

CITY OF GRAND MARAIS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013**

CITY OF GRAND MARAIS, MINNESOTA

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CITY OF GRAND MARAIS, MINNESOTA

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CITY OF GRAND MARAIS, MINNESOTA

**ORGANIZATION
December 31, 2013**

CITY COUNCIL

Mayor	Laurence Carlson
Councilmember	Tim Kennedy
Councilmember	William Lenz
Councilmember	Jan Sivertson
Councilmember	Robert Spry

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, 2013, 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, 2013, 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.

Other Matters

Required Supplementary Information

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

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 18, 2014, 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.

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

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, 2013. 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 \$8,931,199, of which net investment in capital assets is \$4,359,877.
- Business-type activities total net position is \$13,978,038. Net investment in capital assets represents \$9,394,839 of the total.
- The City of Grand Marais's net position increased by \$726,555 for the year ended December 31, 2013. Of the increase, an increase of \$490,409 was reported in the governmental activities' net position and \$236,146 represented the increase in business-type activities' net position. The changes are primarily due to transfers.
- The net expense of governmental activities was \$662,339 for the current year. General revenues totaled \$903,489.
- Governmental funds' fund balances increased by \$3,713,458 mainly due to the receipt of the 2013A GO Refunding Bond proceeds of \$3,295,000 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 and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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 and liabilities—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 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.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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 the required supplementary information for budgetary comparison schedules. Combining and individual 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 by \$22,909,237, an increase of \$726,555 from the prior year.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 8,270,404	\$ 4,644,833	\$ 5,303,453	\$ 5,234,541	\$ 13,573,857	\$ 9,879,374
Capital assets	<u>9,274,877</u>	<u>9,198,281</u>	<u>13,750,414</u>	<u>13,872,952</u>	<u>23,025,291</u>	<u>23,071,233</u>
Total assets	<u>17,545,281</u>	<u>13,843,114</u>	<u>19,053,867</u>	<u>19,107,493</u>	<u>36,599,148</u>	<u>32,950,607</u>
Deferred outflows of resources	-	-	<u>147,658</u>	-	<u>147,658</u>	-
Long-term debt outstanding	8,262,460	5,125,000	4,503,233	4,728,000	12,765,693	9,853,000
Other liabilities	<u>351,622</u>	<u>277,324</u>	<u>720,254</u>	<u>637,601</u>	<u>1,071,876</u>	<u>914,925</u>
Total liabilities	<u>8,614,082</u>	<u>5,402,324</u>	<u>5,223,487</u>	<u>5,365,601</u>	<u>13,837,569</u>	<u>10,767,925</u>
Net position						
Net investment in capital assets	4,359,877	4,073,281	9,394,839	9,223,866	13,754,716	13,297,147
Restricted	1,990,381	2,046,616	1,095,802	1,152,656	3,086,183	3,199,272
Unrestricted	<u>2,580,941</u>	<u>2,320,893</u>	<u>3,487,397</u>	<u>3,365,370</u>	<u>6,068,338</u>	<u>5,686,263</u>
Total net position	<u>\$ 8,931,199</u>	<u>\$ 8,440,790</u>	<u>\$ 13,978,038</u>	<u>\$ 13,741,892</u>	<u>\$ 22,909,237</u>	<u>\$ 22,182,682</u>

Net position of the City's governmental activities increased by 5.8 percent (\$8,931,199 compared to \$8,440,790) in 2013. Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from a \$2,320,893 surplus at December 31, 2012 to a \$2,580,941 surplus at the end of this year.

Net position of the City's business-type activities increased by 1.7 percent (\$13,978,038 compared to \$13,741,892) in 2013.

CITY OF GRAND MARAIS, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 1,223,663	\$ 1,222,294	\$ 5,654,213	\$ 5,418,001	\$ 6,877,876	\$ 6,640,295
Operating grants and contributions	182,391	197,443	5,000	5,000	187,391	202,443
Capital grants and contributions	679,161	194,496	-	30,883	679,161	225,379
General revenues:						
Property taxes	796,438	787,330	32,121	31,040	828,559	818,370
Grants and contributions not restricted to specific programs	105,716	104,575	-	-	105,716	104,575
Other general revenues (losses)	1,335	86,131	644	23,565	1,979	109,696
Total revenues	<u>2,988,704</u>	<u>2,592,269</u>	<u>5,691,978</u>	<u>5,508,489</u>	<u>8,680,682</u>	<u>8,100,758</u>
Program expenses:						
General government	618,175	408,482	-	-	618,175	408,482
Public safety	221,897	214,861	-	-	221,897	214,861
Streets	393,639	371,148	-	-	393,639	371,148
Culture and recreation	1,150,768	1,161,220	-	-	1,150,768	1,161,220
Interest	363,075	220,885	-	-	363,075	220,885
Liquor store	-	-	1,567,685	1,476,400	1,567,685	1,476,400
Golf course	-	-	179,535	164,416	179,535	164,416
Electric	-	-	2,542,716	2,395,842	2,542,716	2,395,842
Water	-	-	358,438	364,033	358,438	364,033
Sewer	-	-	558,199	520,620	558,199	520,620
Total program expenses	<u>2,747,554</u>	<u>2,376,596</u>	<u>5,206,573</u>	<u>4,921,311</u>	<u>7,954,127</u>	<u>7,297,907</u>
Excess before transfers	241,150	215,673	485,405	587,178	726,555	802,851
Transfers	<u>249,259</u>	<u>663,998</u>	<u>(249,259)</u>	<u>(663,998)</u>	-	-
Change in net position	490,409	879,671	236,146	(76,820)	726,555	802,851
Net position, January 1, as restated	<u>8,440,790</u>	<u>7,561,119</u>	<u>13,741,892</u>	<u>13,818,712</u>	<u>22,182,682</u>	<u>21,379,831</u>
Net position, December 31	<u>\$ 8,931,199</u>	<u>\$ 8,440,790</u>	<u>\$ 13,978,038</u>	<u>\$ 13,741,892</u>	<u>\$ 22,909,237</u>	<u>\$ 22,182,682</u>

Governmental Activities

The most significant revenues of the governmental activities are fees, fines, charges, and other, comprised mostly of culture and recreation fees, totaling 41% of revenues. Capital grants and contributions, 23% of revenues, include the grants for major projects or equipment. Operating grants and contributions, 6% of revenues, are used for operating expenses. Unrestricted grants and contributions, 4% of revenues, are used to finance the general activities. Property taxes levied for general purposes amount to \$633,096 or 21% of revenues, a decrease of \$8,624 over the prior year.

