasurer.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Net Assets and Fund Balance (Continued)

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds.

The City will maintain an unrestricted fund balance in the General Fund of an amount not less than four months of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall in excess of \$5,000. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by a source deemed appropriate by actions of the City Council within one year of replenishment.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely, such as uncertainties in economics that leads to overstated revenue forecasts, unpredictable changes in state law, and unforeseen expenditures such as natural disasters, for which no other governmental resources are made available or there is a delay in receiving those funds from other governmental agencies.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

II. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget – Nonmajor Funds

The following nonmajor funds had expenditures in excess of budget as of December 31, 2011:

	Expenditures	Budget	Excess
Economic Development Incubator Special Revenue Fund	\$ 49,602	\$ 15,975	\$ (33,627)
Golf Course Special Revenue Fund	22,510	-	(22,510)

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City’s total deposits and investments to the basic financial statements, as of December 31, 2011, are as follows:

Government-wide Statement of Net Assets	
Governmental Activities	
Cash and pooled investments	\$ 217,837
Investments	289,400
Business-type Activities	
Cash and pooled investments	190,822
Investments	88,663
Total Cash and Investments	\$ 786,722
Deposits	\$ 786,622
Petty cash and change funds	100
Total Deposits and Cash on Hand	\$ 786,722

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that 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 financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. However, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2011, the City’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2011, for the City’s governmental activities and business-type activities, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 17,720	\$ -
Special Assessments	14,803	12,171
Accounts	24,112	-
Accrued interest	3,363	-
Due from other governments	80,891	-
Notes	1,157	-
Loans	138,704	138,704
	<u>138,704</u>	<u>138,704</u>
Total Governmental Activities	<u>\$ 280,750</u>	<u>\$ 150,875</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Taxes	\$ 360	\$ -
Special assessments	3,647	2,996
Accounts	43,178	-
Accrued interest	371	-
Total Business-Type Activities	\$ 47,556	\$ 2,996

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 105,412	\$ -	\$ -	\$ 105,412
Capital assets being depreciated				
Buildings and improvements	\$ 1,007,480	\$ -	\$ 86,000	\$ 921,480
Machinery and equipment	701,104	10,389	-	711,493
Total capital assets being depreciated	\$ 1,708,584	\$ 10,389	\$ 86,000	\$ 1,632,973
Less: accumulated depreciation for				
Buildings and improvements	\$ 527,330	\$ 28,484	\$ 28,669	\$ 527,145
Machinery and equipment	412,574	60,677	-	473,251
Total accumulated depreciation	\$ 939,904	\$ 89,161	\$ 28,669	\$ 1,000,396
Total capital assets, depreciated, net	\$ 768,680	\$ (78,772)	\$ 57,331	\$ 632,577
Governmental Activities Capital Assets, Net	\$ 874,092	\$ (78,772)	\$ 57,331	\$ 737,989

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Construction in progress	1,610,653	104,236	1,714,889	-
Total capital assets not depreciated	<u>\$ 1,614,653</u>	<u>\$ 104,236</u>	<u>\$ 1,714,889</u>	<u>\$ 4,000</u>
Capital assets being depreciated				
Infrastructure	\$ 2,027,644	\$ 1,714,889	\$ -	\$ 3,742,533
Buildings and improvements	13,000	-	-	13,000
Machinery and equipment	48,027	-	-	48,027
Total capital assets being depreciated	<u>\$ 2,088,671</u>	<u>\$ 1,714,889</u>	<u>\$ -</u>	<u>\$ 3,803,560</u>
Less: accumulated depreciation for				
Infrastructure	\$ 338,176	\$ 64,995	\$ -	\$ 403,171
Buildings and improvements	5,201	434	-	5,635
Machinery and equipment	29,494	3,400	-	32,894
Total accumulated depreciation	<u>\$ 372,871</u>	<u>\$ 68,829</u>	<u>\$ -</u>	<u>\$ 441,700</u>
Total capital assets, depreciated, net	<u>\$ 1,715,800</u>	<u>\$ 1,646,060</u>	<u>\$ -</u>	<u>\$ 3,361,860</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 3,330,453</u>	<u>\$ 1,750,296</u>	<u>\$ 1,714,889</u>	<u>\$ 3,365,860</u>

Depreciation Expense

Depreciation expense was charged to functions of the City as follows:

