

**CITY OF GRAND MARAIS, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2015**

CITY OF GRAND MARAIS, MINNESOTA

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**CITY OF GRAND MARAIS, MINNESOTA**

**ORGANIZATION  
December 31, 2015**

**CITY COUNCIL**

Mayor	Jay Arrowsmith De-Coux
Councilmember	Tracy Benson
Councilmember	Tim Kennedy
Councilmember	Anton Moody
Councilmember	Dave Mills

**ADMINISTRATION**

City Administrator	Michael J. Roth
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## FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Grand Marais, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Notes 1, 14, and 15 to the financial statements, for the year ended December 31, 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

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 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to

the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016, on our consideration of 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, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grand Marais, Minnesota's internal control over financial reporting and compliance.

*Walton, Gray & Helme, LLC*

Virginia, Minnesota  
June 8, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF GRAND MARAIS, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. 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 position is \$9,586,170, of which net investment in capital assets is \$3,968,354.
- Business-type activities total net position is \$14,094,783. Net investment in capital assets represents \$9,346,193 of the total.
- The City of Grand Marais's net position increased by \$1,264,361 for the year ended December 31, 2015. Of the increase, an increase of \$903,919 was reported in the governmental activities' net position and \$360,442 represented the increase in business-type activities' net position.
- The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension asset and liability for PERA, deferred outflows of resources and deferred inflows of resources, and pension expense on the City's government-wide statements. This change in accounting principle is discussed in Notes 1, 14, and 15.
- The net expense of governmental activities was \$296,158 for the current year. General revenues totaled \$923,658.
- Governmental funds' fund balances decreased by \$231,768 mainly due to the payoff of the 2005C GO Improvement Bonds of \$665,000 in the debt service fund.

#### 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. This report also contains required and other supplementary information in addition to the basic financial statements.

There are two government-wide financial statements. The statement of net position 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 position 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, deferred outflows of resources, liabilities, and deferred inflows of

## CITY OF GRAND MARAIS, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

resources 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 position and how they have changed. You can think of the City's net position — the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net position is 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 aids and the condition of City buildings also need to be considered in assessing the overall health of the City.

In the statement of net position 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 Position 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

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

- 
- activities are reported in the Statement of Net Position 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.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules and schedules of City's proportionate share of net pension liability/asset and City's contribution for defined benefit pension plans as required supplementary information. Combining and individual fund financial statements are presented immediately following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Grand Marais, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$23,680,953, an increase of \$354,302 from the prior year.

**Table 1  
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 8,224,898	\$ 8,128,555	\$ 6,004,406	\$ 5,619,002	\$ 14,229,304	\$ 13,747,557
Capital assets	<u>8,733,906</u>	<u>8,806,040</u>	<u>13,001,834</u>	<u>13,389,359</u>	<u>21,735,740</u>	<u>22,195,399</u>
Total assets	<u>16,958,804</u>	<u>16,934,595</u>	<u>19,006,240</u>	<u>19,008,361</u>	<u>35,965,044</u>	<u>35,942,956</u>
Deferred outflows of resources	<u>89,404</u>	<u>-</u>	<u>194,315</u>	<u>131,910</u>	<u>283,719</u>	<u>131,910</u>
Long-term liabilities outstanding	7,057,994	7,499,215	4,336,283	4,138,518	11,394,277	11,637,733
Other liabilities	<u>326,258</u>	<u>401,010</u>	<u>688,816</u>	<u>709,472</u>	<u>1,015,074</u>	<u>1,110,482</u>
Total liabilities	<u>7,384,252</u>	<u>7,900,225</u>	<u>5,025,099</u>	<u>4,847,990</u>	<u>12,409,351</u>	<u>12,748,215</u>
Deferred inflows of Resources	<u>77,786</u>	<u>-</u>	<u>80,673</u>	<u>-</u>	<u>158,459</u>	<u>-</u>
Net position						
Net investment in capital assets	3,968,354	3,928,050	9,346,193	9,382,751	13,314,547	13,310,801
Restricted	2,384,088	1,915,195	1,060,555	1,074,316	3,444,643	2,989,511
Unrestricted	<u>3,233,728</u>	<u>3,191,125</u>	<u>3,688,035</u>	<u>3,835,214</u>	<u>6,921,763</u>	<u>7,026,339</u>
Total net position	<u>\$ 9,586,170</u>	<u>\$ 9,034,370</u>	<u>\$ 14,094,783</u>	<u>\$ 14,292,281</u>	<u>\$ 23,680,953</u>	<u>\$ 23,326,651</u>

Net position of the City's governmental activities increased by 6.1 percent (\$9,586,170 compared to \$9,034,370) in 2015. Unrestricted net position—the part of net position that can be

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from a \$3,191,125 surplus at December 31, 2014 to a \$3,233,728 surplus at the end of this year.

Net position of the City's business-type activities decreased by 1.4 percent (\$14,094,783 compared to \$14,292,281) in 2015.

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 1,273,164	\$ 1,156,702	\$ 5,852,114	\$ 5,850,907	\$ 7,125,278	\$ 7,007,609
Operating grants and contributions	332,462	493,665	-	5,000	332,462	498,665
Capital grants and contributions	441,055	87,304	1,736	72,912	442,791	160,216
General revenues:						
Property taxes	804,244	796,142	31,475	31,595	835,719	827,737
Grants and contributions not restricted to specific programs	92,446	109,307	-	-	92,446	109,307
Other general revenues	26,968	27,807	53,561	35,657	80,529	63,464
Total revenues	<u>2,970,339</u>	<u>2,670,927</u>	<u>5,938,886</u>	<u>5,996,071</u>	<u>8,909,225</u>	<u>8,666,998</u>
Program expenses:						
General government	562,278	696,467	-	-	562,278	696,467
Public safety	242,067	232,309	-	-	242,067	232,309
Streets	423,423	420,465	-	-	423,423	420,465
Culture and recreation	892,583	992,825	-	-	892,583	992,825
Economic development	-	85,040	-	-	-	85,040
Interest	222,488	256,406	-	-	222,488	256,406
Liquor store	-	-	1,754,922	1,596,470	1,754,922	1,596,470
Golf course	-	-	176,210	176,571	176,210	176,571
Electric	-	-	2,429,164	2,698,112	2,429,164	2,698,112
Water	-	-	389,722	375,152	389,722	375,152
Sewer	-	-	552,007	559,087	552,007	559,087
Total program expenses	<u>2,342,839</u>	<u>2,683,512</u>	<u>5,302,025</u>	<u>5,405,392</u>	<u>7,644,864</u>	<u>8,088,904</u>
Excess (deficit) before special item and transfers	627,500	(12,585)	636,861	590,679	1,264,361	578,094
Special item – loss on disposal of pool capital assets	-	(160,680)	-	-	-	(160,680)
Transfers	<u>276,419</u>	<u>276,436</u>	<u>(276,419)</u>	<u>(276,436)</u>	<u>-</u>	<u>-</u>
Change in net position	903,919	103,171	360,442	314,243	1,264,361	417,414
Net position, January 1,	9,034,370	8,931,199	14,292,281	13,978,038	23,326,651	22,909,237
Prior period adjustment	<u>(352,119)</u>	<u>-</u>	<u>(557,940)</u>	<u>-</u>	<u>(910,059)</u>	<u>-</u>
Net position, December 31	<u>\$ 9,586,170</u>	<u>\$ 9,034,370</u>	<u>\$ 14,094,783</u>	<u>\$ 14,292,281</u>	<u>\$ 23,680,953</u>	<u>\$ 23,326,651</u>

## CITY OF GRAND MARAIS, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

#### Governmental Activities

The most significant revenues of the governmental activities are fees, fines, charges, and other, comprised mostly of culture and recreation fees, totaling 43% of revenues. Capital grants and contributions, 15% of revenues, include the grants for major projects or equipment. Operating grants and contributions, 11% of revenues, are used for operating expenses. Unrestricted grants and contributions, 3% of revenues, are used to finance the general activities. Property taxes levied for general purposes amount to \$659,040 or 22% of revenues, an increase of \$59,744 over the prior year.

Culture and recreation expenses are the most significant (38%), followed by general government (24%), streets (18%), public safety (10%), and interest on long-term debt (10%).

#### Business-Type Activities

Revenues of the City's business-type activities were \$5,938,886; expenses were \$5,302,025 (see Table 2). Net position decreased by \$197,498 during the year ended December 31, 2015. Factors driving these results include:

- Operations produced income of \$636,861 during the year ended December 31, 2015.
- All segments recorded operating income except for the golf course.
- Net transfers out to other funds totaled \$276,419.
- Implementation of GASB 68 resulted in a decrease of \$557,940 to beginning net position.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

##### Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

At December 31, 2015, the City's governmental funds reported total ending fund balances of \$6,591,839, a decrease of \$231,768 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, made up nearly 44%, or \$2,927,565 of the total ending fund balance. The nonspendable fund balance of \$61,863 is also not available for general operations. The committed fund balance of \$32,114 represents revenues collected to fund the operation of a local TV channel. The City assigned \$1,045,690 to specific purposes.

At the end of the year, the general fund reported a fund balance of \$3,360,292, increasing \$337,043 from the prior year. General fund revenues were \$126,338 less than the prior year's and expenditures increased by \$2,133. During the current year, the general fund transfers to other funds were \$169,453, which were less than the prior year's transfers out of \$225,674.

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2015**

The debt service fund recorded a decrease in fund balance of \$616,740 primarily due to the payoff of the 2005C GO Improvement Bonds from the 2013A GO Refunding Bond escrow account.

In the other governmental funds, changes in fund balances were insignificant.