Culture and recreation expenses are the most significant (42%), followed by general government (23%), streets (14%), interest on long-term debt (13%), and public safety (8%).

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

Business-Type Activities

Revenues of the City's business-type activities were \$5,691,978; expenses were \$5,206,573 (see Table 2). Net assets increased by \$236,146 during the year ended December 31, 2013. Factors driving these results include:

- Operations produced income of \$659,570 during the year ended December 31, 2013.
- All segments recorded operating income except for the golf course.
- Transfers out to other funds totaled \$275,525.

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, 2013, the City's governmental funds reported total ending fund balances of \$6,976,817, an increase of \$3,713,458 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, made up nearly 59%, or \$4,112,037 of the total ending fund balance. The nonspendable fund balance of \$73,658 is also not available for general operations. The committed fund balance of \$24,232 represents revenues collected to fund the operation of a local TV channel. The City assigned \$739,017 to specific purposes.

At the end of the year, the general fund reported a fund balance of \$2,608,490, increasing \$495,667 from the prior year. General fund revenues were \$406,716 more than the prior years and expenditures increased by \$372,684. During the current year, the general fund transfers to other funds were \$160,279, which were less than the prior year's transfers out of \$375,772.

The debt service fund recorded an increase in fund balance of \$3,193,484 primarily due to the receipt of the 2013A GO Refunding Bond of \$3,295,000.

In 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 2013, operating revenues increased by \$121,482, while the operating expenses increased by \$91,285 from the prior year. The liquor store operations produced an operating income of \$301,164 for this current year, which is an increase of \$30,197 from the prior year's operating income. A transfer out of \$200,000 was made during 2013 to the general fund, as in prior years.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

The golf course enterprise fund accounts for the operations of the municipal golf course. In 2013, operating revenues decreased by \$25,589 compared to the prior year. The golf course operations produced an operating loss of \$51,421. The City transferred in \$25,330 from the general fund and the County contributed \$5,000 to partially fund this loss. Net position decreased by \$21,087 for the year.

The electric enterprise fund accounts for the electric operations of the City. In 2013, operating revenues increased by \$131,720 compared to the prior year. Operating expenses also increased from the prior year by \$123,622. The electric operations produced operating income of \$343,221 in 2013. Interest expense charged to the electric distribution was \$96,818. Net position increased by \$189,977.

The water enterprise fund accounts for the water operations of the City. In 2013, operating revenues increased by \$1,898 compared to the prior year. Operating expenses decreased by \$3,103. In 2013, operating income of \$53,296 was recorded compared to an operating income of \$48,295 in the prior year. Interest expense charged to the water operations was \$34,743. A transfer to the debt service fund was made in the amount of \$45,315 during 2013. Net position decreased by \$4,918.

The sewer enterprise fund accounts for the sewer operations of the City. In 2013, operating revenues increased by \$6,701 compared to the prior year. Operating expenses increased from the prior year by \$37,282. The sewer operations produced operating income of \$13,310 in 2013. Interest expense charged to the sewer operations was \$11,804. A transfer of \$30,210 was made to the debt service fund. These transactions resulted in a decrease of \$32,549 in net position in the current year.

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 \$147,820 above the final budget amounts. Negative variances occurred in public safety (\$206,395) and general government (\$194,733) expenditures primarily due to capital outlay. Resources available for appropriation were \$639,404 above the final budgeted amounts. More intergovernmental aids and charges for services were received. Transfers out to other funds exceeded the amount budgeted by \$1,718.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had \$23,025,291 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 \$45,942 over last year.

CITY OF GRAND MARAIS, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 630,922	\$ 630,922	\$ 186,100	\$ 186,100	\$ 817,022	\$ 817,022
Construction in progress	47,526	-	-	40,000	47,526	40,000
Buildings	2,235,223	2,344,133	4,379,085	4,343,576	6,614,308	6,687,709
Improvements	519,985	501,550	33,759	35,624	553,744	537,174
Infrastructure	5,020,760	5,194,240	8,912,606	9,045,443	13,933,366	14,239,683
Machinery and equipment	371,745	263,904	207,813	172,864	579,558	436,768
Licensed vehicles	448,716	263,532	31,051	49,345	479,767	312,877
Totals	\$ 9,274,877	\$ 9,198,281	\$ 13,750,414	\$ 13,872,952	\$ 23,025,291	\$ 23,071,233

This year's major additions were:

- Fire truck
- Fire radios and pagers
- Croftville electrical upgrades
- Power plant RICE/NESHAP compliance upgrades

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 \$12,650,000 in long-term debt outstanding versus \$9,853,000 last year—as shown in Table 4.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds (backed by the City)	\$ 8,210,000	\$ 5,125,000	\$ 340,000	\$ -	\$ 8,550,000	\$ 5,125,000
Electric system revenue bonds	-	-	3,055,000	3,260,000	3,055,000	3,260,000
General obligation sewer revenue bonds	-	-	-	337,000	-	337,000
General obligation notes	-	-	685,000	751,000	685,000	751,000
Water revenue note	-	-	360,000	380,000	360,000	380,000
Total	\$ 8,210,000	\$ 5,125,000	\$ 4,440,000	\$ 4,728,000	\$ 12,650,000	\$ 9,853,000