Governmental Activities	
Public safety	\$ 51,113
Highways and streets	11,279
Culture and recreation	23,666
Conservation of natural resources	236
Economic development	2,867
Total Depreciation Expense - Governmental Activities	<u>\$ 89,161</u>
Business-Type Activities	
Sewer	\$ 21,922
Water	46,907
Total Depreciation Expense - Business-Type Activities	<u>\$ 68,829</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following operating transfers:

Transfer to General Fund from Other Governmental	\$ 5,000	To cover operating expenses
Transfer to Fire Department Special Project/Equipment Special Revenue Fund from General Fund	8,000	To cover operating expenses
Transfer to Other Governmental from General Fund	16,440	To close fund
Transfer to Other Governmental from Other Governmental	8,937	To close fund
Transfer to Water Enterprise Fund from General Fund	<u>9,000</u>	To cover operating expenses
Total Interfund Transfers	<u><u>\$ 47,377</u></u>	

C. Liabilities

Deferred Revenue

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. As of December 31, 2011, the components of deferred unavailable revenue reported in the governmental funds were as follows:

	<u>Deferred Unavailable</u>
Taxes	\$ 11,898
Special Assessments	13,050
Notes receivable	1,157
Loans receivable	<u>138,704</u>
Total Deferred Revenue	<u><u>\$ 164,809</u></u>

Compensated Absences

Under the City's personnel policies, full-time employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 6 to 16 days per year. Sick leave accrual for full-time employees is 12 days per year. Compensated absences are generally liquidated by the General Fund.

Unused accumulated vacation and vested sick leave is paid to full-time employees upon termination. Unvested sick leave, approximately \$18,404 at December 31, 2011, is available to full-time employees in the event of illness-related absences and is not paid to them at termination.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

City of Greenbush Public Project Notes of 2001, from the Minnesota Public Facilities Authority, represent debt incurred for economic development. These notes have an original issue amount of \$245,000. They carry a net interest rate of 5.5 percent, and are due in annual installments of \$11,775 to \$22,613 through February 1, 2016. The balance outstanding at December 31, 2011 is \$95,314.

Business-Type Activities

City of Greenbush General Obligation Water and Sewer Revenue Bonds of 2006 represent debt incurred for improvements made to the sewer main and pond. These bonds have an original issue amount of \$250,000. They carry a net interest rate of 4.42 percent, and are due in annual installments of \$9,666 to \$18,228 through February 1, 2027. The balance outstanding at December 31, 2011 is \$214,889.

The City of Greenbush General Obligation Water Revenue Note of 2009 - MPFA #1 represents debt incurred to finance the construction of the replacement and looping of the water main and gate valve repairs. This note has an original issue amount of \$349,676 with an addition of \$1,109,435 in 2010 for a total issue of \$1,459,111. It carries a net interest rate of 1.01 percent and is due in annual installments of between \$43,000 and \$55,476 through August 20, 2039. The balance due on December 31, 2011 is \$1,370,476.

The City of Greenbush General Obligation Water Revenue Note of 2009 - MPFA #2 represents debt incurred to finance the construction of the new water treatment plant and installation of water meters. This note has an original issue amount of \$668,344 with an addition of \$108,112 in 2011 for a total issue of \$776,456. It carries a net interest rate of 1.15 percent and is due in annual installments of between \$22,866 and \$31,000 through August 20, 2039. The balance due on December 31, 2010 is \$752,866.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2011, are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	<u>Public Project Notes of 2001</u>		<u>General Obligation Water and Sewer Revenue Bonds of 2006</u>		<u>General Obligation Water Revenue Note of 2009</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 19,217	\$ 4,981	\$ 9,666	\$ 9,401	\$ 65,866	\$ 22,389
2013	20,289	3,909	10,057	9,010	66,000	21,707
2014	21,420	2,779	10,465	8,602	66,000	21,011
2015	22,613	1,585	10,894	8,173	68,000	20,316
2016	11,775	324	11,341	7,726	68,000	19,598
2017-2021	-	-	64,352	30,983	353,000	87,033
2022-2026	-	-	79,886	15,449	373,000	68,008
2027-2031	-	-	18,228	839	392,000	47,961
2032-2036	-	-	-	-	413,000	26,802
2037-2039	-	-	-	-	258,476	5,462
	<u>\$ 95,314</u>	<u>\$ 13,578</u>	<u>\$ 214,889</u>	<u>\$ 90,183</u>	<u>\$ 2,123,342</u>	<u>\$ 340,287</u>