**Proprietary Funds**

The proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The liquor store enterprise fund accounts for the operations of the City owned liquor store. In 2015, operating revenues increased by \$89,096, while the operating expenses increased by \$158,452 from the prior year. The liquor store operations produced an operating income of \$247,822 for this current year, which is a decrease of \$69,356 from the prior year's operating income. A transfer out of \$200,000 was made during 2015 to the general fund, as in prior years. Net position decreased \$130,516, including a decrease of \$181,632 due to implementation of GASB 68.

The golf course enterprise fund accounts for the operations of the municipal golf course. In 2015, operating revenues increased by \$4,266 compared to the prior year. The golf course operations produced an operating loss of \$50,842. The City transferred in \$34,860 from the general fund to partially fund this loss. Net position decreased by \$81,364 for the year, including a decrease of \$65,387 due to implementation of GASB 68.

The electric enterprise fund accounts for the electric operations of the City. In 2015, operating revenues decreased by \$93,969 compared to the prior year. Operating expenses also decreased from the prior year by \$263,027. The electric operations produced operating income of \$439,098 in 2015. Interest expense charged to the electric distribution was \$87,245. Net position increased by \$233,587, including a decrease of \$155,461 due to implementation of GASB 68.

The water enterprise fund accounts for the water operations of the City. In 2015, operating revenues increased by \$4,559 compared to the prior year. Operating expenses increased by \$17,217. In 2015, operating income of \$15,041 was recorded compared to an operating income of \$27,699 in the prior year. Interest expense charged to the water operations was \$29,497. A transfer to the debt service fund was made in the amount of \$45,315 during 2015. Net position decreased by \$97,480, including a decrease of \$77,730 due to implementation of GASB 68.

The sewer enterprise fund accounts for the sewer operations of the City. In 2015, operating revenues decreased by \$2,745 compared to the prior year. Operating expenses decreased from the prior year by \$6,609. The sewer operations produced operating income of \$23,897 in 2015. Interest expense charged to the sewer operations was \$8,185. A transfer of \$66,900 was made to the debt service fund. Net position decreased \$121,725, including a decrease of \$77,730 due to implementation of GASB 68.

**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 \$111,384 below the final budget amounts. A negative

**CITY OF GRAND MARAIS, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2015**

variance occurred in general government (\$208,676) expenditures primarily due to district heating expenditures. Resources available for appropriation were \$233,690 above the final budgeted amounts. More intergovernmental aids and charges for services were received. Transfers out to other funds exceeded the amount budgeted by \$8,860.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2015, the City had \$21,735,740 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 3 below.) This amount represents a net decrease (including additions and deductions) of \$459,659 over last year.

**Table 3**  
**Capital Assets at Year-end**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 885,829	\$ 630,922	\$ 186,100	\$ 186,100	\$ 1,071,929	\$ 817,022
Construction in progress	52,810	52,810	-	-	52,810	52,810
Buildings	1,944,482	2,016,886	3,972,117	4,175,600	5,916,599	6,192,486
Improvements	478,036	494,432	30,030	31,895	508,066	526,327
Infrastructure	4,667,769	4,844,265	8,464,493	8,735,176	13,132,262	13,579,441
Machinery and equipment	310,383	345,069	210,894	218,453	521,277	563,522
Licensed vehicles	394,597	421,656	138,200	42,135	532,797	463,791
<b>Totals</b>	<b>\$ 8,733,906</b>	<b>\$ 8,806,040</b>	<b>\$ 13,001,834</b>	<b>\$ 13,389,359</b>	<b>\$ 21,735,740</b>	<b>\$ 22,195,399</b>

This year's major additions were:

- Highway 61 land purchase
- Park lift station
- 2015 F550 4wd bucket truck

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

**Debt**

At year-end, the City had \$10,262,000 in long-term debt outstanding versus \$11,532,000 last year—as shown in Table 4.

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Table 4  
Outstanding Debt, at Year-end**

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds (backed by the City)	\$ 6,540,000	\$ 7,450,000	\$ 310,000	\$ 325,000	\$ 6,850,000	\$ 7,775,000
Electric system revenue bonds	-	-	2,545,000	2,800,000	2,545,000	2,800,000
General obligation notes	-	-	547,000	617,000	547,000	617,000
Water revenue note	-	-	320,000	340,000	320,000	340,000
<b>Total</b>	<b>\$ 6,540,000</b>	<b>\$ 7,450,000</b>	<b>\$ 3,722,000</b>	<b>\$ 4,082,000</b>	<b>\$ 10,262,000</b>	<b>\$ 11,532,000</b>

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, 2015, the City had no outstanding qualifying net debt that applied to this \$4,796,874 state-imposed limit.

Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the 2016 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities.

- The property tax levy will be held to 5.79%.
- Utility rate increases are:
 

Electric	3%
Water	2%
Sewer	4%
- The City's capital plan for 2016 includes remodeling the recreation park office, park paving, park electrical site upgrades, and planning and beginning to build a maintenance facility expected to be completed in 2017.
- Employees were given a 3% cost of living adjustment raise.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City 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 POSITION  
December 31, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,712,590	\$ 3,988,799	\$ 8,701,389
Taxes receivable	127,286	-	127,286
Special assessments receivable	1,218,254	136,693	1,354,947
Accounts receivable	6,848	310,428	317,276
Grants receivable	30,915	-	30,915
Internal balances	57,991	(57,991)	-
Loans receivable	12,716	-	12,716
Inventories	23,207	390,764	413,971
Prepaid items	38,656	35,713	74,369
Temporarily restricted assets			
Cash and cash equivalents	548	1,200,000	1,200,548
Investments	1,877,287	-	1,877,287
Net pension asset	118,600	-	118,600
Capital assets not being depreciated:			
Land	885,829	186,100	1,071,929
Construction in progress	52,810	-	52,810
Capital assets, net of accumulated depreciation:			
Buildings	1,944,482	3,972,117	5,916,599
Improvements	478,036	30,030	508,066
Infrastructure	4,667,769	8,464,493	13,132,262
Machinery and equipment	310,383	210,894	521,277
Licensed vehicles	394,597	138,200	532,797
<b>TOTAL ASSETS</b>	<b>16,958,804</b>	<b>19,006,240</b>	<b>35,965,044</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	89,404	78,153	167,557
Deferred amount on refunding	-	116,162	116,162
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>89,404</b>	<b>194,315</b>	<b>283,719</b>
<b>LIABILITIES</b>			
Accounts payable	39,537	218,781	258,318
Salaries payable	70,476	97,510	167,986
Due to other governments	107,464	-	107,464
Customer deposits	-	14,395	14,395
Unearned revenues	19,085	338,773	357,858
Accrued interest payable	89,696	19,357	109,053
Noncurrent liabilities			
Bonds and notes payable			
Due within one year	2,135,000	367,000	2,502,000
Due in more than one year	4,450,970	3,404,803	7,855,773
Net pension liability	472,024	564,480	1,036,504
<b>TOTAL LIABILITIES</b>	<b>7,384,252</b>	<b>5,025,099</b>	<b>12,409,351</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	77,786	80,673	158,459
<b>NET POSITION</b>			
Net investment in capital assets	3,968,354	9,346,193	13,314,547
Restricted for:			
Debt service	1,983,836	463,269	2,447,105
Library	252,087	-	252,087
Sewer equipment replacement	-	597,286	597,286
Storefront renovation	148,165	-	148,165
Unrestricted	3,233,728	3,688,035	6,921,763
<b>TOTAL NET POSITION</b>	<b>\$ 9,586,170</b>	<b>\$ 14,094,783</b>	<b>\$ 23,680,953</b>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
General government	\$ 562,278	\$ 160,121	\$ 61,421
Public safety	242,067	52,245	20,258
Streets	423,423	-	15,169
Culture and recreation	892,583	1,060,798	120,484
Interest on long-term debt	222,488	-	115,130
<b>Total Governmental Activities</b>	<u>2,342,839</u>	<u>1,273,164</u>	<u>332,462</u>
<b>Business-type Activities</b>			
Liquor Store	\$ 1,754,922	\$ 2,002,744	\$ -
Golf Course	176,210	125,368	-
Electric	2,429,164	2,781,017	-
Water	389,722	375,266	-
Sewer	552,007	567,719	-
<b>Total Business-type Activities</b>	<u>5,302,025</u>	<u>5,852,114</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 7,644,864</u>	<u>\$ 7,125,278</u>	<u>\$ 332,462</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

**Special Item**

Gain on sale of capital assets

**Transfers**

**Total General Revenues, Special Item, and Transfers**

**CHANGE IN NET POSITION**

**NET POSITION - JANUARY 1**

Prior period adjustment

**NET POSITION - DECEMBER 31**

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

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ 3,641	\$ (337,095)	\$ -	\$ (337,095)
-	(169,564)	-	(169,564)
437,414	29,160	-	29,160
-	288,699	-	288,699
-	(107,358)	-	(107,358)
<u>441,055</u>	<u>(296,158)</u>	<u>-</u>	<u>(296,158)</u>
\$ -	-	247,822	247,822
-	-	(50,842)	(50,842)
1,736	-	353,589	353,589
-	-	(14,456)	(14,456)
-	-	15,712	15,712
<u>1,736</u>	<u>-</u>	<u>551,825</u>	<u>551,825</u>
<u>\$ 442,791</u>	<u>(296,158)</u>	<u>551,825</u>	<u>255,667</u>
	659,040	-	659,040
	141,176	31,475	172,651
	4,028	-	4,028
	92,446	-	92,446
	26,968	29,624	56,592
	-	23,937	23,937
	<u>276,419</u>	<u>(276,419)</u>	<u>-</u>
	<u>1,200,077</u>	<u>(191,383)</u>	<u>1,008,694</u>
	903,919	360,442	1,264,361
	9,034,370	14,292,281	23,326,651
	<u>(352,119)</u>	<u>(557,940)</u>	<u>(910,059)</u>
	<u>\$ 9,586,170</u>	<u>\$ 14,094,783</u>	<u>\$ 23,680,953</u>