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, 2013, the City had no outstanding qualifying net debt that applied to this \$4,448,307 state-imposed limit.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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 2014 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 0%.
- Utility rates increase is 2%.
- The City's capital plan for 2014 includes planning for a maintenance facility.
- Employees were given a 1.5% 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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,753,455	\$ 3,351,426	\$ 7,104,881
Taxes receivable	98,586	-	98,586
Special assessments receivable	981,003	171,940	1,152,943
Accounts receivable	6,423	356,151	362,574
Grants receivable	13,297	-	13,297
Internal balances	144,604	(144,604)	-
Loans receivable	63,399	-	63,399
Inventories	15,288	395,178	410,466
Prepaid items	43,330	35,549	78,879
Temporarily restricted assets			
Cash and cash equivalents	458	1,043,367	1,043,825
Investments	3,150,561	94,446	3,245,007
Capital assets not being depreciated:			
Land	630,922	186,100	817,022
Construction in progress	47,526	-	47,526
Capital assets, net of accumulated depreciation:			
Buildings	2,235,223	4,379,085	6,614,308
Improvements	519,985	33,759	553,744
Infrastructure	5,020,760	8,912,606	13,933,366
Machinery and equipment	371,745	207,813	579,558
Licensed vehicles	448,716	31,051	479,767
TOTAL ASSETS	17,545,281	19,053,867	36,599,148
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	-	147,658	147,658
LIABILITIES			
Accounts payable	61,097	251,291	312,388
Salaries payable	70,521	91,607	162,128
Customer deposits	-	14,850	14,850
Unearned revenues	92,889	338,773	431,662
Accrued interest payable	127,115	23,733	150,848
Noncurrent liabilities			
Due within one year	760,000	358,000	1,118,000
Due in more than one year	7,502,460	4,145,233	11,647,693
TOTAL LIABILITIES	8,614,082	5,223,487	13,837,569
NET POSITION			
Net investment in capital assets	4,359,877	9,394,839	13,754,716
Restricted for:			
Capital projects	12,359	-	12,359
Debt service	1,579,985	498,516	2,078,501
Library	251,374	-	251,374
Sewer equipment replacement	-	597,286	597,286
Storefront renovation	146,663	-	146,663
Unrestricted	2,580,941	3,487,397	6,068,338
TOTAL NET POSITION	\$ 8,931,199	\$ 13,978,038	\$ 22,909,237

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

CITY OF GRAND MARAIS, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 618,175	\$ 166,194	\$ 2,000
Public safety	221,897	50,159	300
Streets	393,639	9	-
Culture and recreation	1,150,768	1,007,301	180,091
Interest on long-term debt	363,075	-	-
Total Governmental Activities	<u>2,747,554</u>	<u>1,223,663</u>	<u>182,391</u>
Business-type Activities			
Liquor Store	\$ 1,567,685	\$ 1,868,849	\$ -
Golf Course	179,535	128,114	5,000
Electric	2,542,716	2,724,212	-
Water	358,438	376,991	-
Sewer	558,199	556,047	-
Total Business-type Activities	<u>5,206,573</u>	<u>5,654,213</u>	<u>5,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,954,127</u>	<u>\$ 6,877,876</u>	<u>\$ 187,391</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 (loss)

Gain(loss) on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1, AS RESTATED

NET POSITION - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Position
Primary Government

<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 282,252	\$ (167,729)	\$ -	\$ (167,729)
327,178	155,740	-	155,740
65,597	(328,033)	-	(328,033)
4,134	40,758	-	40,758
-	(363,075)	-	(363,075)
<u>679,161</u>	<u>(662,339)</u>	<u>-</u>	<u>(662,339)</u>
\$ -	-	301,164	301,164
-	-	(46,421)	(46,421)
-	-	181,496	181,496
-	-	18,553	18,553
-	-	(2,152)	(2,152)
-	-	<u>452,640</u>	<u>452,640</u>
<u>\$ 679,161</u>	<u>(662,339)</u>	<u>452,640</u>	<u>(209,699)</u>
	633,096	-	633,096
	159,188	32,121	191,309
	4,154	-	4,154
	105,716	-	105,716
	(6,465)	20,332	13,867
	7,800	(19,688)	(11,888)
	<u>249,259</u>	<u>(249,259)</u>	<u>-</u>
	<u>1,152,748</u>	<u>(216,494)</u>	<u>936,254</u>
	490,409	236,146	726,555
	<u>8,440,790</u>	<u>13,741,892</u>	<u>22,182,682</u>
	<u>\$ 8,931,199</u>	<u>\$ 13,978,038</u>	<u>\$ 22,909,237</u>

CITY OF GRAND MARAIS, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,599,094	\$ 516,103	\$ 638,258	\$ 3,753,455
Investments	-	-	-	-
Cash and investments with fiscal agent	-	3,151,019	-	3,151,019
Taxes receivable	85,707	12,879	-	98,586
Special assessments receivable	-	981,003	-	981,003
Accounts receivable	5,475	-	948	6,423
Due from other funds	77,064	75,525	-	152,589
Grants receivable	13,297	-	-	13,297
Loans receivables	15,040	-	48,359	63,399
Inventories	15,288	-	-	15,288
Prepaid items	38,949	-	4,381	43,330
	<u>\$ 2,849,914</u>	<u>\$ 4,736,529</u>	<u>\$ 691,946</u>	<u>\$ 8,278,389</u>
TOTAL ASSETS				
LIABILITIES				
Accounts payable	\$ 52,983	\$ -	\$ 8,114	\$ 61,097
Salaries payable	53,374	-	17,147	70,521
Due to other funds	2,460	5,525	-	7,985
Unearned revenue	92,889	-	-	92,889
	<u>201,706</u>	<u>5,525</u>	<u>25,261</u>	<u>232,492</u>
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	39,718	-	-	39,718
Unavailable revenue - special assessments	-	981,003	-	981,003
Unavailable revenue - loans receivable	-	-	48,359	48,359
	<u>39,718</u>	<u>981,003</u>	<u>48,359</u>	<u>1,069,080</u>
TOTAL DEFERRED INFLOWS OF RESOURCES				
FUND BALANCES				
Nonspendable	69,277	-	4,381	73,658
Restricted	-	3,750,001	362,036	4,112,037
Committed	-	-	24,232	24,232
Assigned	511,340	-	227,677	739,017
Unassigned	2,027,873	-	-	2,027,873
	<u>2,608,490</u>	<u>3,750,001</u>	<u>618,326</u>	<u>6,976,817</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
	<u>\$ 2,849,914</u>	<u>\$ 4,736,529</u>	<u>\$ 691,946</u>	<u>\$ 8,278,389</u>

