

CITY OF GRAND MARAIS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2009**

CITY OF GRAND MARAIS, MINNESOTA

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December 31, 2009

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CITY OF GRAND MARAIS, MINNESOTA

**ORGANIZATION
December 31, 2009**

CITY COUNCIL

Mayor	Sue Hakes
Councilmember	Kay Costello
Councilmember	Tim Kennedy
Councilmember	William Lenz
Councilmember	Jan Sivertson

ADMINISTRATION

City Administrator	Michael J. Roth
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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Grand Marais, Minnesota

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 City of Grand Marais, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Grand Marais, Minnesota'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 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 Grand Marais, Minnesota, as of December 31, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2010, on our consideration of the City of Grand Marais, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Marais, Minnesota's basic financial statements. The combining nonmajor and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Walker, Hovius & Nelson, Ltd.

June 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

The City of Grand Marais, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2009. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Grand Marais, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$5,211,112, of which \$1,823,271 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$12,911,320. Invested in capital assets, net of related debt represents \$8,884,212 of the total.
- The City of Grand Marais's net assets increased by \$1,499,531 for the year ended December 31, 2009. Of the increase, an increase of \$42,355 was reported in the governmental activities' net assets and \$1,457,176 represented the increase in business-type activities' net assets.
- The net revenue of governmental activities was \$20,900 for the current year. General revenues totaled \$966,444.
- Governmental funds' fund balances increased by \$1,823,527.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Grand Marais, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section) is required to accompany the basic financial statements, and therefore, is included as required supplementary information.

There are two government-wide financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about the City, as a whole, and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These government-wide statements report the City's net assets and how they have changed. You can think of the City's net assets — the difference between assets and liabilities—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aid and the condition of City buildings also need to be considered in assessing the overall health of the City.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

In the statement of net assets and the statement of activities, all activities are shown in the governmental activities and business-type activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, streets, culture and recreation, and economic development. Property taxes and state and federal grants and aids finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's liquor store, golf course, electric, water, and sewer services are reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Proprietary funds**—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$16,622,901 to \$18,122,432. During 2009, both the governmental activities and the business-type activities had an increase in net assets. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

CITY OF GRAND MARAIS, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 5,286,565	\$ 3,496,162	\$ 4,717,538	\$ 4,452,305	\$10,004,103	\$ 7,948,467
Capital assets	<u>8,418,271</u>	<u>9,103,588</u>	<u>14,378,212</u>	<u>13,562,496</u>	<u>22,796,483</u>	<u>22,666,084</u>
Total assets	<u>13,704,836</u>	<u>12,599,750</u>	<u>19,095,750</u>	<u>18,014,801</u>	<u>32,800,586</u>	<u>30,614,551</u>
Long-term debt outstanding	8,270,000	6,754,000	5,494,000	5,762,000	13,764,000	12,516,000
Other liabilities	<u>223,724</u>	<u>676,993</u>	<u>690,430</u>	<u>798,657</u>	<u>914,154</u>	<u>1,475,650</u>
Total liabilities	<u>8,493,724</u>	<u>7,430,993</u>	<u>6,184,430</u>	<u>6,560,657</u>	<u>14,678,154</u>	<u>13,991,650</u>
Net assets						
Invested in capital assets, net of debt	1,823,271	2,349,588	8,884,212	7,800,496	10,707,483	10,150,084
Restricted	1,659,748	-	987,700	987,700	2,647,448	987,700
Unrestricted	<u>1,728,093</u>	<u>2,819,169</u>	<u>3,039,408</u>	<u>2,665,948</u>	<u>4,767,501</u>	<u>5,485,117</u>
Total net assets	<u>\$ 5,211,112</u>	<u>\$ 5,168,757</u>	<u>\$12,911,320</u>	<u>\$11,454,144</u>	<u>\$18,122,432</u>	<u>\$16,622,901</u>

Net assets of the City's governmental activities increased by .82 percent (\$5,211,112 compared to \$5,168,757) in 2009.

Net assets of the City's business-type activities increased by 12.72 percent (\$12,911,320 compared to \$11,454,144) in 2009.

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$1,009,405	\$ 924,981	\$5,166,774	\$4,995,450	\$6,176,179	\$5,920,431
Operating grants and contributions	220,552	194,585	71,527	8,530	292,079	203,115
Capital grants and contributions	995,589	293,714	8,714	11,698	1,004,303	305,412
General revenues:						
Property taxes	733,707	628,168	30,278	27,787	763,985	655,955
Intergovernmental	211,125	205,071	-	-	211,125	205,071
Other general revenues	<u>21,612</u>	<u>55,193</u>	<u>28,672</u>	<u>36,668</u>	<u>50,284</u>	<u>91,861</u>
Total revenues	<u>3,191,990</u>	<u>2,301,712</u>	<u>5,305,965</u>	<u>5,080,133</u>	<u>8,497,955</u>	<u>7,381,845</u>
Program expenses:						
General government	327,362	351,365	-	-	327,362	351,365
Public safety	253,633	251,277	-	-	253,633	251,277
Streets	281,233	372,945	-	-	281,233	372,945
Culture and recreation	1,055,144	1,067,160	-	-	1,055,144	1,067,160
Interest	287,274	212,571	-	-	287,274	212,571
Liquor store	-	-	1,357,165	1,284,381	1,357,165	1,284,381
Golf course	-	-	146,880	169,211	146,880	169,211
Electric	-	-	2,426,856	2,427,592	2,426,856	2,427,592
Water	-	-	404,496	414,807	404,496	414,807
Sewer	-	-	458,381	510,310	458,381	510,310
Total program expenses	<u>2,204,646</u>	<u>2,255,318</u>	<u>4,793,778</u>	<u>4,806,301</u>	<u>6,998,424</u>	<u>7,061,619</u>
Excess before transfers	987,344	46,394	512,187	273,832	1,499,531	320,226
Transfers	<u>(944,989)</u>	<u>200,000</u>	<u>944,989</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 42,355</u>	<u>\$ 246,394</u>	<u>\$1,457,176</u>	<u>\$ 73,832</u>	<u>\$1,499,531</u>	<u>\$ 320,226</u>

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

Governmental Activities

The cost of all governmental activities this year was \$2,204,646. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs in the amount of \$1,009,405 or by other governments and organizations that subsidized certain programs with grants and contributions in the amount of \$1,216,141. Our taxpayers paid \$733,707 in property taxes.

Table 3 presents the cost of each of the City's five largest programs, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these programs.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2009	2008	2009	2008
Culture and recreation	\$ 1,055,144	\$ 1,067,160	\$ 28,333	\$ 146,718
General government	327,362	351,365	176,174	207,858
Streets	281,233	372,945	(714,356)	199,231
Public safety	253,633	251,277	201,675	198,133
Economic development	-	-	-	(122,473)
Interest on long-term debt	287,274	212,571	287,274	212,571
Totals	<u>\$ 2,204,646</u>	<u>\$ 2,255,318</u>	<u>\$ (20,900)</u>	<u>\$ 842,038</u>

Business-Type Activities

Revenues of the City's business-type activities were \$5,305,965; expenses were \$4,793,778 (see Table 2). Operations produced income of \$612,042 during the year ended December 31, 2009. The factors driving these results include:

- Electric, water, and sewer utility fee rate increases.
- Reduction of expenses, such as overtime pay.
- Reduction of capital improvements.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$4,367,118 which is an increase from last year's total of \$2,543,591. Included in this year's total fund balance is a surplus of \$1,165,462 in the City's general fund. The general fund had an increase of \$321,329. An increase of \$2,227,692 was recorded in the Debt Service Fund due to the issuance of improvement refunding bonds and special assessments received. The largest decrease in fund balance of \$735,121 was recorded in the Street/Utility Project Capital Projects Fund due to expenditures for the Creechville water and sewer improvements and the reconstruction of water, sewer, and streets in existing neighborhoods with aging infrastructure.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual charges to appropriations (expenditures) were \$206,546 below the final budget amounts. Resources available for appropriation were \$111,474 above the final budgeted amounts. Although the City received less in property taxes than expected, more intergovernmental aids and charges for services were received.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had \$22,796,483 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$130,399 over last year.