CITY OF GRAND MARAIS, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,362,326	\$ 648,072	\$ 702,192	\$ 4,712,590
Cash and investments with fiscal agent	-	1,877,835	-	1,877,835
Taxes receivable	109,222	18,064	-	127,286
Special assessments receivable	-	1,218,254	-	1,218,254
Accounts receivable	4,281	-	2,567	6,848
Due from other funds	69,552	4,230	-	73,782
Grants receivable	30,915	-	-	30,915
Loans receivables	-	-	12,716	12,716
Inventories	23,207	-	-	23,207
Prepaid items	34,900	-	3,756	38,656
<b>TOTAL ASSETS</b>	<b>\$ 3,634,403</b>	<b>\$ 3,766,455</b>	<b>\$ 721,231</b>	<b>\$ 8,122,089</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 36,467	\$ -	\$ 3,070	\$ 39,537
Salaries payable	56,549	-	13,927	70,476
Due to other funds	7,619	8,172	-	15,791
Due to other governments	107,464	-	-	107,464
Unearned revenue	19,085	-	-	19,085
<b>TOTAL LIABILITIES</b>	<b>227,184</b>	<b>8,172</b>	<b>16,997</b>	<b>252,353</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	46,927	-	-	46,927
Unavailable revenue - special assessments	-	1,218,254	-	1,218,254
Unavailable revenue - loans receivable	-	-	12,716	12,716
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>46,927</b>	<b>1,218,254</b>	<b>12,716</b>	<b>1,277,897</b>
<b>FUND BALANCES</b>				
Nonspendable	58,107	-	3,756	61,863
Restricted	-	2,540,029	387,536	2,927,565
Committed	-	-	32,114	32,114
Assigned	777,578	-	268,112	1,045,690
Unassigned	2,524,607	-	-	2,524,607
<b>TOTAL FUND BALANCES</b>	<b>3,360,292</b>	<b>2,540,029</b>	<b>691,518</b>	<b>6,591,839</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 3,634,403</b>	<b>\$ 3,766,455</b>	<b>\$ 721,231</b>	<b>\$ 8,122,089</b>

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 POSITION**

**December 31, 2015**

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>		<b>\$ 6,591,839</b>
Net pension asset		118,600
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		8,733,906
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		1,277,897
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(89,696)
Long-term liabilities, including bonds payable, bond premium, and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.		(7,057,994)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore not reported in the governmental funds.		
Deferred outflows of resources related to pensions	89,404	
Deferred inflows of resources related to pensions	<u>(77,786)</u>	
		<u>11,618</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u><u>\$ 9,586,170</u></u></b>

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, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 657,899	\$ 141,176	\$ -	\$ 799,075
Franchise	-	-	4,028	4,028
Special assessments	1,265	149,021	-	150,286
Licenses and permits	83,334	-	-	83,334
Intergovernmental	142,171	115,130	105,752	363,053
Charges for services	1,163,646	-	18,069	1,181,715
Fines	4,230	-	-	4,230
Gifts and contributions	31,356	-	14,642	45,998
Investment earnings	8,381	13,578	1,764	23,723
Miscellaneous	3,477	-	19,379	22,856
<b>TOTAL REVENUES</b>	<u>2,095,759</u>	<u>418,905</u>	<u>163,634</u>	<u>2,678,298</u>
<b>EXPENDITURES</b>				
Current				
General government	810,768	-	-	810,768
Public safety	193,956	-	-	193,956
Streets	238,085	-	-	238,085
Culture and recreation	546,454	-	249,362	795,816
Debt service				
Principal	-	910,000	-	910,000
Interest and other charges	-	237,860	-	237,860
<b>TOTAL EXPENDITURES</b>	<u>1,789,263</u>	<u>1,147,860</u>	<u>249,362</u>	<u>3,186,485</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>306,496</u>	<u>(728,955)</u>	<u>(85,728)</u>	<u>(508,187)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,000	112,215	133,657	445,872
Transfers out	(169,453)	-	-	(169,453)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>30,547</u>	<u>112,215</u>	<u>133,657</u>	<u>276,419</u>
<b>NET CHANGE IN FUND BALANCES</b>	337,043	(616,740)	47,929	(231,768)
<b>FUND BALANCES - JANUARY 1</b>	<u>3,023,249</u>	<u>3,156,769</u>	<u>643,589</u>	<u>6,823,607</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 3,360,292</u>	<u>\$ 2,540,029</u>	<u>\$ 691,518</u>	<u>\$ 6,591,839</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, 2015**

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

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>		<b>\$ (231,768)</b>
<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	263,253	
Less current year depreciation	<u>(335,387)</u>	(72,134)
<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 unavailable revenue - delinquent property taxes	1,141	
Change in unavailable revenue - special assessments receivable	287,129	
Change in unavailable revenue - loans receivable	<u>(19,378)</u>	268,892
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Amortization of premium	3,245	
Principal repaid	<u>910,000</u>	913,245
<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	15,372	
Change in net pension asset, net pension liability, and related deferred outflows and inflows	<u>10,312</u>	<u>25,684</u>
<b>CHANGE IN NET POSTION OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ <u>903,919</u></b>

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

## CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2015

	Business-type Activities - Enterprise Funds					
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 1,125,680	\$ 6,751	\$ 1,449,790	\$ 524,043	\$ 882,535	\$ 3,988,799
Accounts receivable	201	-	234,465	26,264	49,498	310,428
Due from other funds	-	-	1,741	12,253	1,797	15,791
Special assessments receivable	-	-	-	136,693	-	136,693
Inventories	167,356	8,256	207,407	7,621	124	390,764
Prepaid items	8,568	2,231	17,138	1,944	5,832	35,713
<b>TOTAL CURRENT ASSETS</b>	<b>1,301,805</b>	<b>17,238</b>	<b>1,910,541</b>	<b>708,818</b>	<b>939,786</b>	<b>4,878,188</b>
<b>NONCURRENT ASSETS</b>						
Restricted cash and cash equivalents	-	-	-	-	-	-
Revenue bond covenant accounts	-	-	697,162	-	-	697,162
MPCA contract accounts	-	-	-	-	502,838	502,838
Total restricted cash and cash equivalents	-	-	697,162	-	502,838	1,200,000
Capital assets	-	154,100	25,000	5,000	2,000	186,100
Land	-	154,100	25,000	5,000	2,000	186,100
Buildings	20,529	89,466	2,998,692	2,286,662	2,462,238	7,857,587
Improvements	-	310,058	-	-	-	310,058
Infrastructure	-	65,517	3,535,638	5,293,910	3,564,586	12,459,651
Machinery and equipment	156,919	197,992	172,240	382,361	1,167,926	2,077,438
Licensed vehicles	-	500	269,102	28,150	83,470	381,222
Less accumulated depreciation	(145,028)	(518,333)	(2,671,140)	(3,126,785)	(3,808,936)	(10,270,222)
Total capital assets (net of accumulated depreciation)	32,420	299,300	4,329,532	4,869,298	3,471,284	13,001,834
<b>TOTAL NONCURRENT ASSETS</b>	<b>32,420</b>	<b>299,300</b>	<b>5,026,694</b>	<b>4,869,298</b>	<b>3,974,122</b>	<b>14,201,834</b>
<b>TOTAL ASSETS</b>	<b>1,334,225</b>	<b>316,538</b>	<b>6,937,235</b>	<b>5,578,116</b>	<b>4,913,908</b>	<b>19,080,022</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Related to pensions	24,945	8,980	22,114	11,057	11,057	78,153
Deferred amount on refunding	-	-	116,162	-	-	116,162
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>24,945</b>	<b>8,980</b>	<b>138,276</b>	<b>11,057</b>	<b>11,057</b>	<b>194,315</b>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	43,990	337	168,388	1,760	4,306	218,781
Salaries payable	16,854	22,438	30,226	9,385	18,607	97,510
Accrued interest payable	-	-	10,938	5,034	3,385	19,357
Due to other funds	-	-	69,552	-	4,230	73,782
Unearned revenue	-	-	338,773	-	-	338,773
Customer deposits payable	-	-	14,395	-	-	14,395
Bonds, notes, and loans payable - current	-	-	260,000	92,000	15,000	367,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>60,844</b>	<b>22,775</b>	<b>892,272</b>	<b>108,179</b>	<b>45,528</b>	<b>1,129,598</b>
<b>NONCURRENT LIABILITIES</b>						
Bonds, notes and loans payable, less current	-	-	2,334,803	775,000	295,000	3,404,803
Net pension liability	178,797	64,367	160,658	80,329	80,329	564,480
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>178,797</b>	<b>64,367</b>	<b>2,495,461</b>	<b>855,329</b>	<b>375,329</b>	<b>3,969,283</b>
<b>TOTAL LIABILITIES</b>	<b>239,641</b>	<b>87,142</b>	<b>3,387,733</b>	<b>963,508</b>	<b>420,857</b>	<b>5,098,881</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Related to pensions	29,273	10,538	20,431	10,215	10,216	80,673
<b>NET POSITION</b>						
Net investment in capital assets	32,420	299,300	1,850,891	4,002,298	3,161,284	9,346,193
Restricted for debt service	-	-	326,576	136,693	-	463,269
Restricted for sewer equipment replacement	-	-	-	-	597,286	597,286
Unrestricted	1,057,836	(71,462)	1,489,880	476,459	735,322	3,688,035
<b>TOTAL NET POSITION</b>	<b>\$ 1,090,256</b>	<b>\$ 227,838</b>	<b>\$ 3,667,347</b>	<b>\$ 4,615,450</b>	<b>\$ 4,493,892</b>	<b>\$ 14,094,783</b>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>REVENUES</b>						
Charges for sales and services	\$ 2,002,744	\$ 125,368	\$ 2,781,017	\$ 375,266	\$ 567,719	\$ 5,852,114
<b>OPERATING EXPENSES</b>						
Cost of sales	1,434,853	15,132	1,628,897	-	-	3,078,882
Salaries	170,008	87,297	212,029	70,488	132,479	672,301
Employee benefits and payroll taxes	52,214	22,689	64,841	28,904	49,542	218,190
Advertising	8,248	2,685	-	-	-	10,933
Contract services	-	-	38,443	28,986	119,534	186,963
Facility fees	-	-	65,209	-	-	65,209
Insurance	2,192	1,537	32,969	1,116	3,661	41,475
Miscellaneous	32,484	3,115	34,376	5,952	12,682	88,609
Rent	38,800	-	9,200	4,600	4,600	57,200
Repairs and maintenance	5,865	8,106	23,412	10,039	17,319	64,741
Supplies	5,412	15,396	19,668	22,006	12,641	75,123
Telephone	817	916	922	2,099	665	5,419
Utilities	-	2,791	2,945	25,844	51,594	83,174
Depreciation	4,029	16,546	209,008	160,191	139,105	528,879
<b>TOTAL OPERATING EXPENSES</b>	<u>1,754,922</u>	<u>176,210</u>	<u>2,341,919</u>	<u>360,225</u>	<u>543,822</u>	<u>5,177,098</u>
<b>OPERATING INCOME (LOSS)</b>	<u>247,822</u>	<u>(50,842)</u>	<u>439,098</u>	<u>15,041</u>	<u>23,897</u>	<u>675,016</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment earnings	3,294	5	11,054	8,312	6,959	29,624
Property taxes	-	-	-	31,475	-	31,475
Interest expense	-	-	(87,245)	(29,497)	(8,185)	(124,927)
Gain on disposal of capital assets	-	-	23,937	-	-	23,937
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>3,294</u>	<u>5</u>	<u>(52,254)</u>	<u>10,290</u>	<u>(1,226)</u>	<u>(39,891)</u>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND TRANSFERS</b>	<u>251,116</u>	<u>(50,837)</u>	<u>386,844</u>	<u>25,331</u>	<u>22,671</u>	<u>635,125</u>
Capital grants	-	-	1,736	-	-	1,736
Transfers in	-	34,860	468	234	234	35,796
Transfers out	(200,000)	-	-	(45,315)	(66,900)	(312,215)
<b>CHANGE IN NET POSITION</b>	<u>51,116</u>	<u>(15,977)</u>	<u>389,048</u>	<u>(19,750)</u>	<u>(43,995)</u>	<u>360,442</u>
<b>TOTAL NET POSITION - JANUARY 1</b>	<u>1,220,772</u>	<u>309,202</u>	<u>3,433,760</u>	<u>4,712,930</u>	<u>4,615,617</u>	<u>14,292,281</u>
Prior period adjustment	(181,632)	(65,387)	(155,461)	(77,730)	(77,730)	(557,940)
<b>TOTAL NET POSITION - DECEMBER 31</b>	<u>\$ 1,090,256</u>	<u>\$ 227,838</u>	<u>\$ 3,667,347</u>	<u>\$ 4,615,450</u>	<u>\$ 4,493,892</u>	<u>\$ 14,094,783</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, 2015