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

CITY OF GRAND MARAIS, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET POSITION
December 31, 2013

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 6,976,817
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	9,274,877
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the other funds.	1,069,080
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(127,115)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(8,262,460)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,931,199</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property	\$ 639,783	\$ 159,188	\$ -	\$ 798,971
Franchise	-	-	4,154	4,154
Special assessments	1,265	159,932	-	161,197
Licenses and permits	82,223	-	-	82,223
Intergovernmental	690,886	-	102,281	793,167
Charges for services	1,105,784	-	19,627	1,125,411
Fines	5,425	-	-	5,425
Gifts and contributions	10,395	-	10,977	21,372
Investment earnings (loss)	9,105	(19,979)	2,517	(8,357)
Miscellaneous	13,595	9	18,559	32,163
TOTAL REVENUES	<u>2,558,461</u>	<u>299,150</u>	<u>158,115</u>	<u>3,015,726</u>
EXPENDITURES				
Current				
General government	661,477	-	-	661,477
Public safety	430,706	-	-	430,706
Streets	228,050	-	-	228,050
Culture and recreation	790,082	-	263,637	1,053,719
Debt service				
Principal	-	210,000	-	210,000
Interest and other charges	-	212,491	-	212,491
Bond issuance costs	-	112,236	-	112,236
TOTAL EXPENDITURES	<u>2,110,315</u>	<u>534,727</u>	<u>263,637</u>	<u>2,908,679</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>448,146</u>	<u>(235,577)</u>	<u>(105,522)</u>	<u>107,047</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	79,709	130,561	410,270
Transfers out	(160,279)	-	(732)	(161,011)
Refunding bonds issued	-	3,295,000	-	3,295,000
Premium on refunding bonds issued	-	54,352	-	54,352
Sale of capital assets	7,800	-	-	7,800
TOTAL OTHER FINANCING SOURCES (USES)	<u>47,521</u>	<u>3,429,061</u>	<u>129,829</u>	<u>3,606,411</u>
NET CHANGE IN FUND BALANCES	495,667	3,193,484	24,307	3,713,458
FUND BALANCES - JANUARY 1	<u>2,112,823</u>	<u>556,517</u>	<u>594,019</u>	<u>3,263,359</u>
FUND BALANCES - DECEMBER 31	<u>\$ 2,608,490</u>	<u>\$ 3,750,001</u>	<u>\$ 618,326</u>	<u>\$ 6,976,817</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, 2013**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 3,713,458**

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.

Expenditures for capital assets	361,356	
Less current year depreciation	<u>(371,882)</u>	
Net capital assets		(10,526)

Capital assets were contributed to the fire department. 87,123

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.

Change in unavailable revenue - delinquent property taxes	(6,687)	
Change in unavailable revenue - special assessments receivable	(98,591)	
Change in unavailable revenue - loans receivable	<u>(18,560)</u>	
		(123,838)

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.

Refunding debt issued	(3,295,000)	
Premium on refunding debt issued	(54,353)	
Amortization of premium	1,893	
Principal repaid	<u>210,000</u>	
		(3,137,460)

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.

Change in accrued interest payable on long-term debt		<u>(38,348)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 490,409**

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 988,546	\$ 30	\$ 1,101,086	\$ 404,275	\$ 857,489	\$ 3,351,426
Accounts receivable	323	-	277,019	33,615	45,194	356,151
Due from other funds	-	-	1,260	6,962	2,310	10,532
Special assessments receivable	-	-	-	171,940	-	171,940
Inventories	131,934	6,966	233,403	22,593	282	395,178
Prepaid items	7,920	2,340	17,076	2,197	6,016	35,549
TOTAL CURRENT ASSETS	1,128,723	9,336	1,629,844	641,582	911,291	4,320,776
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Revenue bond covenant accounts	-	-	650,962	-	-	650,962
MPCA contract accounts	-	-	-	-	392,405	392,405
Total restricted cash and cash equivalents	-	-	650,962	-	392,405	1,043,367
Restricted investments						
MPCA contract accounts	-	-	-	-	94,446	94,446
Capital assets						
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	-	65,516	3,479,717	5,293,910	3,525,050	12,364,193
Machinery and equipment	144,722	193,461	152,528	382,361	1,138,933	2,012,005
Licensed vehicles	-	500	240,918	28,150	52,865	322,453
Less accumulated depreciation	(136,763)	(485,216)	(2,340,605)	(2,806,381)	(3,533,017)	(9,301,982)
Total capital assets (net of accumulated depreciation)	28,488	327,885	4,556,250	5,189,702	3,648,089	13,750,414
TOTAL NONCURRENT ASSETS	28,488	327,885	5,207,212	5,189,702	4,134,940	14,888,227
TOTAL ASSETS	1,157,211	337,221	6,837,056	5,831,284	5,046,231	19,209,003
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refunding	-	-	147,658	-	-	147,658
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	36,480	2,649	200,974	3,845	7,343	251,291
Salaries payable	20,704	18,507	27,231	10,271	14,894	91,607
Accrued interest payable	-	-	12,967	6,304	4,462	23,733
Due to other funds	-	8,529	71,082	45,315	30,210	155,136
Unearned revenue	-	-	338,773	-	-	338,773
Customer deposits payable	-	-	14,850	-	-	14,850
Bonds, notes, and loans payable - current	-	-	255,000	88,000	15,000	358,000
TOTAL CURRENT LIABILITIES	57,184	29,685	920,877	153,735	71,909	1,233,390
NONCURRENT LIABILITIES						
Bonds, notes and loans payable, less current	-	-	2,863,233	957,000	325,000	4,145,233
TOTAL LIABILITIES	57,184	29,685	3,784,110	1,110,735	396,909	5,378,623
NET POSITION						
Net investment in capital assets	28,488	327,885	1,585,675	4,144,702	3,308,089	9,394,839
Restricted for debt service	-	-	326,576	171,940	-	498,516
Restricted for sewer equipment replacement	-	-	-	-	597,286	597,286
Unrestricted	1,071,539	(20,349)	1,288,353	403,907	743,947	3,487,397
TOTAL NET POSITION	\$ 1,100,027	\$ 307,536	\$ 3,200,604	\$ 4,720,549	\$ 4,649,322	\$ 13,978,038