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Public Project Notes of 2001	\$ 113,516	\$ -	\$ 18,202	\$ 95,314	\$ 19,217
Compensated Absences	8,186	10,421	11,563	7,044	4,175
Governmental Activities Long-Term Liabilities	<u>\$ 121,702</u>	<u>\$ 10,421</u>	<u>\$ 29,765</u>	<u>\$ 102,358</u>	<u>\$ 23,392</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Water and Sewer Revenue Bonds of 2006	\$ 224,184	\$ -	\$ 9,295	\$ 214,889	\$ 9,666
General Obligation Water Revenue Note of 2009 - MPFA	2,080,820	108,112	65,590	2,123,342	65,866
Compensated Absences	-	1,540	683	857	857
Business-Type Activities Long-Term Liabilities	<u>\$ 2,305,004</u>	<u>\$ 109,652</u>	<u>\$ 75,568</u>	<u>\$ 2,339,088</u>	<u>\$ 76,389</u>

IV. Pension Plans

Defined Benefit Plans

Plan Description

All part-time employees of the City of Greenbush are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund and the Public Employees police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

IV. Pension Plans

Defined Benefit Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2011. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2011. The City is required to contribute the following percentages of annual covered payroll in 2011 and 2012:

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

IV. Pension Plans

Defined Benefit Plans

Funding Policy (Continued)

Public Employees Retirement Fund	
Basic Plan Members	11.78%
Coordinated Plan Members	7.25
Public Employees Police and Fire Fund	14.40

The City's contributions for the years ending December 31, 2011, 2010, and 2009, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2011	\$ 6,358	\$ 5,689
2010	5,857	5,699
2009	4,680	5,711

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

V. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

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

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 183,470	\$ 183,470	\$ 158,311	\$ (25,159)
Special assessments	9,400	9,400	10,310	910
Licenses and permits	3,265	3,265	2,620	(645)
Intergovernmental	237,639	237,639	253,624	15,985
Charges for services	52,478	52,478	77,553	25,075
Fines and forfeitures	6,000	6,000	724	(5,276)
Gifts and contributions	7,000	7,000	13,209	6,209
Investment earnings	500	500	2,526	2,026
Miscellaneous	10,775	10,775	38,271	27,496
Total Revenues	\$ 510,527	\$ 510,527	\$ 557,148	\$ 46,621
Expenditures				
General government				
Mayor/council	\$ 8,500	\$ 8,500	\$ 8,382	\$ 118
City clerk/treasurer	35,500	35,500	36,984	(1,484)
Professional services	4,400	4,400	4,500	(100)
Legal	1,500	1,500	1,010	490
Travel and schools	650	650	-	650
Assessor	3,200	3,200	3,004	196
Buildings and grounds	-	-	26,159	(26,159)
Real estate taxes	1,200	1,200	1,384	(184)
Utilities	7,000	7,000	5,940	1,060
Insurance	14,050	14,050	8,978	5,072
Other general government	10,800	10,800	7,605	3,195
Total general government	\$ 86,800	\$ 86,800	\$ 103,946	\$ (17,146)
Public safety				
Police	\$ 71,650	\$ 71,650	\$ 70,156	\$ 1,494
Fire	32,185	32,185	35,471	(3,286)
Fire relief association	10,000	10,000	19,004	(9,004)
Ambulance	4,704	4,704	4,704	-
Total public safety	\$ 118,539	\$ 118,539	\$ 129,335	\$ (10,796)
Highways and streets				
Streets and alleys	\$ 133,455	\$ 133,455	\$ 147,099	\$ (13,644)
Street lighting	18,000	18,000	16,508	1,492
Total highways and streets	\$ 151,455	\$ 151,455	\$ 163,607	\$ (12,152)

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued)				
Culture and recreation				
Ice rinks	\$ 1,050	\$ 1,050	\$ 1,443	\$ (393)
Library	20,004	20,004	18,924	1,080
Parks	21,200	21,200	17,434	3,766
Recreational programs	9,800	9,800	8,636	1,164
Swimming pool	42,280	42,280	49,001	(6,721)
Other culture and recreation	900	900	177	723
Total culture and recreation	\$ 95,234	\$ 95,234	\$ 95,615	\$ (381)
Conservation of natural resources				
Weed and pest control	\$ 5,000	\$ 5,000	\$ 3,849	\$ 1,151
Economic development				
Other economic development	\$ -	\$ -	\$ 2,500	\$ (2,500)
Debt service				
Principal retirement	\$ 18,202	\$ 18,202	\$ 18,202	\$ -
Interest	5,997	5,997	5,996	1
Total debt service	\$ 24,199	\$ 24,199	\$ 24,198	\$ 1
Capital outlay				
Culture and recreation	\$ -	\$ -	\$ 10,389	\$ (10,389)
Total Expenditures	\$ 481,227	\$ 481,227	\$ 533,439	\$ (52,212)
Excess of Revenues Over (Under)				
Expenditures	\$ 29,300	\$ 29,300	\$ 23,709	\$ (5,591)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 5,000	\$ 5,000
Transfers out	(30,700)	(30,700)	(33,440)	(2,740)
Total other financing sources (uses)	\$ (30,700)	\$ (30,700)	\$ (28,440)	\$ 2,260
Net Change in Fund Balance	\$ (1,400)	\$ (1,400)	\$ (4,731)	\$ (3,331)
Fund Balance - January 1	296,539	296,539	296,539	-
Fund Balance - December 31	\$ 295,139	\$ 295,139	\$ 291,808	\$ (3,331)