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 2,002,700	\$ 130,368	\$ 2,821,636	\$ 382,301	\$ 563,171	\$ 5,900,176
Cash paid to suppliers	(1,535,205)	(75,393)	(1,986,137)	(128,954)	(275,940)	(4,001,629)
Cash paid to employees	(166,897)	(85,678)	(209,776)	(70,481)	(126,901)	(659,733)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>300,598</u>	<u>(30,703)</u>	<u>625,723</u>	<u>182,866</u>	<u>160,330</u>	<u>1,238,814</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in from other funds	-	34,860	468	234	234	35,796
Transfers out to other funds	(200,000)	-	-	(45,315)	(66,900)	(312,215)
Advances to other funds	-	-	-	(3,331)	-	(3,331)
Advances from other funds	-	-	3,661	-	-	3,661
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(200,000)</u>	<u>34,860</u>	<u>4,129</u>	<u>(48,412)</u>	<u>(66,666)</u>	<u>(276,089)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase or construction of fixed assets	-	-	(124,948)	-	(23,470)	(148,418)
Special assessments collected	-	-	-	13,761	-	13,761
Property taxes collected	-	-	-	31,475	-	31,475
Principal paid on long-term debt	-	-	(255,000)	(90,000)	(15,000)	(360,000)
Interest paid on long-term debt	-	-	(72,512)	(30,140)	(8,309)	(110,961)
Capital grants	-	-	1,736	-	-	1,736
Sale of capital assets	-	-	31,000	-	-	31,000
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>(419,724)</u>	<u>(74,904)</u>	<u>(46,779)</u>	<u>(541,407)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Sale of investments	-	-	-	-	100,000	100,000
Interest on investments	3,294	5	4,339	8,312	5,929	21,879
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>3,294</u>	<u>5</u>	<u>4,339</u>	<u>8,312</u>	<u>105,929</u>	<u>121,879</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	103,892	4,162	214,467	67,862	152,814	543,197
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>1,021,788</u>	<u>2,589</u>	<u>1,932,485</u>	<u>456,181</u>	<u>1,232,559</u>	<u>4,645,602</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 1,125,680</u>	<u>\$ 6,751</u>	<u>\$ 2,146,952</u>	<u>\$ 524,043</u>	<u>\$ 1,385,373</u>	<u>\$ 5,188,799</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, 2015

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 247,822	\$ (50,842)	\$ 439,098	\$ 15,041	\$ 23,897	\$ 675,016
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	4,029	16,546	209,008	160,191	139,105	528,879
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(44)	5,000	41,499	7,035	(4,548)	48,942
Inventories	35,000	(2,875)	(34,681)	(529)	-	(3,085)
Prepaid items	(1,522)	291	53	1,136	(1,083)	(1,125)
Increase (decrease) in:						
Accounts payable	10,709	(980)	(34,142)	(1,772)	(4,376)	(30,561)
Salaries payable	3,111	1,619	2,253	7	5,578	12,568
Customer deposits	-	-	(880)	-	-	(880)
Net pension liability, deferred outflows, and deferred inflows related to pensions	1,493	538	3,515	1,757	1,757	9,060
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 300,598</u>	<u>\$ (30,703)</u>	<u>\$ 625,723</u>	<u>\$ 182,866</u>	<u>\$ 160,330</u>	<u>\$ 1,238,814</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS</b>						
Cash and cash equivalents	\$ 1,125,680	\$ 6,751	\$ 1,449,790	\$ 524,043	\$ 882,535	\$ 3,988,799
Restricted cash and cash equivalents:						
Revenue bond covenant accounts	-	-	697,162	-	-	697,162
MPCA contract accounts	-	-	-	-	502,838	502,838
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 1,125,680</u>	<u>\$ 6,751</u>	<u>\$ 2,146,952</u>	<u>\$ 524,043</u>	<u>\$ 1,385,373</u>	<u>\$ 5,188,799</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, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note.

#### A. Financial Reporting Entity

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.

#### B. Basic Financial Statements

##### Government-wide Financial Statements

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

The 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.

##### 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 fund 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:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015

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

**Major Governmental Funds:**

The General Fund is used to account for and report all financial resources not accounted for in another fund.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**Nonmajor Governmental Funds:**

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

**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, deferred outflows of resources, liabilities and deferred inflows of resources are included on the Statement of Net Position. The City has presented the following proprietary funds:

**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.

## CITY OF GRAND MARAIS, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2015

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. 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 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.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

**D. Change in Accounting Principle**

The beginning net position of the governmental activities and business-type activities has been decreased to reflect a change in accounting principle. As mentioned in Notes 14 and 15, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension liability for PERA, deferred outflows of resources and deferred inflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$9,034,370 to \$8,682,251 (a decrease of \$352,119). Beginning business-type activities net position has been restated from \$14,292,281 to \$13,734,341 (a decrease of \$557,940).

**E. 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.

**F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or 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) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) 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.
- 4) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

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

- 5) 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, 2015

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

- 6) Restricted assets are cash and cash equivalents and investments 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. In the governmental activities, restricted cash and cash equivalents and investments include the 2013A GO Refunding Bond escrow account. In the business-type activities, restricted cash and cash equivalents and investments include amounts restricted by electric system revenue bond covenants and sewer MPCA contracts.
- 7) 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.

- 8) Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has two items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the proprietary funds and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions. See notes 14 and 15 for details.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

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

10) 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 position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an outflow of resources in the period incurred. On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts are deferred and amortized over the life of the debt. The governmental fund financial statements report debt premiums and discounts as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures. The long-term debt consists primarily of general obligation improvement and revenue bonds and revenue notes.

11) Defined Benefit Pension Plans

Public Employees Retirement Association Pension

For purposes of measuring the net pension liability/asset, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the Debt Service Fund, and loans receivable, which are reported in the Storefront Renovation Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is related to pensions. See notes 14 and 15 for details.