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
REVENUES						
Charges for sales and services	\$ 1,868,849	\$ 128,114	\$ 2,724,212	\$ 376,991	\$ 556,047	\$ 5,654,213
OPERATING EXPENSES						
Cost of sales	1,250,214	17,673	1,661,991	-	-	2,929,878
Salaries	174,146	83,306	206,876	65,723	127,024	657,075
Employee benefits and payroll taxes	55,436	21,682	55,259	21,461	44,497	198,335
Advertising	6,122	1,777	-	-	-	7,899
Contract services	-	-	27,933	14,187	135,928	178,048
Facility fees	-	-	64,678	-	-	64,678
Insurance	5,806	3,662	34,672	2,599	4,755	51,494
Miscellaneous	27,289	3,795	26,575	2,957	3,977	64,593
Rent	38,400	-	9,000	4,500	4,500	56,400
Repairs and maintenance	2,594	11,483	16,940	4,341	10,856	46,214
Supplies	3,023	16,682	55,205	19,753	15,529	110,192
Telephone	755	764	1,075	2,261	586	5,441
Utilities	-	2,468	4,288	26,066	62,381	95,203
Depreciation	3,900	16,243	216,499	159,847	132,704	529,193
TOTAL OPERATING EXPENSES	1,567,685	179,535	2,380,991	323,695	542,737	4,994,643
OPERATING INCOME (LOSS)	301,164	(51,421)	343,221	53,296	13,310	659,570
NONOPERATING REVENUES (EXPENSES)						
Investment earnings (loss)	3,559	4	8,013	9,177	(421)	20,332
Property taxes	-	-	-	32,121	-	32,121
Grants and contributions	-	5,000	-	-	-	5,000
Interest expense	-	-	(96,818)	(34,743)	(11,804)	(143,365)
Bond issuance costs	-	-	(64,907)	-	(3,658)	(68,565)
Loss on disposal of capital assets	-	-	-	(19,688)	-	(19,688)
TOTAL NONOPERATING REVENUES (EXPENSES)	3,559	5,004	(153,712)	(13,133)	(15,883)	(174,165)
INCOME (LOSS) BEFORE TRANSFERS	304,723	(46,417)	189,509	40,163	(2,573)	485,405
Transfers in	-	25,330	468	234	234	26,266
Transfers out	(200,000)	-	-	(45,315)	(30,210)	(275,525)
CHANGE IN NET POSITION	104,723	(21,087)	189,977	(4,918)	(32,549)	236,146
TOTAL NET POSITION - JANUARY 1, AS RESTATED	995,304	328,623	3,010,527	4,725,467	4,681,871	13,741,892
TOTAL NET POSITION - DECEMBER 31	\$ 1,100,027	\$ 307,536	\$ 3,200,604	\$ 4,720,549	\$ 4,649,322	\$ 13,978,038

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2013

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,868,526	\$ 128,114	\$ 2,696,451	\$ 377,364	\$ 553,801	\$ 5,624,256
Cash paid to suppliers	(1,395,072)	(77,339)	(1,905,256)	(100,197)	(287,294)	(3,765,158)
Cash paid to employees	(171,169)	(83,085)	(204,509)	(61,912)	(127,421)	(648,096)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>302,285</u>	<u>(32,310)</u>	<u>586,686</u>	<u>215,255</u>	<u>139,086</u>	<u>1,211,002</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	25,330	468	234	234	26,266
Transfers out to other funds	(200,000)	-	-	(45,315)	(30,210)	(275,525)
Advances to other funds	-	-	(1,260)	(6,962)	(2,310)	(10,532)
Advances from other funds	-	8,529	6,183	45,315	30,210	90,237
County grants and contributions	-	5,000	-	-	-	5,000
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(200,000)</u>	<u>38,859</u>	<u>5,391</u>	<u>(6,728)</u>	<u>(2,076)</u>	<u>(164,554)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	-	(26,235)	(345,290)	(16,169)	(38,648)	(426,342)
Special assessments collected	-	-	-	18,328	-	18,328
Property taxes collected	-	-	-	33,732	-	33,732
Principal paid on long-term debt	-	-	(240,000)	(86,000)	(337,000)	(663,000)
Irrevocable escrow deposit to defease refunded bonds	-	-	(1,346,113)	-	-	(1,346,113)
Interest paid on long-term debt	-	-	(99,667)	(35,351)	(22,507)	(157,525)
Proceeds from electric revenue refunding bonds	-	-	1,300,000	-	340,000	1,640,000
Refunding bond premium	-	-	67,150	-	-	67,150
Bond financing costs	-	-	(64,907)	-	(3,658)	(68,565)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(26,235)</u>	<u>(728,827)</u>	<u>(85,460)</u>	<u>(61,813)</u>	<u>(902,335)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	-	-	-	-	(100,000)	(100,000)
Interest on investments	3,559	4	4,096	9,177	5,133	21,969
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>3,559</u>	<u>4</u>	<u>4,096</u>	<u>9,177</u>	<u>(94,867)</u>	<u>(78,031)</u>
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS	105,844	(19,682)	(132,654)	132,244	(19,670)	66,082
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>882,702</u>	<u>19,712</u>	<u>1,884,702</u>	<u>272,031</u>	<u>1,269,564</u>	<u>4,328,711</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 988,546</u>	<u>\$ 30</u>	<u>\$ 1,752,048</u>	<u>\$ 404,275</u>	<u>\$ 1,249,894</u>	<u>\$ 4,394,793</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, 2013