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT SPECIAL PROJECT/EQUIPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 10,956	\$ 10,956	\$ 2,956	\$ (8,000)
Gifts and contributions	-	-	27,440	27,440
Investment earnings	-	-	1,452	1,452
Miscellaneous	2,000	2,000	7,873	5,873
Total Revenues	\$ 12,956	\$ 12,956	\$ 39,721	\$ 26,765
Expenditures				
Current				
Public safety				
Fire	2,000	2,000	23,290	(21,290)
Excess of Revenues Over (Under) Expenditures	\$ 10,956	\$ 10,956	\$ 16,431	\$ 5,475
Other Financing Sources (Uses)				
Transfers in	-	-	8,000	8,000
Net Change in Fund Balance	\$ 10,956	\$ 10,956	\$ 24,431	\$ 13,475
Fund Balance - January 1	139,172	139,172	139,172	-
Fund Balance - December 31	\$ 150,128	\$ 150,128	\$ 163,603	\$ 13,475

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
RBEG REVOLVING LOAN SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ 5,409	\$ 5,409	\$ 6,812	\$ 1,403
Expenditures				
Current				
Economic development				
Other economic development	-	-	20,000	(20,000)
Excess of Revenues Over (Under)				
Expenditures	\$ 5,409	\$ 5,409	\$ (13,188)	\$ (18,597)
Fund Balance - January 1	<u>21,288</u>	<u>21,288</u>	<u>21,288</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 26,697</u>	<u>\$ 26,697</u>	<u>\$ 8,100</u>	<u>\$ (18,597)</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SMALL CITIES DEVELOPMENT PROGRAM SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 175,993	\$ 175,993
Miscellaneous	2,000	200	9,668	9,468
Total Revenues	\$ 2,000	\$ 200	\$ 185,661	\$ 185,461
Expenditures				
Current				
Economic development				
Other economic development	2,000	2,000	74,631	(72,631)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (1,800)	\$ 111,030	\$ 112,830
Fund Balance - January 1	(1,798)	(1,798)	(1,798)	-
Fund Balance - December 31	\$ (1,798)	\$ (3,598)	\$ 109,232	\$ 112,830

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget. Public hearings are held at the county level. The final budget is approved in December and a certified levy is sent to Roseau County.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restrictions of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

II. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2011:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
City clerk/treasurer	\$ 36,984	\$ 35,500	\$ (1,484)
Professional services	4,500	4,400	(100)
Buildings and grounds	26,159	-	(26,159)
Real estate taxes	1,384	1,200	(184)
Public safety			
Fire	35,471	32,185	(3,286)
Fire relief association	19,004	10,000	(9,004)
Highways and streets			
Streets and alleys	147,099	133,455	(13,644)
Culture and recreation			
Ice rinks	1,443	1,050	(393)
Swimming pool	49,001	42,280	(6,721)
Economic development			
Other economic development	2,500	-	(2,500)
Capital outlay			
Culture and recreation	10,389	-	(10,389)
Fire Department Special Project/Equipment			
Special Revenue Fund			
Public safety			
Fire	23,290	2,000	(21,290)
RBEG Revolving Loan Special Revenue Fund			
Economic development			
Other economic development	20,000	-	(20,000)
Small Cities Development Program			
Special Revenue Fund			
Economic development			
Other economic development	74,631	2,000	(72,631)

SUPPLEMENTARY INFORMATION

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Economic Development Incubator Special Revenue Fund is used to account for and report activities to maintain favorable environmental conditions for economic development at attractive and affordable rates. This fund was closed in 2011.

The Economic Development Leased Property Special Revenue Fund is used to account for and report economic development of leased properties. This fund was closed in 2011.