13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is 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, proprietary fund equity is classified the same as in the government-wide statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. Fund balances of the governmental funds are classified as follows:

**Nonspendable**—amounts that cannot be spent either because they are in nonspendable form, such as inventory and prepaid items, or because they are legally or contractually required to be maintained intact.

**Restricted**—amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed**—amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

**Assigned**—amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council or, City Administrator or Finance Director authorized by the City Council may assign amounts for specific purposes.

**Unassigned**—all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

**G. 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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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. The liability for accrued vacation leave is recorded in the appropriate funds as an accrued liability. Unpaid sick leave does not vest and, therefore, is not accrued. Sick pay is expensed in the year taken.

**H. Use of Estimates**

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

**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 cash and cash equivalents". Several funds hold cash separate from the cash and investment pool.

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

Cash	\$ 9,186,894
Petty Cash	1,886
Certificates of Deposit	492,000
Investments	<u>2,098,444</u>
Total	<u>\$11,779,224</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015

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

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	\$ <u>8,701,389</u>
Restricted cash and cash equivalents	1,200,548
Restricted investments	<u>1,877,287</u>
Total restricted cash, cash equivalents, and investments	<u>3,077,835</u>
Total	<u>\$11,779,224</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 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 \$9,678,894; the bank balance was \$9,720,802. Of the bank balance, \$1,422,154 was insured and \$8,298,648 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, 2015

**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, 2015, had no investments in any issuer that exceeded five percent of total investments, except for the Minnesota Municipal Money Market Fund and U.S. Treasury Notes.

*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, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Maturity Less Than 1 Year</u>
Minnesota Municipal Money Market Fund	N/A	\$ 215,365	\$ 215,365
Morgan Stanley U.S. Government Money Market Trust	N/A	5,792	5,792
U.S. Treasury Notes	AAA	<u>1,877,287</u>	<u>1,877,287</u>
Total Investments		<u>\$ 2,098,444</u>	<u>\$ 2,098,444</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.

**NOTE 3 - LOANS 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, 2015 was \$12,716.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 630,922	\$ 254,907	\$ -	\$ 885,829
Construction in progress	52,810	-	-	52,810
<b>Total capital assets not being depreciated</b>	<u>683,732</u>	<u>254,907</u>	<u>-</u>	<u>938,639</u>
<b>Capital assets, being depreciated:</b>				
Buildings	5,022,034	-	-	5,022,034
Improvements	741,907	3,641	-	745,548
Infrastructure	7,743,389	-	-	7,743,389
Machinery and equipment	547,664	4,705	-	552,369
Licensed vehicles	563,169	-	-	563,169
<b>Total capital assets, being depreciated</b>	<u>14,618,163</u>	<u>8,346</u>	<u>-</u>	<u>14,626,509</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(3,005,148)	(72,404)	-	(3,077,552)
Improvements	(247,475)	(20,037)	-	(267,512)
Infrastructure	(2,899,124)	(176,496)	-	(3,075,620)
Machinery and equipment	(202,595)	(39,391)	-	(241,986)
Licensed vehicles	(141,513)	(27,059)	-	(168,572)
<b>Total accumulated depreciation</b>	<u>(6,495,855)</u>	<u>(335,387)</u>	<u>-</u>	<u>(6,831,242)</u>
<b>Total capital assets, being depreciated, net</b>	<u>8,122,308</u>	<u>(327,041)</u>	<u>-</u>	<u>7,795,267</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,806,040</u>	<u>\$ (72,134)</u>	<u>\$ -</u>	<u>\$ 8,733,906</u>
<b>Business-type activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 186,100	\$ -	\$ -	\$ 186,100
Construction in progress	-	-	-	-
<b>Total capital assets, not being depreciated</b>	<u>186,100</u>	<u>-</u>	<u>-</u>	<u>186,100</u>
<b>Capital assets, being depreciated:</b>				
Buildings	7,857,587	-	-	7,857,587
Improvements	310,058	-	-	310,058
Infrastructure	12,447,646	12,005	-	12,459,651
Machinery and equipment	2,053,969	23,469	-	2,077,438
Licensed vehicles	353,038	112,944	(84,760)	381,222
<b>Total capital assets, being depreciated</b>	<u>23,022,298</u>	<u>148,418</u>	<u>(84,760)</u>	<u>23,085,956</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(3,681,987)	(203,483)	-	(3,885,470)
Improvements	(278,163)	(1,865)	-	(280,028)
Infrastructure	(3,712,470)	(282,688)	-	(3,995,158)
Machinery and equipment	(1,835,516)	(31,028)	-	(1,866,544)
Licensed vehicles	(310,903)	(9,815)	77,696	(243,022)
<b>Total accumulated depreciation</b>	<u>(9,819,039)</u>	<u>(528,879)</u>	<u>77,696</u>	<u>(10,270,222)</u>
<b>Total capital assets, being depreciated, net</b>	<u>13,203,259</u>	<u>(380,461)</u>	<u>(7,064)</u>	<u>12,815,734</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 13,389,359</u>	<u>\$ (380,461)</u>	<u>\$ (7,064)</u>	<u>\$ 13,001,834</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities**

General government	\$ 5,393
Public safety	42,458
Streets	188,192
Culture and recreation	<u>99,344</u>
Total depreciation expense- governmental activities	<u>\$ 335,387</u>

**Business-type activities**

Liquor Store	\$ 4,029
Golf Course	16,546
Electric	209,008
Water	160,191
Sewer	<u>139,105</u>
Total depreciation expense- business-type activities	<u>\$ 528,879</u>

**NOTE 5 - RATE STABILIZATION PROVISION**

A reserve for rate stabilization in the electric enterprise fund 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 unearned revenue, will be used to offset future rate increases and maintain income stability in future periods. At December 31, 2015, 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 electric revenue bonds are payable solely from the net revenues of the Electric Enterprise Fund, the water revenue notes are payable solely from the net revenues of the Water Enterprise Fund, and the sewer revenue bond is payable solely from the net revenues of the Sewer Enterprise Fund. For governmental activities, claims and judgments are generally liquidated by the general fund.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**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>
<b>Governmental Activities</b>					
General Obligation Bonds					
2005C Improvement	11/22/2005	3.50-4.60%	\$ 895,000	02/01/2027	\$ -
2008A Improvement	10/07/2008	3.25-4.50%	\$ 2,695,000	02/01/2029	1,960,000
2009A Improvement Refunding	12/10/2009	2.10-4.70%	\$ 1,675,000	02/01/2031	1,440,000
2013A Refunding	06/20/2014	2.00-3.15%	\$ 3,295,000	02/01/2030	<u>3,140,000</u>
<b>Governmental Activities Long-term Liabilities</b>					<u>6,540,000</u>
<b>Business-type activities</b>					
Revenue Bonds					
2012A Electric System Refunding	07/25/2014	2.00-2.50%	\$ 1,925,000	05/01/2023	\$ 1,435,000
2013B Electric System Refunding	06/20/2014	3.00%	\$ 1,300,000	05/01/2023	<u>1,110,000</u>
Total Revenue Bonds					<u>2,545,000</u>
General Obligation Bonds					
2013A Refunding	06/20/2014	2.00-3.15%	\$ 340,000	02/01/2030	<u>310,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	122,000
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	<u>425,000</u>
Total General Obligation Notes					<u>547,000</u>
Revenue Note					
2008A Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	<u>320,000</u>
<b>Business-type Activities Long-term Liabilities</b>					<u>3,722,000</u>
<b>Total Long-Term Liabilities</b>					<u>\$ 10,262,000</u>

**Governmental Funds**

**Pledged Revenues**

The City issued GO improvement bonds to finance various improvement projects within the City in 2004 of \$710,000, in 2005 of \$895,000, and in 2008 of \$2,695,000. In 2013, the City issued \$3,295,000 general obligation refunding bonds of which the proceeds were used to partially advance refund the outstanding 2004, 2005, and 2008 GO improvement bonds. In 2014, the 2004 bonds were fully paid and in 2015, the 2005 bonds were fully paid. Principal and interest paid for the current year on these issues was \$1,019,413. At December 31, 2015 principal and interest on the bonds to be paid from special assessments levied upon the benefitted property, ad valorem taxes, and the 2013A Bond escrow account to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2008A	2029	\$ 2,001,188
2013A	2030	<u>3,717,853</u>
		<u>\$ 5,719,041</u>

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

In 2009, the City issued \$1,675,000 improvement refunding bonds of which the proceeds were used to effect a refunding of \$1,630,000 of the outstanding GO Temporary Improvement Bonds of 2007 issued to finance various municipal improvement projects within the City. Principal and interest paid for the current year was \$124,848. At December 31, 2015, principal and interest to maturity in 2031 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$1,999,755.

**Enterprise Funds**

**Pledged Revenues**

The City has pledged Electric Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay electric system revenue bonds. In 2012, the City issued \$1,925,000 electric system revenue refunding bonds of which the proceeds were used to effect an advance refunding of the outstanding 2003 electric system revenue bonds. In 2013, the City issued \$1,300,000 electric system revenue refunding bonds of which the proceeds were used to advance refund the outstanding 2004 and 2005 electric system revenue bonds. Proceeds from the original refunded bonds were used to finance electric system improvements. Principal and interest paid for the current year on these issues was \$323,300. At December 31, 2015, principal and interest on the bonds to be paid from pledged future revenues to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2012A	2023	\$ 1,572,838
2013B	2023	<u>1,272,600</u>
		<u>\$ 2,845,438</u>

The City has pledged future Sewer Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay GO sewer revenue bonds. In 2013, the City issued \$340,000 general obligation refunding bonds of which the proceeds were used to advance refund the outstanding 2006 GO sewer revenue bonds. Proceeds from the 2006 bonds were used to finance improvements to the sewer system. Principal and interest paid for the current year was \$23,310. At December 31, 2015, principal and interest on the bonds to maturity in 2036 to be paid from pledged future revenues total \$392,740.