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 301,164	\$ (51,421)	\$ 343,221	\$ 53,296	\$ 13,310	\$ 659,570
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	3,900	16,243	216,499	159,847	132,704	529,193
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(323)	-	(25,811)	373	(2,246)	(28,007)
Inventories	(1,445)	(1,235)	23,916	(3,854)	(6)	17,376
Prepaid items	(1,625)	2,516	1,703	1,489	(1,480)	2,603
Increase (decrease) in:						
Accounts payable	(2,363)	1,366	26,741	293	(2,799)	23,238
Salaries payable	2,977	221	2,367	3,811	(397)	8,979
Customer deposits	-	-	(1,950)	-	-	(1,950)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 302,285	\$ (32,310)	\$ 586,686	\$ 215,255	\$ 139,086	\$ 1,211,002

RECONCILIATION OF CASH AND CASH EQUIVALENTS
 TO THE STATEMENT OF NET POSITION -
 PROPRIETARY FUNDS

Cash and cash equivalents	\$ 988,546	\$ 30	\$ 1,101,086	\$ 404,275	\$ 857,489	\$ 3,351,426
Restricted cash and cash equivalents:						
Revenue bond covenant accounts	-	-	650,962	-	-	650,962
MPCA contract accounts	-	-	-	-	392,405	392,405
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 988,546	\$ 30	\$ 1,752,048	\$ 404,275	\$ 1,249,894	\$ 4,394,793

NOTES TO FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2013

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.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

Proprietary Funds

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

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

D. Changes in Accounting Principles

For the year ending December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
- 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.
- 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 8) In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It 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.
- 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.

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) 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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the 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.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 12) 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 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, 2013

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.

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

Cash	\$ 7,547,739
Petty Cash	3,137
Certificates of Deposit	367,000
Investments	<u>3,475,837</u>
Total	<u>\$11,393,713</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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

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 \$7,914,739; the bank balance was \$7,915,815. Of the bank balance, \$1,207,164 was insured and \$6,708,651 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.

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, 2013, 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, 2013, the City had the following investments:

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

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

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Maturity</u>		
			<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
Minnesota Municipal Money Market Fund	N/A	\$ 215,289	\$ 215,289	\$ -	\$ -
Morgan Stanley Smith Barney Money Market Funds	N/A	15,541	15,541	-	-
Federal Home Loan Bank Step Bonds	AAA	94,446	-	-	94,446
U.S. Treasury Notes	AAA	<u>3,150,561</u>	<u>527,056</u>	<u>2,623,505</u>	<u>-</u>
Total Investments		<u>\$ 3,475,837</u>	<u>\$ 757,886</u>	<u>\$ 2,623,505</u>	<u>\$ 94,446</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 - NOTES RECEIVABLE

Several businesses have received loans from the City through the City's Storefront Loan Program. The unpaid principal balance on these loans as of December 31, 2013 was \$48,359.

On July 26, 2013, the City loaned \$10,000 to the Cook County/Grand Marais Joint Economic Development Authority. The note is non-interest bearing and is due with the first levy payment received by the Authority in 2014. The balance as of December 31, 2013 was \$10,000.

On February 18, 2009, the City loaned \$100,000 to the Cook County/Grand Marais Joint Economic Development Authority. The note bears interest at 6% and was due on October 15, 2010. A payment of \$100,000 was made in 2010 for principal and interest. The balance as of December 31, 2013 was \$5,040.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 630,922	\$ -	\$ -	\$ 630,922
Construction in Progress	-	47,526	-	47,526
Total capital assets not being depreciated	<u>630,922</u>	<u>47,526</u>	<u>-</u>	<u>678,448</u>
Capital assets, being depreciated:				
Buildings	5,870,934	-	-	5,870,934
Improvements	706,919	45,594	-	752,513
Infrastructure	7,740,399	2,990	-	7,743,389
Machinery and equipment	456,939	141,297	-	598,236
Licensed vehicles	442,098	211,071	(90,000)	563,169
Total capital assets, being depreciated	<u>15,217,289</u>	<u>400,952</u>	<u>(90,000)</u>	<u>15,528,241</u>
Less accumulated depreciation for:				
Buildings	(3,526,801)	(108,910)	-	(3,635,711)
Improvements	(205,369)	(27,159)	-	(232,528)
Infrastructure	(2,546,159)	(176,470)	-	(2,722,629)
Machinery and equipment	(193,035)	(33,456)	-	(226,491)
Licensed vehicles	(178,566)	(25,887)	90,000	(114,453)
Total accumulated depreciation	<u>(6,649,930)</u>	<u>(371,882)</u>	<u>90,000</u>	<u>(6,931,812)</u>
Total capital assets, being depreciated, net	<u>8,567,359</u>	<u>29,070</u>	<u>-</u>	<u>8,596,429</u>
Governmental activities capital assets, net	<u>\$ 9,198,281</u>	<u>\$ 76,596</u>	<u>\$ -</u>	<u>\$ 9,274,877</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 186,100	\$ -	\$ -	\$ 186,100
Construction in progress	40,000	-	(40,000)	-
Total capital assets, not being depreciated	<u>226,100</u>	<u>-</u>	<u>(40,000)</u>	<u>186,100</u>
Capital assets, being depreciated:				
Buildings	7,619,754	238,994	(1,161)	7,857,587
Improvements	310,058	-	-	310,058
Infrastructure	12,219,809	144,384	-	12,364,193
Machinery and equipment	1,967,180	82,964	(38,139)	2,012,005
Licensed vehicles	322,453	-	-	322,453
Total capital assets, being depreciated	<u>22,439,254</u>	<u>466,342</u>	<u>(39,300)</u>	<u>22,866,296</u>
Less accumulated depreciation for:				
Buildings	(3,276,178)	(203,485)	1,161	(3,478,502)
Improvements	(274,434)	(1,865)	-	(276,299)
Infrastructure	(3,174,366)	(277,221)	-	(3,451,587)
Machinery and equipment	(1,794,316)	(28,328)	18,452	(1,804,192)
Licensed vehicles	(273,108)	(18,294)	-	(291,402)
Total accumulated depreciation	<u>(8,792,402)</u>	<u>(529,193)</u>	<u>19,613</u>	<u>(9,301,982)</u>
Total capital assets, being depreciated, net	<u>13,646,852</u>	<u>(62,851)</u>	<u>(19,687)</u>	<u>13,564,314</u>
Business-type activities capital assets, net	<u>\$ 13,872,952</u>	<u>\$ (62,851)</u>	<u>\$ (59,687)</u>	<u>\$ 13,750,414</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 4,223
Public safety	34,290
Streets	187,243
Culture and recreation	<u>146,126</u>
Total depreciation expense- governmental activities	<u>\$ 371,882</u>