**Table 4
Capital Assets at Year-end
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 630,922	\$ 630,922	\$ 186,100	\$ 186,100	\$ 817,022	\$ 817,022
Construction in progress	2,079,453	3,988,009	-	-	2,079,453	3,988,009
Buildings	1,094,525	1,142,738	4,516,151	4,694,053	5,610,676	5,836,791
Improvements	480,017	406,283	41,785	44,095	521,802	450,378
Infrastructure	3,749,811	2,537,037	9,251,637	8,229,912	13,001,448	10,766,949
Machinery and equipment	135,468	133,715	264,626	280,000	400,094	413,715
Licensed vehicles	<u>248,075</u>	<u>264,884</u>	<u>117,913</u>	<u>128,336</u>	<u>365,988</u>	<u>393,220</u>
Totals	<u>\$8,418,271</u>	<u>\$9,103,588</u>	<u>\$14,378,212</u>	<u>\$13,562,496</u>	<u>\$22,796,483</u>	<u>\$22,666,084</u>

This year's major additions were the street/utility projects.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

CITY OF GRAND MARAIS, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009**

Debt

At year-end, the City had \$13,764,000 in long-term debt outstanding versus \$12,516,000 last year—as shown in Table 5.

**Table 5
Outstanding Debt, at Year-end**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds (backed by the City)	\$8,270,000	\$6,754,000	\$ -	\$ -	\$ 8,270,000	\$ 6,754,000
Electric system revenue bonds	-	-	3,755,000	3,935,000	3,755,000	3,935,000
General obligation sewer revenue bonds	-	-	359,000	366,000	359,000	366,000
General obligation revenue notes	-	-	940,000	1,001,000	940,000	1,001,000
Water revenue note	-	-	440,000	460,000	440,000	460,000
Total	<u>\$8,270,000</u>	<u>\$6,754,000</u>	<u>\$5,494,000</u>	<u>\$5,762,000</u>	<u>\$ 13,764,000</u>	<u>\$12,516,000</u>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. As of December 31, 2009, the City had no outstanding qualifying net debt that applied to this \$4,803,000 state-imposed limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials considered many factors when setting the 2010 budget and tax rates.

- The property tax levy increase will be held to 3%.
- The City's capital improvement plan for 2010 includes paving and site upgrades at the rec park, reconstruction of some water mains, and the purchase of a snowplow/sander/dumptruck.
- Electric rates were increased 3% for 2010 in response to wholesale rates that increased by 4.2%.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator, Michael J. Roth, City of Grand Marais, P.O. Box 600, Grand Marais, Minnesota 55604.

BASIC FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET ASSETS

December 31, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,193,680	\$ 2,759,718	\$ 6,953,398
Taxes receivable	106,414	-	106,414
Special assessments receivable	614,039	221,242	835,281
Accounts receivable	12,842	346,342	359,184
Internal balances	65,374	(65,374)	-
Loans receivable	149,561	-	149,561
Inventories	5,475	424,215	429,690
Prepaid items	44,254	32,590	76,844
Deferred debt issue costs	94,926	106,424	201,350
Temporarily restricted assets			
Cash and cash equivalents	-	892,381	892,381
Capital assets not being depreciated:			
Land	630,922	186,100	817,022
Construction in progress	2,079,453	-	2,079,453
Capital assets, net of accumulated depreciation:			
Buildings	1,094,525	4,516,151	5,610,676
Improvements	480,017	41,785	521,802
Infrastructure	3,749,811	9,251,637	13,001,448
Machinery and equipment	135,468	264,626	400,094
Licensed vehicles	248,075	117,913	365,988
TOTAL ASSETS	13,704,836	19,095,750	32,800,586
LIABILITIES			
Accounts payable	39,389	209,139	248,528
Salaries payable	49,964	77,382	127,346
Contracts payable	14,686	-	14,686
Customer deposits	-	12,702	12,702
Unearned revenues	-	338,773	338,773
Accrued interest payable	119,685	52,434	172,119
Noncurrent liabilities			
Due within one year	2,020,000	274,000	2,294,000
Due in more than one year	6,250,000	5,220,000	11,470,000
TOTAL LIABILITIES	8,493,724	6,184,430	14,678,154
NET ASSETS			
Invested in capital assets, net of related debt	1,823,271	8,884,212	10,707,483
Restricted for other purposes	1,659,748	987,700	2,647,448
Unrestricted	1,728,093	3,039,408	4,767,501
TOTAL NET ASSETS	\$ 5,211,112	\$ 12,911,320	\$ 18,122,432

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 327,362	\$ 143,488	\$ 7,700
Public safety	253,633	35,193	16,765
Streets	281,233	-	-
Culture and recreation	1,055,144	830,724	196,087
Interest on long-term debt	<u>287,274</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>2,204,646</u>	<u>1,009,405</u>	<u>220,552</u>
Business-type Activities			
Liquor Store	\$ 1,357,165	\$ 1,582,925	\$ -
Golf Course	146,880	124,558	-
Electric	2,426,856	2,578,376	71,527
Water	404,496	356,669	-
Sewer	<u>458,381</u>	<u>524,246</u>	<u>-</u>
Total Business-type Activities	<u>4,793,778</u>	<u>5,166,774</u>	<u>71,527</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,998,424</u>	<u>\$ 6,176,179</u>	<u>\$ 292,079</u>

General Revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to
specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET ASSETS

NET ASSETS - JANUARY 1

NET ASSETS - DECEMBER 31

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>			
<u>Primary Government</u>			
<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (176,174)	\$ -	\$ (176,174)
-	(201,675)	-	(201,675)
995,589	714,356	-	714,356
-	(28,333)	-	(28,333)
-	(287,274)	-	(287,274)
<u>995,589</u>	<u>20,900</u>	<u>-</u>	<u>20,900</u>
\$ -	-	225,760	225,760
-	-	(22,322)	(22,322)
-	-	223,047	223,047
8,714	-	(39,113)	(39,113)
-	-	65,865	65,865
<u>8,714</u>	<u>-</u>	<u>453,237</u>	<u>453,237</u>
<u>\$ 1,004,303</u>	<u>20,900</u>	<u>453,237</u>	<u>474,137</u>
	584,520	-	584,520
	149,187	30,278	179,465
	5,767	-	5,767
	211,125	-	211,125
	15,845	26,672	42,517
	-	2,000	2,000
	<u>(944,989)</u>	<u>944,989</u>	<u>-</u>
	<u>21,455</u>	<u>1,003,939</u>	<u>1,025,394</u>
	42,355	1,457,176	1,499,531
	<u>5,168,757</u>	<u>11,454,144</u>	<u>16,622,901</u>
	<u>\$ 5,211,112</u>	<u>\$ 12,911,320</u>	<u>\$ 18,122,432</u>