The City has pledged future Water Enterprise Fund revenues, net of any normal and reasonable expenses for operations, to repay a \$484,112 GO revenue note issued in 1999, an \$812,229 GO improvement note issued in 2004, and a \$470,000 revenue note issued in 2008. Proceeds from all three issues were used to finance water system renovations and improvements. Principal and interest paid for the current year on these issues was \$117,103. At December 31, 2015, principal and interest on the notes to be paid from pledged future revenues, and special assessments and ad valorem taxes for the 2004 issue, to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
1999	2019	\$ 129,936
2004	2024	475,081
2008A	2027	<u>417,006</u>
		<u>\$ 1,022,023</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
Bonds Payable					
2005C GO Improvements	\$ 665,000	\$ -	\$ (665,000)	\$ -	\$ -
2008A GO Improvement	2,060,000	-	(100,000)	1,960,000	1,960,000
2009A GO Improvement Refunding	1,505,000	-	(65,000)	1,440,000	65,000
2013A GO Refunding	3,220,000	-	(80,000)	3,140,000	110,000
Total Bonds Payable	<u>7,450,000</u>	<u>-</u>	<u>(910,000)</u>	<u>6,540,000</u>	<u>2,135,000</u>
Bond Premium	49,215	-	(3,245)	45,970	-
<b>Governmental Activities -   Long-term Liabilities</b>	<u>\$ 7,499,215</u>	<u>\$ -</u>	<u>\$ (913,245)</u>	<u>\$ 6,585,970</u>	<u>\$ 2,135,000</u>
<b>Business-type Activities</b>					
Bonds Payable					
2012A Electric System Revenue Refunding	\$ 1,595,000	-	(160,000)	1,435,000	165,000
2013A GO Refunding	325,000	-	(15,000)	310,000	15,000
2013B Electric System Revenue Refunding	<u>1,205,000</u>	<u>-</u>	<u>(95,000)</u>	<u>1,110,000</u>	<u>95,000</u>
Total Bonds Payable	<u>3,125,000</u>	<u>-</u>	<u>(270,000)</u>	<u>2,855,000</u>	<u>275,000</u>
Bond Premium	56,518	-	(6,715)	49,803	-
Total	<u>3,181,518</u>	<u>-</u>	<u>(276,715)</u>	<u>2,904,803</u>	<u>275,000</u>
Notes Payable					
1999 GO Water Revenue	151,000	-	(29,000)	122,000	29,000
2004 GO Improvement	466,000	-	(41,000)	425,000	43,000
2008A Water Revenue	<u>340,000</u>	<u>-</u>	<u>(20,000)</u>	<u>320,000</u>	<u>20,000</u>
Total Notes Payable	<u>957,000</u>	<u>-</u>	<u>(90,000)</u>	<u>867,000</u>	<u>92,000</u>
<b>Business-type Activities -   Long-term Liabilities</b>	<u>\$ 4,138,518</u>	<u>\$ -</u>	<u>\$ (366,715)</u>	<u>\$ 3,771,803</u>	<u>\$ 367,000</u>

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 2,135,000	\$ 172,795	\$ 367,000	\$ 96,527	\$ 2,502,000	\$ 269,322
2017	290,000	126,243	379,000	88,422	669,000	214,665
2018	295,000	119,510	391,000	78,814	686,000	198,324
2019	305,000	112,460	398,000	68,736	703,000	181,196
2020	315,000	105,079	382,000	58,147	697,000	163,226
2021-2025	1,725,000	399,140	1,585,000	127,542	3,310,000	526,682
2026-2030	1,350,000	140,631	220,000	20,013	1,570,000	160,644
2031	125,000	2,937	-	-	125,000	2,937
Total	<u>\$ 6,540,000</u>	<u>\$ 1,178,795</u>	<u>\$ 3,722,000</u>	<u>\$ 538,201</u>	<u>\$ 10,262,000</u>	<u>\$ 1,716,996</u>

No interest was capitalized during 2015; interest incurred and charged to expense totaled \$320,818.

**Advance Refunding**

On June 20, 2013, the City issued \$3,635,000 General Obligation Refunding Bonds, Series 2013A with interest rates ranging between 2.00% and 3.15% to partially advance refund \$3,687,000 of the outstanding 2004A, 2005C, and 2008A General Obligation Improvement Bonds and the 2006 General Obligation Sewer Revenue Bonds with interest rates ranging between 3.50% and 4.10%. The proceeds of the new bonds were placed in an irrevocable trust to provide for future debt service payments on the old bonds; however, the City remains partially liable for payments on the old bonds through their respective call dates. Accordingly, the trust account assets and the liability for the refunded bonds are included in the City's financial statements. The balance in the escrow account at December 31, 2015 is \$1,877,835. As of December 31, 2015, the 2006 General Obligation Sewer Revenue Bonds, the 2004A General Obligation Improvement Bonds, and the 2005C General Obligation Improvement Bonds had been defeased. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$221,299.

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY**

The composition of interfund balances as of December 31, 2015, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Electric Enterprise Fund	\$ 69,552
Debt Service Fund	Sewer Enterprise Fund	4,230
Electric Enterprise Fund	General Fund	1,741
Water Enterprise Fund	General Fund	4,081
Water Enterprise Fund	Debt Service Fund	8,172
Sewer Enterprise Fund	General Fund	1,797
		<u>\$ 89,573</u>

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, and (3) payments between funds are made.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)**

Interfund transfers for the year ended December 31, 2015 consisted of the following:

	Transfers Out				Total
	General Fund	Liquor Store Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<u>Transfers In</u>					
General Fund	\$ -	\$ 200,000	\$ -	\$ -	\$ 200,000
Debt Service Fund	-	-	45,315	66,900	112,215
Golf Course Enterprise Fund	34,860	-	-	-	34,860
Electric Enterprise Fund	468	-	-	-	468
Water Enterprise Fund	234	-	-	-	234
Sewer Enterprise Fund	234	-	-	-	234
Nonmajor Funds -					
Library Special Revenue Fund	133,657	-	-	-	133,657
	<u>\$ 169,453</u>	<u>\$ 200,000</u>	<u>\$ 45,315</u>	<u>\$ 66,900</u>	<u>\$ 481,668</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; 3) move funds to the Debt Service Fund for debt service expenditures; 4) fund the operations of the Golf Course; and 5) reimburse the enterprise funds for their portion of revenue received by the General Fund.

**NOTE 8 - FUND EQUITY**

As of December 31, 2015, fund balances are comprised of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable:</b>				
Inventories	\$ 23,207	\$ -	\$ -	\$ 23,207
Prepaid items	34,900	-	3,756	38,656
Total Nonspendable	<u>58,107</u>	<u>-</u>	<u>3,756</u>	<u>61,863</u>
<b>Restricted:</b>				
Library	-	-	252,087	252,087
Storefront renovation	-	-	135,449	135,449
Debt service	-	2,540,029	-	2,540,029
Total Restricted	<u>-</u>	<u>2,540,029</u>	<u>387,536</u>	<u>2,927,565</u>
<b>Committed:</b>				
Cable TV	-	-	32,114	32,114
<b>Assigned:</b>				
Buildings	79,738	-	-	79,738
Fire	54,921	-	-	54,921
Insurance reserve	10,804	-	-	10,804
Street equipment	48,780	-	-	48,780
Street improvements	467,370	-	-	467,370
Street sealcoat project	115,965	-	-	115,965
Library	-	-	268,112	268,112
Total Assigned	<u>777,578</u>	<u>-</u>	<u>268,112</u>	<u>1,045,690</u>
<b>Unassigned</b>	<u>2,524,607</u>	<u>-</u>	<u>-</u>	<u>2,524,607</u>
Total fund balances	<u>\$ 3,360,292</u>	<u>\$ 2,540,029</u>	<u>\$ 691,518</u>	<u>\$ 6,591,839</u>

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**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.

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 received \$60,000 under this agreement in 2015.

In June of 2015, the City entered into a joint powers agreement with the Cook County/Grand Marais Joint Economic Development Authority (EDA) and Cook County for reassessment of Cedar Grove Business Park lots and contributions for Business Park debt servicing, changing the original agreement. Under this new agreement, on or before July 1 of each year, the County is required to pay the City 50% of the annual bond payment the City must pay for that year on the 2009A Improvement Refunding Bonds. The EDA will be credited towards the Business Park assessments for any amounts paid to the City by the County. On September 30, 2015, the City reassessed the lots that had not been sold in reduced assessment amounts of \$13,392.86 per lot. The EDA is required to pay to the City any levied assessments on lots sold in the Business Park, to be used by the City for payments on the 2009A Improvement Refunding Bonds. In 2015, the City received \$55,130 from the EDA under this agreement.

**NOTE 11 - JOINT VENTURE**

**Joint Powers Agreement for Library Services**

The City of Grand Marais entered into a joint powers agreement with Cook County on December 15, 1992. The purpose of the agreement is to provide library services to the

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 11 - JOINT VENTURE (CONTINUED)**

residents of the City and County through the City's Grand Marais Public Library. The County, in consideration of the services provided to its residents, agrees to continue its membership in the multi-county Arrowhead Library System and contribute 50% of the budgeted annual operating costs of the library board to the City, which totaled \$105,752 in 2015.

The library is governed by a board of seven members serving staggered three-year terms and appointed by the Mayor of the City with the consent of the City Council. Four members shall be residents of the City and three members shall be county residents from outside the City limits.