Business-type activities

Liquor Store	\$ 3,900
Golf Course	16,243
Electric	216,499
Water	159,847
Sewer	<u>132,704</u>
Total depreciation expense- business-type activities	<u>\$ 529,193</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, 2013, 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental Activities					
General Obligation Bonds					
2004A Improvement	06/01/2004	3.40-5.10%	\$ 710,000	02/01/2025	\$ 495,000
2005C Improvement	11/22/2005	3.50-4.60%	\$ 895,000	02/01/2027	700,000
2008A Improvement	10/07/2008	3.25-4.50%	\$ 2,695,000	02/01/2029	2,155,000
2009A Improvement Refunding	12/10/2009	2.10-4.70%	\$ 1,675,000	02/01/2031	1,565,000
2013A Refunding	06/20/2013	2.00-3.15%	\$ 3,295,000	02/01/2029	<u>3,295,000</u>
Governmental Activities Long-term Liabilities					<u>8,210,000</u>
Business-type activities					
Revenue Bonds					
2004B Electric System	09/01/2004	4.00-4.80%	\$ 815,000	05/01/2023	-
2005B Electric System	06/21/2005	2.75-4.60%	\$ 940,000	05/01/2024	-
2012A Electric System Refunding	07/25/2013	2.00-2.50%	\$ 1,925,000	05/01/2023	1,755,000
2013B Electric System Refunding	06/20/2013	3.00%	\$ 1,300,000	05/01/2023	<u>1,300,000</u>
Total Revenue Bonds					<u>3,055,000</u>
General Obligation Bonds					
2006 Sewer Revenue	01/17/2006	4.50%	\$ 372,000	01/01/2036	-
2013A Refunding	06/20/2013	2.00-3.15%	\$ 340,000	02/01/2030	<u>340,000</u>
Total General Obligation Bonds					<u>340,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	179,000
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	<u>506,000</u>
Total General Obligation Notes					<u>685,000</u>
Revenue Note					
2008A Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	<u>360,000</u>
Business-type Activities Long-term Liabilities					<u>4,440,000</u>
Total Long-Term Liabilities					<u>\$ 12,650,000</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. Principal and interest paid for the current year on these issues was \$147,899. At December 31, 2013 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:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2004	2025	\$ 507,302
2005	2027	745,123
2008	2029	2,367,850
2013	2030	<u>4,034,221</u>
		<u>\$ 7,654,496</u>

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 \$117,738. At December 31, 2013, principal and interest to maturity in 2031 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$2,246,013.

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 issued in 2004 of \$815,000, in 2005 of \$940,000, and in 2012 of \$1,925,000. Proceeds from the bonds were used to finance electric system improvements. 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. Principal and interest paid for the current year on these issues was \$1,600,234. At December 31, 2013 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>
2012	2023	\$ 1,963,187
2013	2023	<u>1,534,900</u>
		<u>\$ 3,498,087</u>

The City has pledged future Sewer Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay \$372,000 in GO sewer revenue bonds issued in 2006. Proceeds from the bonds were used to finance improvements to the sewer system. 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. Principal and interest paid for the current year was \$359,507. At December 31, 2013, principal and interest on the bonds to maturity in 2036 to be paid from pledged future revenues totals \$440,658.

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 \$117,971. At December 31, 2013, 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:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
1999	2019	\$ 195,384
2004	2024	579,648
2008	2027	489,255
		<u>\$ 1,264,287</u>