CITY OF GRAND MARAIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Street/Utility Project Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 978,387	\$ 743,715	\$ 14,686	\$ 797,144	\$ 2,533,932
Cash with fiscal agent	-	1,659,748	-	-	1,659,748
Taxes receivable	94,784	11,630	-	-	106,414
Special assessments receivable	-	614,039	-	-	614,039
Accounts receivable	11,434	-	-	1,408	12,842
Due from other funds	65,073	3,003	-	-	68,076
Loans receivables	100,000	-	-	49,561	149,561
Inventories	5,475	-	-	-	5,475
Prepaid items	41,635	-	-	2,619	44,254
TOTAL ASSETS	<u>\$ 1,296,788</u>	<u>\$ 3,032,135</u>	<u>\$ 14,686</u>	<u>\$ 850,732</u>	<u>\$ 5,194,341</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 37,470	\$ -	\$ -	\$ 1,919	\$ 39,389
Salaries payable	36,974	-	-	12,990	49,964
Contracts payable	-	-	14,686	-	14,686
Due to other funds	-	2,702	-	-	2,702
Deferred revenue	56,882	614,039	-	49,561	720,482
TOTAL LIABILITIES	<u>131,326</u>	<u>616,741</u>	<u>14,686</u>	<u>64,470</u>	<u>827,223</u>
FUND BALANCES					
Unreserved, designated	406,680	-	-	62,076	468,756
Unreserved, undesignated, reported in					
General Fund	758,782	-	-	-	758,782
Special revenue funds	-	-	-	476,889	476,889
Debt service fund	-	2,415,394	-	-	2,415,394
Capital projects funds	-	-	-	247,297	247,297
TOTAL FUND BALANCES	<u>1,165,462</u>	<u>2,415,394</u>	<u>-</u>	<u>786,262</u>	<u>4,367,118</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,296,788</u>	<u>\$ 3,032,135</u>	<u>\$ 14,686</u>	<u>\$ 850,732</u>	<u>\$ 5,194,341</u>

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

CITY OF GRAND MARAIS, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
December 31, 2009

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 4,367,118
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	94,926
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	8,418,271
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	720,482
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(119,685)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(8,270,000)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 5,211,112</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2009

	General Fund	Debt Service Fund	Street/Utility Project Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes					
Property	\$ 549,995	\$ 149,187	\$ -	\$ -	\$ 699,182
Franchise	-	-	-	5,767	5,767
Special assessments	15,050	596,069	-	-	611,119
Licenses and permits	79,580	-	-	-	79,580
Intergovernmental	226,315	-	-	92,591	318,906
Charges for services	908,883	-	-	11,667	920,550
Fines	823	-	-	-	823
Gifts and contributions	14,891	-	-	97,880	112,771
Interest	6,339	738	2,558	6,209	15,844
Miscellaneous	8,444	-	-	8,333	16,777
TOTAL REVENUES	<u>1,810,320</u>	<u>745,994</u>	<u>2,558</u>	<u>222,447</u>	<u>2,781,319</u>
EXPENDITURES					
Current					
General government	340,500	-	-	-	340,500
Public safety	242,142	-	-	-	242,142
Streets	168,218	-	-	-	168,218
Culture and recreation	808,027	-	-	254,315	1,062,342
Economic development	-	-	-	27,505	27,505
Debt service					
Principal	-	159,000	-	-	159,000
Interest and other charges	-	224,247	-	-	224,247
Bond issuance costs	-	45,000	-	-	45,000
Capital outlay					
Streets	-	-	681,493	-	681,493
TOTAL EXPENDITURES	<u>1,558,887</u>	<u>428,247</u>	<u>681,493</u>	<u>281,820</u>	<u>2,950,447</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>251,433</u>	<u>317,747</u>	<u>(678,935)</u>	<u>(59,373)</u>	<u>(169,128)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	256,186	234,945	-	128,945	620,076
Transfers out	(186,290)	-	(56,186)	(59,945)	(302,421)
Bonds issued	-	1,675,000	-	-	1,675,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>69,896</u>	<u>1,909,945</u>	<u>(56,186)</u>	<u>69,000</u>	<u>1,992,655</u>
NET CHANGE IN FUND BALANCES	<u>321,329</u>	<u>2,227,692</u>	<u>(735,121)</u>	<u>9,627</u>	<u>1,823,527</u>
FUND BALANCES - JANUARY 1	<u>844,133</u>	<u>187,702</u>	<u>735,121</u>	<u>776,635</u>	<u>2,543,591</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,165,462</u>	<u>\$ 2,415,394</u>	<u>\$ -</u>	<u>\$ 786,262</u>	<u>\$ 4,367,118</u>

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

CITY OF GRAND MARAIS, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2009**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 1,823,527
<p>Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	816,463	
Less current year depreciation	<u>(239,136)</u>	
Net capital assets		577,327
<p>Capital assets were contributed to the Water and Sewer Enterprise Funds.</p>		
		(1,262,644)
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Change in deferred revenue - delinquent property taxes	34,525	
Change in deferred revenue - special assessments receivable	384,471	
Change in deferred revenue - loans receivable	<u>19,176</u>	
		438,172
<p>Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets.</p>		
Debt issued	(1,675,000)	
Principal repaid	<u>159,000</u>	
		(1,516,000)
<p>Governmental funds report bond discounts and issuance costs as expenditures; however, in the statement of activities, these costs are amortized over the life of the corresponding debt.</p>		
		32,185
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.</p>		
Change in accrued interest payable on long-term debt		(50,212)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 42,355</u></u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 December 31, 2009

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 701,726	\$ 9,457	\$ 923,190	\$ 211,753	\$ 913,592	\$ 2,759,718
Accounts receivable	859	261	256,093	31,858	57,271	346,342
Due from other funds	-	-	-	2,702	-	2,702
Special assessments receivable	-	-	-	221,242	-	221,242
Inventories	126,278	5,111	279,273	13,095	458	424,215
Prepaid items	6,960	5,092	11,268	4,898	4,372	32,590
TOTAL CURRENT ASSETS	835,823	19,921	1,469,824	485,548	975,693	3,786,809
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Revenue bond covenant accounts	-	-	408,893	-	-	408,893
MPCA contract accounts	-	-	-	-	483,488	483,488
Total restricted cash and cash equivalents	-	-	408,893	-	483,488	892,381
Deferred debt issue costs	-	-	97,134	9,290	-	106,424
Capital assets						
Land	-	154,100	25,000	5,000	2,000	186,100
Buildings	24,248	89,466	2,759,697	1,815,454	2,516,190	7,205,055
Improvements	-	310,058	-	-	-	310,058
Infrastructure	-	-	3,307,936	5,225,825	3,268,062	11,801,823
Machinery and equipment	145,875	161,566	137,045	400,193	1,315,277	2,159,956
Licensed vehicles	-	500	240,918	28,150	72,485	342,053
Less accumulated depreciation	(126,035)	(449,283)	(1,499,526)	(2,252,260)	(3,299,729)	(7,626,833)
Total capital assets (net of accumulated depreciation)	44,088	266,407	4,971,070	5,222,362	3,874,285	14,378,212
TOTAL NONCURRENT ASSETS	44,088	266,407	5,477,097	5,231,652	4,357,773	15,377,017
TOTAL ASSETS	879,911	286,328	6,946,921	5,717,200	5,333,466	19,163,826
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	22,728	1,169	180,092	2,515	2,635	209,139
Salaries payable	16,983	16,170	20,523	10,829	12,877	77,382
Accrued interest payable	-	-	27,689	8,590	16,155	52,434
Due to other funds	-	-	65,073	3,003	-	68,076
Deferred revenue	-	-	338,773	-	-	338,773
Customer deposits payable	-	-	12,702	-	-	12,702
Bonds, notes, and loans payable - current	-	-	185,000	82,000	7,000	274,000
TOTAL CURRENT LIABILITIES	39,711	17,339	829,852	106,937	38,667	1,032,506
NONCURRENT LIABILITIES						
Bonds, notes and loans payable	-	-	3,570,000	1,298,000	352,000	5,220,000
TOTAL LIABILITIES	39,711	17,339	4,399,852	1,404,937	390,667	6,252,506
NET ASSETS						
Invested in capital assets, net of related debt	44,088	266,407	1,216,070	3,842,362	3,515,285	8,884,212
Restricted for other purposes	-	-	390,414	-	597,286	987,700
Unrestricted	796,112	2,582	940,585	469,901	830,228	3,039,408
TOTAL NET ASSETS	\$ 840,200	\$ 268,989	\$ 2,547,069	\$ 4,312,263	\$ 4,942,799	\$ 12,911,320