The Fire Department Special Revenue Fund is used to account for and report the financial transactions of the fire department. Financing is provided by miscellaneous revenues, contributions, and memorials committed to fire equipment and assigned to public safety.

The General Special Projects Special Revenue Fund is used to account for and report special projects funded by donations as specified by contributors committed to culture and recreation plan.

The Golf Course Special Revenue Fund is used to account for and report the financial transactions of the golf course committed to parks.

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2011**

	Fire Department	General Special Projects	Golf Course	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 5,034	\$ 14,900	\$ 6,377	\$ 26,311
Investments	5,165	-	-	5,165
Accrued interest receivable	127	-	-	127
	\$ 10,326	\$ 14,900	\$ 6,377	\$ 31,603
 <u>Liabilities and Fund Balances</u>				
Fund Balances				
Committed to				
Culture and recreation plan	\$ -	\$ 14,900	\$ -	\$ 14,900
Fire department equipment	10,199	-	-	10,199
Parks	-	-	6,377	6,377
Assigned to				
Public safety	127	-	-	127
	\$ 10,326	\$ 14,900	\$ 6,377	\$ 31,603

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Economic Development Incubator	Economic Development Leased Property	Fire Department
Revenues			
Charges for services	\$ -	\$ -	\$ -
Gifts and contributions	-	-	1,005
Investment earnings	-	-	73
Miscellaneous	38,590	1,925	-
Total Revenues	\$ 38,590	\$ 1,925	\$ 1,078
Expenditures			
Current			
Culture and recreation	\$ -	\$ -	\$ -
Economic development	49,602	-	-
Total Expenditures	\$ 49,602	\$ -	\$ -
Excess of Revenues Over (Under) Expenditures	\$ (11,012)	\$ 1,925	\$ 1,078
Other Financing Sources (Uses)			
Transfers in	\$ 25,377	\$ -	\$ -
Transfers out	-	(8,937)	-
Total Other Financing Sources (Uses)	\$ 25,377	\$ (8,937)	\$ -
Net Change in Fund Balance	\$ 14,365	\$ (7,012)	\$ 1,078
Fund Balance - January 1	(14,365)	7,012	9,248
Fund Balance - December 31	\$ -	\$ -	\$ 10,326

Statement 2

<u>General Special Projects</u>	<u>Golf Course</u>	<u>Total (Exhibit 5)</u>
\$ -	\$ 22,446	\$ 22,446
31,839	-	32,844
-	-	73
-	-	40,515
<u>\$ 31,839</u>	<u>\$ 22,446</u>	<u>\$ 95,878</u>
\$ 28,600	\$ 22,510	\$ 51,110
-	-	49,602
<u>\$ 28,600</u>	<u>\$ 22,510</u>	<u>\$ 100,712</u>
<u>\$ 3,239</u>	<u>\$ (64)</u>	<u>\$ (4,834)</u>
\$ -	\$ -	\$ 25,377
(5,000)	-	(13,937)
<u>\$ (5,000)</u>	<u>\$ -</u>	<u>\$ 11,440</u>
\$ (1,761)	\$ (64)	\$ 6,606
<u>16,661</u>	<u>6,441</u>	<u>24,997</u>
<u>\$ 14,900</u>	<u>\$ 6,377</u>	<u>\$ 31,603</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT INCUBATOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 1,500	\$ 1,500	\$ 38,590	\$ 37,090
Expenditures				
Current				
Economic development				
Incubator	15,975	15,975	49,602	(33,627)
Excess of Revenues Over (Under) Expenditures	\$ (14,475)	\$ (14,475)	\$ (11,012)	\$ 3,463
Other Financing Sources				
Transfers in	-	-	25,377	25,377
Net Change in Fund Balance	\$ (14,475)	\$ (14,475)	\$ 14,365	\$ 28,840
Fund Balance - January 1	(14,365)	(14,365)	(14,365)	-
Fund Balance - December 31	\$ (28,840)	\$ (28,840)	\$ -	\$ 28,840

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT LEASED PROPERTY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 2,100	\$ 2,100	\$ 1,925	\$ (175)
Other Financing Sources (Uses)				
Transfers out	-	-	(8,937)	(8,937)
Net Change in Fund Balance	\$ 2,100	\$ 2,100	\$ (7,012)	\$ (9,112)
Fund Balance - January 1	7,012	7,012	7,012	-
Fund Balance - December 31	\$ 9,112	\$ 9,112	\$ -	\$ (9,112)