If the agreement is terminated, any capital assets (other than the original library building) purchased during the term of the agreement having a purchase price in excess of \$1,000, shall be reimbursed fifty percent of the then market value to the County. This reimbursement only applies to the purchase price paid from the normal operating budget shared by the City and County and shall not apply to the purchase price paid by gift, grant, or other outside funding.

**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 2015, 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.

**Joint Powers Agreement for Shared Costs of Cook County Community Center**

The City entered into a joint powers agreement with Cook County to implement procedures for the sharing of costs by the County and City for the new Cook County Community Center benefitting constituents of the City and County.

The use of the Community Center will be under the control of the County who has contracted with the Duluth Area Family YMCA (the "YMCA") pursuant to a management agreement.

The County, through the YMCA, shall establish the schedule of operating hours, events, services and programs for the use of the Community Center consistent with the Management Agreement and this Agreement.

In consideration of the services provided to its residents, the City shall:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - JOINT VENTURE (CONTINUED)

- (i) Annually contribute to the County fifty percent (50%) of the prior year's annual operating losses based on costs of maintenance of the Community Center building (not including any outdoor recreation areas or amenities) and programming up to \$100,000. If the annual operating losses exceed \$200,000 the City contribution shall increase annually by the lesser of five percent (5%) or a percentage equal to the annual Consumer Price Index (CPI – Midwest Urban Nonmetropolitan (less than 50,000) for the preceding calendar year; *provided, however,* that if such increase is greater than the lesser of five percent (5%) or a percentage equal to the annual CPI for the preceding calendar year, such greater amount must be approved by the City. The County shall annually invoice the City for the City's portion of the operating loss up to the maximum allowed percent increase as applicable at least 60 days prior to the payment date and shall include a separate itemized accounting of the operating loss with the County's invoice. Any request for additional payments for operating losses above the allowed percent maximum increase in any given year shall be by separate written request from the County.
- (ii) Pay fifty percent (50%) of the YMCA personnel costs for the 6-month period prior to the official opening of the YMCA in the year that the Community Center building commences operation, up to a maximum of \$35,000.
- (iii) Annually contribute \$10,000 to the Community Center Capital Improvement Fund. The County shall manage the Capital Improvement Fund, which shall be used for the repair, replacement, and maintenance of the structural components of the Community Center building.
- (iv) The City shall not be responsible for payment of any costs or expenses for or related to the Community Center except as otherwise provided in this Agreement.

In 2015, the City contributed \$107,464 to the County under this agreement.

In consideration of the City's commitment to share the ongoing costs of maintenance and of the Community Center as provided above, the County shall:

- (i) Pay fifty percent (50%) of the costs to demolish and remove the existing City-owned swimming pool, which amount shall not exceed \$25,000 without the prior written consent of the County; and
- (ii) Pay fifty percent (50%) of the costs to settle the case with Burbach Aquatics, Inc. (including exclusively the settlement amount as contained in that certain 2013 settlement and release agreement between Burbach Aquatics, Inc. and the City, along with the City's attorney fees incurred in settling such matter) which amount shall not exceed \$39,628; and
- (iii) Pay or arrange for payment of all other costs and expenses related to the Community Center.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 11 - JOINT VENTURE (CONTINUED)**

Management of the Cook County Family YMCA shall be pursuant to the Management Agreement between the County and Duluth YMCA. A representative appointed by the City Council shall serve as a voting member on the Branch Board of Directors for the Community Center; such representation is not intended to create a joint venture or joint enterprise between the City and the County.

The County will own the Community Center, and this Agreement provides the City no ownership interest in the Community Center as the intent of this Agreement is to allow the City to contribute financially to assist the County with the future operating losses of the Community Center. The County will be responsible for operation, maintenance, construction, repair and reconstruction of the Community Center and all improvements thereto; provided that the County may assign operation and management obligations to the YMCA.

This Agreement shall remain in full force and effect for a period of twenty-five (25) years from its effective date and shall automatically renew in five (5) year increments thereafter, unless the City or County within 180 days of the expiration of a respective period provides written notice of termination to the other party. Notwithstanding the foregoing, this Agreement may be terminated by mutual written agreement of the City and County.

**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, 2015, 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.

**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.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**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 the 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 \$25,480 on December 31, 2015.

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Duluth-Superior Area Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Duluth-Superior Area 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 Duluth-Superior Area Community Foundation at such times and in such amounts and for such charitable purposes as the Duluth-Superior Area 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 the Duluth-Superior Area 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 \$47,915 on December 31, 2015.

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The City of Grand Marais, Minnesota participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Grand Marais, Minnesota are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**B. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Grand Marais, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Grand Marais, Minnesota's contributions to the GERF for the year ended December 31, 2015, were \$89,570. The City of Grand Marais, Minnesota's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

GERF Pension Costs

At December 31, 2015, the City of Grand Marais, Minnesota reported a liability of \$1,036,504 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Grand Marais, Minnesota's proportion of the net pension liability was based on the City of Grand Marais, Minnesota's contributions received by PERA during the measurement period for employer pay-

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

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

roll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Grand Marais, Minnesota's proportion share was .02000% which was a decrease of 0.0030% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City of Grand Marais, Minnesota recognized pension expense of \$102,932 for its proportionate share of the GERS's pension expense.

At December 31, 2015, the City of Grand Marais, Minnesota reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 52,258
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	98,121	-
Changes in proportion	-	105,694
Contributions paid to PERA subsequent to the measurement date	45,886	-
<b>Total</b>	<b>\$ 144,007</b>	<b>\$ 157,952</b>

\$45,886 reported as deferred outflows of resources related to pensions resulting from City of Grand Marais, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ (28,119)
2017	\$ (28,121)
2018	\$ (28,121)
2019	\$ 24,530
2020	\$ 0
Thereafter	\$ 0

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1<sup>st</sup> until 2034, then 2.5%, thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Pension Liability Sensitivity**

The following presents the City of Grand Marais, Minnesota's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Grand Marais, Minnesota's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City of Grand Marais, Minnesota's proportionate share of the GERS net pension liability:	\$1,629,752	\$1,036,504	\$546,571

**G. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 15 – DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT**

**Plan Description**

The City Grand Marais, Minnesota Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2014, the plan covered 21 active firefighters and 3 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

**Benefits Provided**

The SVF provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

**Contributions**

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes. The State of Minnesota contributed \$21,317 in fire state aid to the plan on behalf of the City of Grand Marais, Minnesota Fire Department for the year ended December 31, 2014, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the SVF plan for the year ended December 31, 2015.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 15 – DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a-b)</b>
Beginning Balance 12/31/13	\$ 251,405	\$ 357,117	\$ (105,712)
Changes for the Year			
Service Cost	10,579		10,579
Interest on Pension Liability	14,609		14,609
Actuarial Experience (Gains)/Losses	4,552		(4,552)
Projected Investment Earnings		21,427	(21,427)
Contributions (Employer)		-	-
Contributions (State)		21,317	(21,317)
Asset (Gain)/Loss		634	(634)
Benefit Payouts	(37,000)	(37,000)	-
PERA Administrative Fee	-	(750)	750
Net Changes	(7,260)	5,628	(12,888)
Balance End of Year 12/31/14	\$ 244,145	\$ 362,745	\$ (118,600)

For the year ended December 31, 2015, the City recognized pension expense of \$5,294.

At December 31, 2015, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resource s
Difference between projected and actual investment earnings		\$ 507
Difference between actuarial assumptions and actual experience.	\$ 3,642	
Contributions paid to PERA subsequent to the actual experience.	\$ 19,908	
Total	\$ 23,550	\$ 507

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015**

**NOTE 15 – DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

\$19,908 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 783
2017	\$ 783
2018	\$ 783
2019	\$ 786
2020	\$ 0
Thereafter	\$ 0

**Actuarial Assumptions**

The total pension liability at December 31, 2014, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0%
- Inflation rate of 3.0%

There were no changes in actuarial assumptions in 2014.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

The following presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$111,811	\$118,600	\$125,176

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

**Plan Investments**

**Investment Policy:**

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**Asset Allocation:**

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

**Description of significant investment policy changes during the year:** The SBI made no significant changes to their investment policy during Fiscal Year 2015 for the Statewide Volunteer Firefighter Retirement Plan.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

**NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about the SVF plan's fiduciary net position as of June 30, 2015, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 16 - DEFINED CONTRIBUTION PLAN**

One City Council member is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by 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% 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$240	\$240	5%	5%	5%

**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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property	\$ 650,453	\$ 650,453	\$ 657,899	\$ 7,446
Special assessments	1,265	1,265	1,265	-
Licenses and permits	82,700	82,700	83,334	634
Intergovernmental	88,187	88,187	142,171	53,984
Charges for services	1,025,964	1,025,964	1,163,646	137,682
Fines	4,500	4,500	4,230	(270)
Gifts and contributions	-	-	31,356	31,356
Interest	9,000	9,000	8,381	(619)
Miscellaneous	-	-	3,477	3,477
<b>TOTAL REVENUES</b>	<u>1,862,069</u>	<u>1,862,069</u>	<u>2,095,759</u>	<u>233,690</u>
<b>EXPENDITURES</b>				
Current				
General government	602,092	602,092	810,768	(208,676)
Public safety	235,325	235,325	193,956	41,369
Streets	384,146	384,146	238,085	146,061
Culture and recreation	679,084	679,084	546,454	132,630
<b>TOTAL EXPENDITURES</b>	<u>1,900,647</u>	<u>1,900,647</u>	<u>1,789,263</u>	<u>111,384</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(38,578)</u>	<u>(38,578)</u>	<u>306,496</u>	<u>345,074</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	(160,593)	(160,593)	(169,453)	(8,860)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>39,407</u>	<u>39,407</u>	<u>30,547</u>	<u>(8,860)</u>
<b>NET CHANGE IN FUND BALANCE</b>	829	829	337,043	336,214
<b>FUND BALANCE - JANUARY 1</b>	<u>3,023,249</u>	<u>3,023,249</u>	<u>3,023,249</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 3,024,078</u>	<u>\$ 3,024,078</u>	<u>\$ 3,360,292</u>	<u>\$ 336,214</u>

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
AND CITY'S CONTRIBUTION FOR DEFINED BENEFIT PENSION PLANS  
Year Ended December 31, 2015

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0200%	\$1,036,504	\$1,175,231	88.20%	78.19%

**Note:** This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**Note:** For purposes of this schedule, covered payroll is defined as "pensionable wages."