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds					
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 1,582,925	\$ 124,558	\$ 2,578,376	\$ 356,669	\$ 524,246	\$ 5,166,774
OPERATING EXPENSES						
Cost of sales	1,079,872	12,239	1,501,102	-	-	2,593,213
Salaries	154,356	74,283	194,900	94,956	119,895	638,390
Employee benefits and payroll taxes	47,978	20,649	62,630	35,752	42,951	209,960
Advertising	4,761	2,403	214	-	-	7,378
Bad debts	-	-	3,664	607	971	5,242
Contract services	-	-	89,300	13,230	78,507	181,037
Facility fees	-	-	63,138	-	-	63,138
Insurance	4,792	5,258	22,642	4,155	4,120	40,967
Miscellaneous	22,336	3,420	24,813	3,711	4,035	58,315
Rent	31,200	-	4,900	2,650	2,650	41,400
Repairs and maintenance	4,139	3,578	36,599	5,599	10,092	60,007
Supplies	3,533	11,288	32,387	21,611	10,640	79,459
Telephone	612	819	1,436	2,228	607	5,702
Utilities	-	2,992	3,527	23,547	52,307	82,373
Depreciation	3,586	9,951	207,947	151,216	115,451	488,151
TOTAL OPERATING EXPENSES	<u>1,357,165</u>	<u>146,880</u>	<u>2,249,199</u>	<u>359,262</u>	<u>442,226</u>	<u>4,554,732</u>
OPERATING INCOME (LOSS)	<u>225,760</u>	<u>(22,322)</u>	<u>329,177</u>	<u>(2,593)</u>	<u>82,020</u>	<u>612,042</u>
NONOPERATING REVENUES (EXPENSES)						
Interest income	10,020	-	5,463	50	11,139	26,672
Special assessments	-	-	-	8,714	-	8,714
Property taxes	-	-	-	30,278	-	30,278
Grants and contributions	-	-	71,527	-	-	71,527
Interest expense	-	-	(177,657)	(45,234)	(16,155)	(239,046)
Gain on disposal of capital assets	-	-	2,000	-	-	2,000
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>10,020</u>	<u>-</u>	<u>(98,667)</u>	<u>(6,192)</u>	<u>(5,016)</u>	<u>(99,855)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>235,780</u>	<u>(22,322)</u>	<u>230,510</u>	<u>(8,785)</u>	<u>77,004</u>	<u>512,187</u>
Capital contributions	-	-	-	764,094	498,550	1,262,644
Transfers in	-	46,750	7,061	1,066	2,468	57,345
Transfers out	(200,000)	-	-	-	(175,000)	(375,000)
CHANGE IN NET ASSETS	<u>35,780</u>	<u>24,428</u>	<u>237,571</u>	<u>756,375</u>	<u>403,022</u>	<u>1,457,176</u>
TOTAL NET ASSETS - JANUARY 1	<u>804,420</u>	<u>244,561</u>	<u>2,309,498</u>	<u>3,555,888</u>	<u>4,539,777</u>	<u>11,454,144</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 840,200</u>	<u>\$ 268,989</u>	<u>\$ 2,547,069</u>	<u>\$ 4,312,263</u>	<u>\$ 4,942,799</u>	<u>\$ 12,911,320</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2009

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,582,066	\$ 124,491	\$ 2,606,660	\$ 355,800	\$ 516,021	\$ 5,185,038
Cash paid to suppliers	(1,188,607)	(60,824)	(1,863,825)	(112,762)	(289,290)	(3,515,308)
Cash paid to employees	(156,596)	(77,588)	(197,654)	(94,758)	(51,973)	(578,569)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>236,863</u>	<u>(13,921)</u>	<u>545,181</u>	<u>148,280</u>	<u>174,758</u>	<u>1,091,161</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund financing of cash deficit	23,372	(23,372)	-	-	-	-
Transfers in from other funds	-	46,750	7,061	1,066	2,468	57,345
Transfers out to other funds	(200,000)	-	-	-	(175,000)	(375,000)
Advances to other funds	-	-	-	(65,950)	(40,046)	(105,996)
Advances from other funds	-	-	1,743	215,513	45,513	262,769
State of Minnesota grant	-	-	71,527	-	-	71,527
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(176,628)</u>	<u>23,378</u>	<u>80,331</u>	<u>150,629</u>	<u>(167,065)</u>	<u>(89,355)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	(6,857)	-	(11,110)	(73,044)	(8,578)	(99,589)
Special assessments collected	-	-	-	22,740	-	22,740
Property taxes collected	-	-	-	30,278	-	30,278
Principal paid on long-term debt	-	-	(180,000)	(81,000)	(7,000)	(268,000)
Interest paid on long-term debt	-	-	(171,573)	(45,304)	(16,470)	(233,347)
Sale of capital assets	-	-	2,000	-	-	2,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,857)</u>	<u>-</u>	<u>(360,683)</u>	<u>(146,330)</u>	<u>(32,048)</u>	<u>(545,918)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of investments	100,000	-	-	-	35,000	135,000
Interest on investments	10,020	-	5,463	50	11,139	26,672
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>110,020</u>	<u>-</u>	<u>5,463</u>	<u>50</u>	<u>46,139</u>	<u>161,672</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	163,398	9,457	270,292	152,629	21,784	617,560
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>538,328</u>	<u>-</u>	<u>1,061,791</u>	<u>59,124</u>	<u>1,375,296</u>	<u>3,034,539</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 701,726</u>	<u>\$ 9,457</u>	<u>\$ 1,332,083</u>	<u>\$ 211,753</u>	<u>\$ 1,397,080</u>	<u>\$ 3,652,099</u>

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

CITY OF GRAND MARAIS, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 225,760	\$ (22,322)	\$ 329,177	\$ (2,593)	\$ 82,020	\$ 612,042
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	3,586	9,951	207,947	151,216	115,451	488,151
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(859)	(67)	29,162	(869)	(8,225)	19,142
Inventories	4,147	2,223	(4,815)	2,961	(45)	4,471
Prepaid items	62	(70)	13,446	1,092	808	15,338
Increase (decrease) in:						
Accounts payable	6,407	(331)	(26,104)	(3,725)	(6,229)	(29,982)
Salaries payable	(2,240)	(3,305)	(2,754)	198	(9,022)	(17,123)
Customer deposits	-	-	(878)	-	-	(878)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 236,863</u>	<u>\$ (13,921)</u>	<u>\$ 545,181</u>	<u>\$ 148,280</u>	<u>\$ 174,758</u>	<u>\$ 1,091,161</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Total capital asset additions	\$ 6,857	\$ -	\$ 11,110	\$ 778,772	\$ 507,128	\$ 1,303,867
Contributions of capital assets from government	-	-	-	(764,094)	(498,550)	(1,262,644)
Contracts payable	-	-	-	58,366	-	58,366
Cash paid for capital assets	<u>\$ 6,857</u>	<u>\$ -</u>	<u>\$ 11,110</u>	<u>\$ 73,044</u>	<u>\$ 8,578</u>	<u>\$ 99,589</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Grand Marais, Minnesota, a political subdivision of the State of Minnesota, is a statutory city, governed by an elected city council which consists of one mayor and four councilmembers.

The accounting policies of the City of Grand Marais, Minnesota, comply with Generally Accepted Accounting Principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the year ended December 31, 2009.

A. Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the City, (2) organizations for which the City is financially accountable and (3) other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units that should be included within the City's reporting entity.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The description of the funds included in this report are as follows:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

Major Governmental Funds:

The General Fund is the primary operating fund of the City and is used to account for all financial resources relating to the general government, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The Street/Utility Capital Projects Fund is used to account for the construction of a street and utility project financed with bond proceeds.