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gifts and contributions	\$ 750	\$ 750	\$ 1,005	\$ 255
Investment earnings	-	-	73	73
Total Revenues	\$ 750	\$ 750	\$ 1,078	\$ 328
Expenditures				
Current				
Public safety				
Fire protection	100	100	-	100
Excess of Revenues Over (Under)				
Expenditures	\$ 650	\$ 650	\$ 1,078	\$ 428
Fund Balance - January 1	9,248	9,248	9,248	-
Fund Balance - December 31	\$ 9,898	\$ 9,898	\$ 10,326	\$ 428

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
GENERAL SPECIAL PROJECTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gifts and contributions	\$ -	\$ -	\$ 31,839	\$ 31,839
Expenditures				
Current				
Culture and recreation				
Other culture and recreation	30,000	30,000	28,600	1,400
Excess of Revenues Over (Under)				
Expenditures	\$ (30,000)	\$ (30,000)	\$ 3,239	\$ 33,239
Other Financing Sources (Uses)				
Transfers out	-	-	(5,000)	(5,000)
Net Change in Fund Balance	\$ (30,000)	\$ (30,000)	\$ (1,761)	\$ 28,239
Fund Balance - January 1	16,661	16,661	16,661	-
Fund Balance - December 31	<u>\$ (13,339)</u>	<u>\$ (13,339)</u>	<u>\$ 14,900</u>	<u>\$ 28,239</u>

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
GOLF COURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ -	\$ -	\$ 22,446	\$ 22,446
Expenditures				
Current				
Culture and recreation				
Oakview Golf Course	-	-	22,510	(22,510)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (64)	\$ (64)
Fund Balance - January 1	6,441	6,441	6,441	-
Fund Balance - December 31	\$ 6,441	\$ 6,441	\$ 6,377	\$ (64)

OTHER SCHEDULES

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Fire state aid	\$	13,091
Firefighters relief association (supplemental benefits)		2,000
Local government aid		220,770
Market value credit		11,426
PERA rate reimbursement		668
Police state aid		5,669

Total Shared Revenue

\$ 253,624

Grants

Federal

Department of Employment and Economic Development	\$	175,993
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Total Intergovernmental Revenue

\$ 429,617

MANAGEMENT AND COMPLIANCE SECTION

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

Schedule 11

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-1 Segregation of Duties

Due to the limited number of personnel within the City office, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the City of Greenbush; however, the City's management 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 control point of view.

A control deficiency 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.

We recommend that the City's management be aware of the lack of segregation of duties within the accounting function and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

City's Response:

The Council reviews check registers at monthly meetings and also approves bills to be paid. All checks require two signatures. A new policy was put into place requiring a council member to balance the check register at least every six months or on random basis. Random checks are to never exceed a 6 month time for this review.

07-1 Internal Controls

The financial statements are the responsibility of the City of Greenbush's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the City's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the City's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable

**CITY OF GREENBUSH
GREENBUSH, MINNESOTA**

**Schedule 11
(Continued)**

financial statements that are fairly presented in conformity with GAAP. Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and obtain suitable knowledge to sufficiently review, understand, and approve the City's financial statements, including notes.

City's Response:

The City Council implemented an investment policy to provide a safeguard for City investments. Any investment made by the Clerk-Treasurer has to follow all regulations in this policy. If necessary the Investment Policy can be changed to add more restrictions.

II. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

08-1 Deficit Cash Balance

At December 31, 2010, the Economic Development Incubator Special Revenue Fund had a cash balance deficit of \$13,741.

Resolution:

At December 31, 2011, the Economic Development Incubator Special Revenue Fund did not have a cash balance deficit.

10-1 Deficit Cash Balance

At December 31, 2010, the Small Cities Development Program Special Revenue Fund had a cash balance deficit of \$1,798.

Resolution:

At December 31, 2011, the Small Cities Development Program Special Revenue Fund did not have a cash balance deficit.



GOVERNMENTAL AUDIT SERVICES

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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***

City Council
City of Greenbush

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Greenbush, Minnesota 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 April 12, 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 of Greenbush'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.

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.

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 that we consider to be significant deficiencies described in the accompanying Schedule of Findings and Responses as items 04-1 and 07-1. 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 Greenbush'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*.

Minnesota Legal Compliance

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 categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting - bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the City of Greenbush has no tax increment financing districts. The results of our tests indicate that for the items tested, the City of Greenbush complied with the material terms and conditions of applicable legal provisions.

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

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

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

April 12, 2012