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
SCHEDULE OF CITY'S CONTRIBUTIONS  
GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2015	\$ 89,570	\$ 89,570	\$ -	\$ 1,194,267	7.50%

**Note:** This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**Note:** For purposes of this schedule, covered payroll is defined as "pensionable wages."

See note to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET  
Year Ended December 31, 2015

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET  
GRAND MARAIS VOLUNTEER FIRE DEPARTMENT

<b>Total Pension Liability</b>	
Service cost	\$ 10,579
Interest on the pension liability	14,609
Actuarial experience (gains)/losses	4,552
Benefit payments	<u>(37,000)</u>
<b>Net Change in Total Pension Liability</b>	(7,260)
<b>Total Pension Liability - Beginning (12/31/13)</b>	<u>251,405</u>
<b>Total Pension Liability - Ending (a) (12/31/14)</b>	<u>\$ 244,145</u>
<b>Plan Fiduciary Net Position</b>	
Contributions:	
Fire state aid	\$ 15,571
Fire supplemental aid	3,767
Supplemental Benefit Reimbursement	1,979
Net Investment Income	22,061
PERA administrative fee	(750)
Benefit payments	<u>(37,000)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	5,628
<b>Plan Fiduciary Net Position - Beginning (12/31/13)</b>	<u>357,117</u>
<b>Plan Fiduciary Net Position - Ending (b) (12/31/14)</b>	<u>\$ 362,745</u>
<b>Net Pension Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ (118,600)</u>
<b>Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability</b>	148.6%

Notes:

This schedule is built prospectively until it contains ten years of data.

See note to required supplementary information.

**CITY OF GRAND MARAIS, MINNESOTA**

**SCHEDULE OF CITY CONTRIBUTIONS  
Year Ended December 31, 2015**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
SCHEDULE OF CITY CONTRIBUTIONS  
GRAND MARAIS VOLUNTEER FIRE DEPARTMENT**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ -	\$ -
Actual contributions paid	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>

Notes:

The annual required contributions of the municipality and State are determined by statute.

Because all active plan members are volunteers, there is no actual payroll.

This schedule is built prospectively until it contains ten years of data.

See note to required supplementary information.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2015**

**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.

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2015

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 535,640	\$ 31,103	\$ 135,449	\$ 702,192
Accounts receivable	1,556	1,011	-	2,567
Loans receivables	-	-	12,716	12,716
Prepaid items	3,756	-	-	3,756
<b>TOTAL ASSETS</b>	<b>\$ 540,952</b>	<b>\$ 32,114</b>	<b>\$ 148,165</b>	<b>\$ 721,231</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,070	\$ -	\$ -	\$ 3,070
Salaries payable	13,927	-	-	13,927
<b>TOTAL LIABILITIES</b>	<b>16,997</b>	<b>-</b>	<b>-</b>	<b>16,997</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - loans receivable	-	-	12,716	12,716
<b>FUND BALANCES</b>				
Nonspendable	3,756	-	-	3,756
Restricted	252,087	-	135,449	387,536
Committed	-	32,114	-	32,114
Assigned	268,112	-	-	268,112
<b>TOTAL FUND BALANCES</b>	<b>523,955</b>	<b>32,114</b>	<b>135,449</b>	<b>691,518</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 540,952</b>	<b>\$ 32,114</b>	<b>\$ 148,165</b>	<b>\$ 721,231</b>

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended December 31, 2015

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes - franchise fee	\$ -	\$ 4,028	\$ -	\$ 4,028
Intergovernmental	105,752	-	-	105,752
Charges for services	18,069	-	-	18,069
Gifts and contributions	14,642	-	-	14,642
Investment earnings	1,178	-	586	1,764
Miscellaneous	-	-	19,379	19,379
	<u>-</u>	<u>-</u>	<u>19,379</u>	<u>19,379</u>
<b>TOTAL REVENUES</b>	<u>139,641</u>	<u>4,028</u>	<u>19,965</u>	<u>163,634</u>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	249,362	-	-	249,362
	<u>249,362</u>	<u>-</u>	<u>-</u>	<u>249,362</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(109,721)	4,028	19,965	(85,728)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	133,657	-	-	133,657
	<u>133,657</u>	<u>-</u>	<u>-</u>	<u>133,657</u>
<b>NET CHANGE IN FUND BALANCES</b>	23,936	4,028	19,965	47,929
<b>FUND BALANCES - JANUARY 1</b>	500,019	28,086	115,484	643,589
	<u>500,019</u>	<u>28,086</u>	<u>115,484</u>	<u>643,589</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 523,955</u>	<u>\$ 32,114</u>	<u>\$ 135,449</u>	<u>\$ 691,518</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 Year Ended December 31, 2015

REVENUES

**Taxes**

General property \$ 657,899

**Special Assessments**

1,265

**Licenses and permits**

83,334

**Intergovernmental**

State

Local government aid 82,872

Taconite production 4,259

PERA aid 5,315

Small cities assistance 15,169

MN Department of Agriculture 30,915

County

Rain garden 3,641

**Total Intergovernmental**

142,171

**Charges for Services**

General government

Rent 64,301

Miscellaneous 8,601

Public safety

Fire protection contacts 48,015

Culture and recreation

Park 959,901

Boat harbors 82,828

**Total Charges for Services**

1,163,646

**Fines**

Court fines

4,230

**Gifts and Contributions**

31,356

**Investment earnings**

8,381

**Miscellaneous**

Other

3,477

**TOTAL REVENUES**

2,095,759

CITY OF GRAND MARAIS, MINNESOTA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
(CONTINUED)  
Year Ended December 31, 2015

**EXPENDITURES**

**Current**

**General Government**

Mayor and council	\$ 31,689
City clerk	179,093
Independent audit	14,625
Legal	23,498
Planning and zoning	27,944
Buildings	65,323
Public works	2,500
Public works capital outlay	254,907
County community center	107,464
Other	<u>103,725</u>
<b>Total General Government</b>	<u>810,768</u>

**Public Safety**

Police	140,000
Fire	52,484
Animal control	<u>1,472</u>
<b>Total Public Safety</b>	<u>193,956</u>

**Streets**

Maintenance	208,270
Street lighting	26,174
Capital outlay	<u>3,641</u>
<b>Total Streets</b>	<u>238,085</u>

**Culture and Recreation**

Recreation	482,357
Recreation capital outlay	4,705
Boat harbors	38,989
City parks	<u>20,403</u>
<b>Total Culture and Recreation</b>	<u>546,454</u>

<b>TOTAL EXPENDITURES</b>	<u>1,789,263</u>
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CITY OF GRAND MARAIS, MINNESOTA  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**(CONTINUED)**  
Year Ended December 31, 2015

<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 306,496</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	200,000
Transfers out	<u>(169,453)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>30,547</u>
<b>NET CHANGE IN FUND BALANCE</b>	337,043
<b>FUND BALANCE - JANUARY 1</b>	<u>3,023,249</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 3,360,292</u>

## **OTHER SUPPLEMENTARY INFORMATION**

## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted, committed, or assigned to expenditure for specified purposes other than debt service or capital projects.

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

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

**INDEPENDENT AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements and have issued our report thereon dated June 8, 2016.

**Internal Control Over Financial Reporting**

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

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

*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 responses as item 2015-002 to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is

less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as items 2015-001 to be a significant deficiency.

## **Compliance**

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

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City does not have any tax increment financing districts.

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

## **Other Matters**

We noted certain matters that we reported to management of the City of Grand Marais, Minnesota in a separate letter dated June 8, 2016, included under this cover.

## **City of Grand Marais, Minnesota's Response to Findings**

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

## **Purpose of this Report**

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

*Walker Giroux & Helme, LLC*

Virginia, Minnesota  
June 8, 2016

**CITY OF GRAND MARAIS, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2015**

**2015-001. 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.

**Cause**

This occurred because of staffing limitations 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, 2015**

**2015-002. 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 does not possess the technical expertise to comply with governmental accounting standards.

**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.

**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, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Grand Marais, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 8, 2016, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 8, 2016, 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 City personnel, 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 are summarized as follows:

**Vendor Bills**

Minnesota Statute §471.425, subd. 4 requires municipalities to pay all bills within the time period set by the terms of the contract or within the standard payment period (35 days). We noted two invoices that were not paid within this timeframe. The City should inform all department supervisors of this State requirement and attempt to pay all bills within this timeframe.

**Customer Deposits**

A listing of PUC customer deposits is maintained, but not reconciled to the general ledger. We suggest that the customer deposit listing be reconciled to the general ledger monthly to strengthen internal controls over customer deposits.

## Sales of Assets

We noted that the bucket truck was advertised for sale on the internet; however documentation of the ad was not retained. We recommend that all documentation regarding internet sales of equipment be retained.

This communication 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, Giroux & Helne, LLC*

Virginia, Minnesota  
June 8, 2016