Nonmajor Governmental Funds:

Special Revenue Funds, including the library, cable TV, and storefront renovation special revenue funds, are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Capital Projects Funds are used to account for the acquisition and construction of major capital assets other than those financed by proprietary funds.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following proprietary funds:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Proprietary Funds:

The Liquor Store Enterprise Fund is used to account for the revenues generated from liquor sales.

The Golf Course Enterprise Fund is used to account for the revenues generated from golf course fees and sales.

The Electric Enterprise Fund is used to account for the revenues generated from the charges for distribution of electric services to the residential and commercial users of the City.

The Water Enterprise Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the City.

The Sewer Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

C. Measurement Focus and Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

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. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments and loan repayments are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments purchased with a maturity of three months or less.

E. Assets, Liabilities and Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) The City maintains inventories in its general fund and enterprise funds. All inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.
- 3) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

- 4) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide and proprietary fund financial statements.
- 6) Capital assets, which include land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The City elected not to report general infrastructure assets acquired prior to January 1, 2004, therefore, general infrastructure assets include only those acquired subsequent to January 1, 2004. The City maintains a threshold level of \$2,500 or more for capitalizing land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is 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 capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 50 years for improvements, buildings and infrastructure, and 4 to 30 years for machinery and equipment, and licensed vehicles. Land and construction in progress are not being depreciated.

- 7) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds defer revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the fund financial statements because they are not available to finance the current year operations of the City. Deferred revenue reported in the debt service fund represents special assessments receivable and in the Storefront Renovation Special Revenue Fund represents loans receivable.

- 8) In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation improvement and revenue bonds and revenue notes.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Severance pay expenditures are recognized at retirement date.

- 9) Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The county generally remits taxes to the City at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Federal, state, and other revenues are reported under the legal and contractual requirements of the individual programs and are classified into essentially two types of revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the City; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

- 2) City employees earn vacation and sick leave based on years of service and union and employment contracts. Vacation leave may be accrued up to 1½ times the amount of actual vacation earned in the previous year. The liability for accrued vacation leave is recorded in the appropriate funds as an accrued liability. City employees accrue sick leave at the rate of 12 hours per month, up to a maximum of 960 hours. Unpaid sick leave does not vest and, therefore, is not accrued. Sick pay is expensed in the year taken.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. This pool functions essentially as a demand account for all participating funds. Each fund's portion of this pool is displayed on the financial statements as "cash and cash equivalents, investments, and restricted assets". Several funds hold cash and investments separate from the cash and investment pool.

"Cash and cash equivalents, investments, and restricted assets" recorded are comprised of:

Cash	\$ 5,582,731
Petty Cash	3,263
Certificates of Deposit	377,000
Investments	<u>1,882,785</u>
Total	<u>\$ 7,845,779</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City's deposit policy requires that deposits in excess of FDIC insurance of \$250,000 be protected by pledged securities.

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$5,959,731; the bank balance was \$6,186,886. Of the bank balance, \$5,615,327 was insured; of the remaining balance, \$571,559 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments. All investments purchased by the City are held by a third-party safekeeping agent appointed as custodian.

Credit Risk and Concentration of Credit Risk

According to the City's investment policy, the City is authorized and allowed by state statute to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper issued by United States corporations rated A-1, P-1 and F-1, and guaranteed investment contracts.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investments in money market funds are not rated as to credit risk.

The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2009, had no investments in any issuer that exceeded five percent of total investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City does not have a formal investment policy that addresses interest rate risk.

The City manages its exposure to fair value losses arising from changing interest rates by purchasing investments with varying maturity dates. As of December 31, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u> <u>Less than</u> <u>2 Years</u>
Minnesota Municipal Money Market Fund	\$ 215,085	\$ 215,085
Smith Barney Money Market Funds	7,869	7,869
Wells Fargo Money Market Funds	83	83
Cash with fiscal agent	<u>1,659,748</u>	<u>1,659,748</u>
Total Investments	<u>\$ 1,882,785</u>	<u>\$ 1,882,785</u>

The City utilizes the Minnesota Municipal Money Market (4M) Fund which is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

Cash with fiscal agent was held by the fiscal agent in a collateralized repurchase agreement account to pay off the \$1,630,000 General Obligation Temporary Improvement Bonds, Series 2007A on January 9, 2010.

NOTE 3 - NOTES RECEIVABLE

Several businesses have received loans from the City through the City's Storefront Loan Program. The unpaid principal balance on these loans as of December 31, 2009 was \$49,561.

On February 18, 2009, the City loaned \$100,000 to the Cook County/Grand Marais Joint Economic Development Authority. The note bears interest at 6% and was due on October 15, 2009. A payment of \$100,000 was made in 2010 for principal and interest.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 630,922	\$ -	\$ -	\$ 630,922
Construction in progress	<u>3,988,009</u>	<u>-</u>	<u>(1,908,556)</u>	<u>2,079,453</u>
Total capital assets, not being depreciated	<u>4,618,931</u>	<u>-</u>	<u>(1,908,556)</u>	<u>2,710,375</u>
Capital assets, being depreciated:				
Buildings	4,346,120	21,260	-	4,367,380
Improvements	524,162	93,761	-	617,923
Infrastructure	4,507,969	1,327,405	-	5,835,374
Machinery and equipment	353,502	19,949	(10,000)	363,451
Licensed vehicles	<u>403,459</u>	<u>-</u>	<u>(11,000)</u>	<u>392,459</u>
Total capital assets, being depreciated	<u>10,135,212</u>	<u>1,462,375</u>	<u>(21,000)</u>	<u>11,576,587</u>
Less accumulated depreciation for:				
Buildings	(3,203,382)	(69,473)	-	(3,272,855)
Improvements	(117,879)	(20,027)	-	(137,906)
Infrastructure	(1,970,932)	(114,631)	-	(2,085,563)
Machinery and equipment	(219,787)	(18,196)	10,000	(227,983)
Licensed vehicles	<u>(138,575)</u>	<u>(16,809)</u>	<u>11,000</u>	<u>(144,384)</u>
Total accumulated depreciation	<u>(5,650,555)</u>	<u>(239,136)</u>	<u>21,000</u>	<u>(5,868,691)</u>
Total capital assets, being depreciated, net	<u>4,484,657</u>	<u>1,223,239</u>	<u>-</u>	<u>5,707,896</u>
Governmental activities capital assets, net	<u>\$ 9,103,588</u>	<u>\$ 1,223,239</u>	<u>\$ (1,908,556)</u>	<u>\$ 8,418,271</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 186,100	\$ -	\$ -	\$ 186,100
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>186,100</u>	<u>-</u>	<u>-</u>	<u>186,100</u>
Capital assets, being depreciated:				
Buildings	7,205,055	-	-	7,205,055
Improvements	310,058	-	-	310,058
Infrastructure	10,531,864	1,269,959	-	11,801,823
Machinery and equipment	2,198,777	22,798	(61,619)	2,159,956
Licensed vehicles	<u>386,547</u>	<u>11,110</u>	<u>(55,604)</u>	<u>342,053</u>
Total capital assets, being depreciated	<u>20,632,301</u>	<u>1,303,867</u>	<u>(117,223)</u>	<u>21,818,945</u>
Less accumulated depreciation for:				
Buildings	(2,511,002)	(177,902)	-	(2,688,904)
Improvements	(265,963)	(2,310)	-	(268,273)
Infrastructure	(2,301,952)	(248,234)	-	(2,550,186)
Machinery and equipment	(1,918,777)	(38,172)	61,619	(1,895,330)
Licensed vehicles	<u>(258,211)</u>	<u>(21,533)</u>	<u>55,604</u>	<u>(224,140)</u>
Total accumulated depreciation	<u>(7,255,905)</u>	<u>(488,151)</u>	<u>117,223</u>	<u>(7,626,833)</u>
Total capital assets, being depreciated, net	<u>13,376,396</u>	<u>815,716</u>	<u>-</u>	<u>14,192,112</u>
Business-type activities capital assets, net	<u>\$ 13,562,496</u>	<u>\$ 815,716</u>	<u>\$ -</u>	<u>\$ 14,378,212</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 1,108
Public safety	24,776
Streets	121,240
Culture and recreation	<u>92,012</u>
Total depreciation expense- governmental activities	\$ <u>239,136</u>
Business-type activities	
Liquor Store	\$ 3,586
Golf Course	9,951
Electric	207,947
Water	151,216
Sewer	<u>115,451</u>
Total depreciation expense- business-type activities	\$ <u>488,151</u>

NOTE 5 - RATE STABILIZATION PROVISION

A reserve for rate stabilization was established in 1996. The concept of rate stabilization is used by utilities to defer current revenues to future periods to reduce impacts of future rate increases to customers. The reserve, which is recorded as deferred revenue, will be used to offset future rate increases and maintain income stability in future periods. At December 31, 2009, the rate stabilization reserve was \$338,773.

NOTE 6 - LONG-TERM LIABILITIES

The City issues general obligation bonds, improvement notes and revenue notes and bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities or improvements. Bonded indebtedness has also been entered into to advance refund general obligation bonds. General obligation bonds and notes have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The water revenue note and interest is payable solely from the net revenues of the Water Enterprise Fund. The electric revenue bonds and interest are payable solely from the net revenues of the Electric Enterprise Fund.

On January 9, 2010, the \$1,630,000 General Obligation Temporary Improvement Bonds, Series 2007A, were repaid with the proceeds of the \$1,675,000 General Obligation Improvement Refunding Bonds, Series 2009A.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental Activities					
General Obligation Bonds					
2004 Improvement	06/01/2004	3.40-5.10%	\$ 710,000	02/01/2025	\$ 610,000
2005 Improvement	11/22/2005	3.50-4.60%	\$ 895,000	02/01/2027	835,000
2005 Improvement Refunding	01/06/2005	3.40-4.60%	\$ 875,000	02/01/2021	825,000
2007 Temporary Improvement	01/09/2007	3.65%	\$ 1,630,000	01/09/2010	1,630,000
2008 Improvement	10/07/2008	3.25-4.50%	\$ 2,695,000	02/01/2029	2,695,000
2009 Improvement Refunding	12/10/2009	2.10-4.70%	\$ 1,675,000	02/01/2031	<u>1,675,000</u>
Governmental Activities Long-term Liabilities					<u>8,270,000</u>
Business-type activities					
Revenue Bonds					
2003 Electric System	05/01/2003	3.00-4.875%	\$ 2,885,000	05/01/2023	2,220,000
2004 Electric System	09/01/2004	4.00-4.80%	\$ 815,000	05/01/2023	685,000
2005 Electric System	06/21/2005	2.75-4.60%	\$ 940,000	05/01/2024	<u>850,000</u>
Total Revenue Bonds					<u>3,755,000</u>
General Obligation Bonds					
2006 Sewer	09/15/2004	4.50%	\$ 372,000	01/01/2036	<u>359,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	283,000
2004 Improvement	07/21/2004	2.53%	\$ 812,229	02/20/2024	<u>657,000</u>
Total General Obligation Notes					<u>940,000</u>
Revenue Note					
2008 Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	<u>440,000</u>
Business-type Activities Long-term Liabilities					<u>5,494,000</u>
Total Long-Term Liabilities					<u>\$ 13,764,000</u>

Long-term liability activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
1980 GO Water and Sewer Revenue	\$ 54,000	\$ -	\$ 54,000	\$ -	\$ -
2004 GO Improvements	635,000	-	25,000	610,000	25,000
2005 GO Improvements	865,000	-	30,000	835,000	30,000
2005 GO Improvement Refunding	875,000	-	50,000	825,000	55,000
2007 GO Temporary Improvement	1,630,000	-	-	1,630,000	1,630,000
2008 GO Improvement	2,695,000	-	-	2,695,000	280,000
2009 GO Improvement Refunding	<u>-</u>	<u>1,675,000</u>	<u>-</u>	<u>1,675,000</u>	<u>-</u>
Governmental Activities - Long-term Liabilities	<u>\$ 6,754,000</u>	<u>\$ 1,675,000</u>	<u>\$ 159,000</u>	<u>\$ 8,270,000</u>	<u>\$ 2,020,000</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities					
Bonds Payable					
2003 Electric System Revenue	\$ 2,340,000	\$ -	\$ 120,000	\$ 2,220,000	\$ 120,000
2004 Electric System Revenue	720,000	-	35,000	685,000	35,000
2005 Electric System Revenue	875,000	-	25,000	850,000	30,000
2006 GO Sewer Revenue	<u>366,000</u>	-	<u>7,000</u>	<u>359,000</u>	<u>7,000</u>
Total Bonds Payable	<u>4,301,000</u>	-	<u>187,000</u>	<u>4,114,000</u>	<u>192,000</u>
Notes Payable					
1999 GO Water Revenue	308,000	-	25,000	283,000	25,000
2004 GO Improvement	693,000	-	36,000	657,000	37,000
2008 Water Revenue	<u>460,000</u>	-	<u>20,000</u>	<u>440,000</u>	<u>20,000</u>
Total Notes Payable	<u>1,461,000</u>	-	<u>81,000</u>	<u>1,380,000</u>	<u>82,000</u>
Business-type Activities - Long-term Liabilities	<u>\$ 5,762,000</u>	<u>\$ -</u>	<u>\$ 268,000</u>	<u>\$ 5,494,000</u>	<u>\$ 274,000</u>

Minimum annual principal and interest payments required to retire long-term liabilities are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,020,000	\$ 271,450	\$ 274,000	\$ 221,843	\$ 2,294,000	\$ 493,293
2011	205,000	254,642	280,000	212,080	485,000	466,722
2012	265,000	246,626	292,000	201,747	557,000	448,373
2013	270,000	237,564	299,000	190,813	569,000	428,377
2014	280,000	227,890	311,000	179,374	591,000	407,264
2015-2019	1,630,000	962,901	1,739,000	701,373	3,369,000	1,664,274
2020-2024	1,740,000	603,242	1,998,000	299,298	3,738,000	902,540
2025-2029	1,615,000	231,154	165,000	48,535	1,780,000	279,689
2030-2034	245,000	11,633	93,000	22,545	338,000	34,178
2035-2036	-	-	43,000	2,925	43,000	2,925
Total	<u>\$ 8,270,000</u>	<u>\$ 3,047,102</u>	<u>\$ 5,494,000</u>	<u>\$ 2,080,533</u>	<u>\$13,764,000</u>	<u>\$ 5,127,635</u>

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2009, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric Enterprise	\$ 65,073
Debt Service	Water Enterprise	3,003
Water Enterprise	Debt Service	<u>2,702</u>
		<u>\$ 70,778</u>

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) the elimination of deficit cash balances.

Interfund transfers for the year ended December 31, 2009 consisted of the following:

	Transfers Out					Total
	General Fund	Street/ Utility Capital Projects Fund	Liquor Store Enterprise Fund	Sewer Enterprise Fund	Nonmajor Fund - EDA Cedar Grove Capital Projects Fund	
<u>Transfers In</u>						
General Fund	\$ -	\$ 56,186	\$ 200,000	\$ -	\$ -	\$ 256,186
Debt Service Fund	-	-	-	175,000	59,945	234,945
Golf Course Enterprise Fund	46,750	-	-	-	-	46,750
Electric Enterprise Fund	7,061	-	-	-	-	7,061
Water Enterprise Fund	1,066	-	-	-	-	1,066
Sewer Enterprise Fund	2,468	-	-	-	-	2,468
Nonmajor Funds						
Library Special Revenue Fund	119,245	-	-	-	-	119,245
Cable TV Special Revenue Fund	9,700	-	-	-	-	9,700
	<u>\$ 186,290</u>	<u>\$ 56,186</u>	<u>\$ 200,000</u>	<u>\$ 175,000</u>	<u>\$ 59,945</u>	<u>\$ 677,421</u>

Transfers are used to: 1) move profits or excess cash from the Liquor Store Enterprise Fund to the General Fund; 2) move the City's contribution to the City library and cable TV operations; 3) move funds from the Sewer Enterprise and Cedar Grove Capital Projects Funds to the Debt Service Fund for debt service expenditures; 4) close the Street/Utility Capital Projects Fund; and 5) fund the Golf Course Enterprise Fund's cash deficit.

NOTE 8 - FUND EQUITY

The amounts reported as fund balances unreserved, designated on the Balance Sheet are comprised of the following:

<u>General Fund</u>	
Designated for:	
Street seal coat project	\$ 70,965
Buildings	51,713
Insurance reserve	10,804
Street equipment	18,282
Street improvements	<u>254,916</u>
Total General Fund - Designated	<u>\$ 406,680</u>
 <u>Library Special Revenue Fund</u>	
Designated for library improvements	<u>\$ 62,076</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 8 - FUND EQUITY (CONTINUED)

The amounts reported as net assets restricted for other purposes on the statement of net assets is comprised of the following:

Governmental Activities

Restricted for debt service \$ 1,659,748

Business-Type Activities

Electric Enterprise Fund

Restricted for debt service \$ 390,414

Sewer Enterprise Fund

Restricted for MPCA contract \$ 597,286

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, except for boiler and machinery risks, the City, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City pays annual premiums to the Trust for its insurance coverage and retains the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits set by the Trustees. The City carries commercial insurance for boiler and machinery risks. There were no significant increases or reductions in insurance from the previous year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 - JOINTLY GOVERNED ORGANIZATION

Cook County/Grand Marais Joint Economic Development Authority

The City of Grand Marais and Cook County established, through special legislation, the Cook County/Grant Marais Joint Economic Development Authority to jointly increase the tax base and employment opportunities of the City and County through public support of private development efforts.

The Authority is governed by seven commissioners composed of three members appointed by the City and four members appointed by the County.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 10 - JOINTLY GOVERNED ORGANIZATION (CONTINUED)

The Authority is currently developing lots to be sold in Cedar Grove Business Park. The City, in consideration for construction of street improvements, water and sewer extensions and curb and gutter on the platted roads in the Business Park, has entered into an agreement with the Authority whereby owners will be assessed \$60,000 per platted lot, payable from the closing proceeds at the time of sale. The City expended \$0 in 2009 and \$78,082 in 2008 on infrastructure for this project.

On January 9, 2007, the City of Grand Marais issued \$1,630,000 General Obligation Temporary Improvement Bonds to temporarily finance the improvements. Interest is payable semi-annually and final payment of principal is due January 9, 2010.

NOTE 11 - JOINT VENTURE

Joint Recreation Board

The City entered into a joint powers agreement with Independent School District No. 166-Cook County and Cook County to build, manage, and maintain recreational facilities for the benefit of both residents and visitors to Cook County.

The Joint Recreation Board is governed by a nine-member board composed of three members from the City, three from the County, and three from the School District.

If the agreement is terminated, all real and personal property will be sold and any surplus money and property remaining after payment of all liabilities shall be returned to the parties in proportion to each party's total contribution over the three years prior to termination.

In 2009, the City did not contribute to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, Cook County Courthouse, 411 West Second Street, Grand Marais, MN 55604.

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2009, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

Electric Utility Commitment

The Grand Marais Public Utilities Commission purchases power from Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract which extends to April 1, 2050. Under the terms of the contract, the Commission is obligated to buy all the electrical power and energy needed to operate the electric utilities through the term of the contract. The City of Grand Marais and SMMPA have entered into a quick-start capacity and energy purchase agreement in which SMMPA has agreed to purchase all of the energy and capacity of the Grand Marais generating plant. SMMPA will pay the Grand Marais Public Utilities \$216,000 annually for the capacity of the plant. The term of this contract is the period commencing on the commercial operating date of the plant (February 18, 2004) and ending on the day of the contract year that includes the twentieth anniversary of the commercial operating date, unless earlier terminated or extended as provided in the agreement.

Construction Commitment

The City had outstanding construction projects as of December 31, 2009. The projects were evidenced by contractual commitments with contractors.

<u>Project</u>	<u>Spent-to-Date</u>	<u>Commitment Remaining</u>
Business Park	\$ 1,677,269	\$ 150,940

NOTE 13 - FUNDS HELD BY OTHERS

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to Minnesota Community Foundation to be held and administered for the benefit of the City of Grand Marais' Public Library. The market value of the fund assets was approximately \$18,186 on December 31, 2009.

NOTE 14 - DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Grand Marais, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 14 - DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)

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

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

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

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 14 - DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2009. The City of Grand Marais is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were \$78,148, \$73,401, and \$70,576, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 15 - DEFINED CONTRIBUTION PLAN

One council member of the City of Grand Marais, Minnesota is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer.

Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Grand Marais, Minnesota during fiscal year 2009 were:

<u>Contribution Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rates</u>
\$ 249	\$ 249	5.0%	5.0%	5.0%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 584,223	\$ 584,223	\$ 549,995	\$ (34,228)
Special assessments	2,066	2,066	15,050	12,984
Licenses and permits	78,700	78,700	79,580	880
Intergovernmental	191,624	191,624	226,315	34,691
Charges for services	831,033	831,033	908,883	77,850
Fines	1,200	1,200	823	(377)
Gifts and contributions	-	-	14,891	14,891
Interest	10,000	10,000	6,339	(3,661)
Miscellaneous	-	-	8,444	8,444
TOTAL REVENUES	<u>1,698,846</u>	<u>1,698,846</u>	<u>1,810,320</u>	<u>111,474</u>
EXPENDITURES				
Current				
General government	359,922	359,922	340,500	19,422
Public safety	215,577	215,577	242,142	(26,565)
Streets	332,318	332,318	168,218	164,100
Culture and recreation	857,616	857,616	808,027	49,589
TOTAL EXPENDITURES	<u>1,765,433</u>	<u>1,765,433</u>	<u>1,558,887</u>	<u>206,546</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(66,587)</u>	<u>(66,587)</u>	<u>251,433</u>	<u>318,020</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	256,186	56,186
Transfers out	(143,595)	(143,595)	(186,290)	(42,695)
TOTAL OTHER FINANCING SOURCES (USES)	<u>56,405</u>	<u>56,405</u>	<u>69,896</u>	<u>13,491</u>
NET CHANGE IN FUND BALANCE	(10,182)	(10,182)	321,329	331,511
FUND BALANCE - JANUARY 1	<u>844,133</u>	<u>844,133</u>	<u>844,133</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 833,951</u>	<u>\$ 833,951</u>	<u>\$ 1,165,462</u>	<u>\$ 331,511</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2009

NOTE 1 - BUDGETING

The City Clerk/Treasurer prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for the City's General Fund, Special Revenue Funds, and Debt Service Fund.

Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended.

Budgeted amounts are as originally adopted or as amended by the City Council. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The Library Special Revenue Fund is used to account for county grants, charges for services, and private donations that are restricted to the library operations.

The Cable TV Special Revenue Fund is used to account for revenues collected to fund the operation of a local channel to televise local events.

The Storefront Renovation Special Revenue Fund is used to account for collection and disbursement of revolving loan funds to area businesses for storefront renovation.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The EDA Cedar Grove Business Park Capital Projects Fund is used to account for the construction of infrastructure and streets in the Cedar Grove Business Park.

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 479,842	\$ 4,817	\$ 65,188	\$ 247,297	\$ 797,144
Accounts receivable	-	1,408	-	-	1,408
Loans receivables	-	-	49,561	-	49,561
Prepaid items	2,619	-	-	-	2,619
TOTAL ASSETS	<u>\$ 482,461</u>	<u>\$ 6,225</u>	<u>\$ 114,749</u>	<u>\$ 247,297</u>	<u>\$ 850,732</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,919	\$ -	\$ -	\$ -	\$ 1,919
Salaries payable	12,990	-	-	-	12,990
Deferred revenue	-	-	49,561	-	49,561
TOTAL LIABILITIES	<u>14,909</u>	<u>-</u>	<u>49,561</u>	<u>-</u>	<u>64,470</u>
FUND BALANCES					
Unreserved, designated	62,076	-	-	-	62,076
Unreserved, undesignated	405,476	6,225	65,188	247,297	724,186
TOTAL FUND BALANCES	<u>467,552</u>	<u>6,225</u>	<u>65,188</u>	<u>247,297</u>	<u>786,262</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 482,461</u>	<u>\$ 6,225</u>	<u>\$ 114,749</u>	<u>\$ 247,297</u>	<u>\$ 850,732</u>

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2009

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes - franchise fee	\$ -	\$ 5,767	\$ -	\$ -	\$ 5,767
Intergovernmental	92,591	-	-	-	92,591
Charges for services	11,517	150	-	-	11,667
Gifts and contributions	97,880	-	-	-	97,880
Interest	4,095	-	884	1,230	6,209
Miscellaneous	10	-	8,323	-	8,333
TOTAL REVENUES	<u>206,093</u>	<u>5,917</u>	<u>9,207</u>	<u>1,230</u>	<u>222,447</u>
EXPENDITURES					
Current					
Culture and recreation	243,364	10,951	-	-	254,315
Economic development	-	-	27,500	5	27,505
TOTAL EXPENDITURES	<u>243,364</u>	<u>10,951</u>	<u>27,500</u>	<u>5</u>	<u>281,820</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(37,271)</u>	<u>(5,034)</u>	<u>(18,293)</u>	<u>1,225</u>	<u>(59,373)</u>
OTHER FINANCING SOURCES					
Transfers in	119,245	9,700	-	-	128,945
Transfers out	-	-	-	(59,945)	(59,945)
TOTAL OTHER FINANCING SOURCES (USES)	<u>119,245</u>	<u>9,700</u>	<u>-</u>	<u>(59,945)</u>	<u>69,000</u>
NET CHANGE IN FUND BALANCES	81,974	4,666	(18,293)	(58,720)	9,627
FUND BALANCES - JANUARY 1	<u>385,578</u>	<u>1,559</u>	<u>83,481</u>	<u>306,017</u>	<u>776,635</u>
FUND BALANCES - DECEMBER 31	<u>\$ 467,552</u>	<u>\$ 6,225</u>	<u>\$ 65,188</u>	<u>\$ 247,297</u>	<u>\$ 786,262</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2009

REVENUES

Taxes

General property \$ 549,995

Special Assessments 15,050

Licenses and permits 79,580

Intergovernmental

State

Local government aid 153,101

Market value credit 52,709

PERA aid 5,315

Fire aid 12,690

Other state aids 2,500

Total Intergovernmental 226,315

Charges for Services

General government

Rent 49,792

Miscellaneous 5,674

Public safety

Fire protection contacts 34,370

Culture and recreation

Park 665,762

Swimming pool 75,075

Boat harbors 78,210

Total Charges for Services 908,883

Fines

Court fines 823

Gifts and Contributions 14,891

Interest 6,339

Miscellaneous

Insurance recoveries 869

Other 7,575

Total Miscellaneous 8,444

TOTAL REVENUES 1,810,320

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2009

EXPENDITURES

Current

General Government

Mayor and council	\$ 28,973
City clerk	153,386
Independent audit	11,650
Legal	22,688
Planning and zoning	24,771
Buildings	59,925
Other	24,861
Other capital outlay	14,246
Total General Government	<u>340,500</u>

Public Safety

Police	140,000
Fire	83,555
Fire capital outlay	13,285
Medical services	4,014
Animal control	1,288
Total Public Safety	<u>242,142</u>

Streets

Maintenance	134,258
Street lighting	25,730
Capital outlay	8,230
Total Streets	<u>168,218</u>

Culture and Recreation

Recreation	374,887
Recreation capital outlay	9,354
Swimming pool	267,567
Swimming pool capital outlay	24,576
Boat harbors	54,382
Boat harbors capital outlay	53,373
City parks	23,888
Total Culture and Recreation	<u>808,027</u>

TOTAL EXPENDITURES

1,558,887

EXCESS OF REVENUES OVER EXPENDITURES

251,433

OTHER FINANCING SOURCES (USES)

Transfers in	256,186
Transfers out	(186,290)
TOTAL OTHER FINANCING SOURCES (USES)	<u>69,896</u>

NET CHANGE IN FUND BALANCE

321,329

FUND BALANCE - JANUARY 1

844,133

FUND BALANCE - DECEMBER 31

\$ 1,165,462



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

To the City Council
City of Grand Marais, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grand Marais, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements and have issued our report thereon dated June 23, 2010. 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 City of Grand Marais, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of significant deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-1 to be a significant deficiency.

Compliance and Other Matters

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

We also conducted our audit in accordance with the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. §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 Local Government* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the City of Grand Marais, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We noted certain matters that we reported to management of City of Grand Marais, Minnesota in a separate letter dated June 23, 2010, included under this cover.

City of Grand Marais, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Grand Marais, Minnesota's response and, accordingly, we express no opinion on it.

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

Walker, Hiron & Nelson, Ltd.

June 23, 2010

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2009

SIGNIFICANT DEFICIENCIES

2009-1. SEGREGATION OF DUTIES

Condition

Due to the limited number of personnel within the City's financial and utility offices, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Criteria

The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control over its transactions.

Cause

This occurred because of staffing limitation caused by fiscal constraints.

Recommendations

Officials and management of the City should constantly be aware of this condition, attempt to segregate duties as much as possible and provide oversight to partially compensate for this deficiency.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City Administrator will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
3. Official Responsible for Ensuring CAP
Michael J. Roth, City Administrator, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City's Administrator has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2009**

2009-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

Effect

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.
3. Official Responsible for Ensuring CAP
None – see number 2 above.
4. Planned Completion Date for CAP
None – see number 2 above.
5. Plan to Monitor Completion of CAP
None – see number 2 above.



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MANAGEMENT LETTER

To the City Council
City of Grand Marais, Minnesota

In planning and performing our audit of the financial statements of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 23, 2010, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 23, 2010, on the financial statements of the City of Grand Marais, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments and suggestions are summarized as follows:

Interfund Activity

We noted that interfund transfers and receivables/payables did not match at year end. When interfund activity is recorded, corresponding entries must be made in both the paying and receiving funds.

Receipts

We noted monthly receipts from other locations, such as the pool, were dated and deposited into the bank account subsequent to month end. To aid in reconciling the bank statement at month end, we suggest that the month end date be reflected on these deposit slips.

In addition, we noted that ACH payments from the State were receipted in the utility billing system when the notice of payment from the State was received rather than when the cash was actually deposited in the bank account. To aid in reconciling cash and accounts receivable, we suggest that only the cash actually received during the month be recorded in both the utility billing system and the general ledger.

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

Walker, Mirone & Nelson, Ltd.

June 23, 2010