Long-term liability activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2004A GO Improvements	\$ 525,000	\$ -	\$ (30,000)	\$ 495,000	\$ 495,000
2005C GO Improvements	735,000	-	(35,000)	700,000	35,000
2008A GO Improvement	2,245,000	-	(90,000)	2,155,000	95,000
2009A GO Improvement Refunding	1,620,000	-	(55,000)	1,565,000	60,000
2013A GO Refunding	-	3,295,000	-	3,295,000	75,000
Total Bonds Payable	5,125,000	3,295,000	(210,000)	8,210,000	760,000
Bond Premium	-	54,353	(1,893)	52,460	-
Governmental Activities - Long-term Liabilities	<u>\$ 5,125,000</u>	<u>\$ 3,349,353</u>	<u>\$ (211,893)</u>	<u>\$ 8,262,460</u>	<u>\$ 760,000</u>
Business-type Activities					
Bonds Payable					
2004B Electric System Revenue	\$ 575,000	\$ -	\$ (575,000)	\$ -	\$ -
2005B Electric System Revenue	760,000	-	(760,000)	-	-
2006 GO Sewer Revenue	337,000	-	(337,000)	-	-
2012A Electric System Revenue Refunding	1,925,000	-	(170,000)	1,755,000	160,000
2013A GO Refunding	-	340,000	-	340,000	15,000
2013B Electric System Revenue Refunding	-	1,300,000	-	1,300,000	95,000
Total Bonds Payable	3,597,000	1,640,000	(1,842,000)	3,395,000	270,000
Bond Premium	-	67,150	(3,917)	63,233	-
Total Bonds Payable	<u>3,597,000</u>	<u>1,707,150</u>	<u>(1,845,917)</u>	<u>3,458,233</u>	<u>270,000</u>
Notes Payable					
1999 GO Water Revenue	206,000	-	(27,000)	179,000	28,000
2004 GO Improvement	545,000	-	(39,000)	506,000	40,000
2008A Water Revenue	380,000	-	(20,000)	360,000	20,000
Total Notes Payable	1,131,000	-	(86,000)	1,045,000	88,000
Business-type Activities - Long-term Liabilities	<u>\$ 4,728,000</u>	<u>\$ 1,707,150</u>	<u>\$ 1,931,917</u>	<u>\$ 4,503,233</u>	<u>\$ 358,000</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 760,000	\$ 277,453	\$ 358,000	\$ 116,803	\$ 1,118,000	\$ 394,256
2015	910,000	234,260	360,000	106,825	1,270,000	341,085
2016	2,135,000	172,795	367,000	97,731	2,502,000	270,526
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
2019-2023	1,620,000	484,811	2,223,000	233,986	3,843,000	718,797
2024-2028	1,660,000	246,866	262,000	36,356	1,922,000	283,222
2029-2033	540,000	28,570	100,000	4,095	640,000	32,665
Total	<u>\$ 8,210,000</u>	<u>\$ 1,690,508</u>	<u>\$ 4,440,000</u>	<u>\$ 763,032</u>	<u>\$ 12,650,000</u>	<u>\$ 2,453,540</u>

No interest was capitalized during 2013; interest incurred and charged to expense totaled \$372,014.

Advance Refundings

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, 2013 is \$3,151,019. As of December 31, 2013, the 2006 General Obligation Sewer Revenue Bonds totaling \$340,000 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.

On June 20, 2013, the City issued \$1,300,000 Electric System Revenue Refunding Bonds, Series 2013B with interest rates of 3.00% to advance refund \$1,335,000 of the outstanding 2004B and 2005B Electric System Revenue Bonds with interest rates ranging between 4.000% and 4.800%. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the City's financial statements. As of December 31, 2013, \$1,335,000 of the bonds outstanding are considered defeased. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$81,113 which was deferred and is being amortized over the life of the new debt. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$71,224.

On July 25, 2012, the City issued \$1,925,000 Electric System Revenue Refunding Bonds, Series 2012A with interest rates ranging between 2.000% and 2.500% to advance refund \$1,845,000 of the outstanding 2003 Electric System Revenue Bonds with interest rates ranging between 4.000% and 4.875%. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the City's financial statements. As of December 31, 2012, \$1,845,000 of the bonds outstanding were considered defeased. The 2003 bonds were entirely paid off in 2013 by the escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$82,096 which was deferred and is being amortized over the life of the new debt.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2013, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Golf Course Enterprise Fund	\$ 8,529
General Fund	Electric Enterprise Fund	68,535
Debt Service Fund	Water Enterprise Fund	45,315
Debt Service Fund	Sewer Enterprise Fund	30,210
Electric Enterprise Fund	General Fund	1,260
Water Enterprise Fund	General Fund	687
Water Enterprise Fund	Debt Service Fund	5,525
Water Enterprise Fund	Electric Enterprise Fund	750
Sewer Enterprise Fund	General Fund	513
Sewer Enterprise Fund	Electric Enterprise Fund	1,797
		<u>\$ 163,121</u>

The balance 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.

Interfund transfers for the year ended December 31, 2013 consisted of the following:

	<u>Transfers Out</u>					<u>Total</u>
	<u>General Fund</u>	<u>Liquor Store Enterprise Fund</u>	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Nonmajor Fund - EDA Cedar Grove Business Park Capital Projects Fund</u>	
<u>Transfers In</u>						
General Fund	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Debt Service Fund	3,452	-	45,315	30,210	732	79,709
Golf Course Enterprise Fund	25,330	-	-	-	-	25,330
Electric Enterprise Fund	468	-	-	-	-	468
Water Enterprise Fund	234	-	-	-	-	234
Sewer Enterprise Fund	234	-	-	-	-	234
Nonmajor Fund - Library Special Revenue Fund	130,561	-	-	-	-	130,561
	<u>\$ 160,279</u>	<u>\$ 200,000</u>	<u>\$ 45,315</u>	<u>\$ 30,210</u>	<u>\$ 732</u>	<u>\$ 436,536</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; and 4) fund the operations of the Golf Course.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 - FUND EQUITY

As of December 31, 2013, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Loans receivable	\$ 15,040	\$ -	\$ -	\$ 15,040
Inventories	15,288	-	-	15,288
Prepaid items	<u>38,949</u>	-	<u>4,381</u>	<u>43,330</u>
Total Nonspendable	<u>69,277</u>	-	<u>4,381</u>	<u>73,658</u>
Restricted:				
Library	-	-	251,374	251,374
Storefront renovation	-	-	98,303	98,303
Debt service	-	3,750,001	-	3,750,001
Capital projects	-	-	<u>12,359</u>	<u>12,359</u>
Total Restricted	<u>-</u>	<u>3,750,001</u>	<u>362,036</u>	<u>4,112,037</u>
Committed:				
Cable TV	-	-	<u>24,232</u>	<u>24,232</u>
Assigned:				
Buildings	61,713	-	-	61,713
FEMA/EDA	269	-	-	269
Fire	14,956	-	-	14,956
Insurance reserve	10,804	-	-	10,804
Street equipment	20,264	-	-	20,264
Street improvements	317,370	-	-	317,370
Street sealcoat project	85,964	-	-	85,964
Library	-	-	<u>227,677</u>	<u>227,677</u>
Total Assigned	<u>511,340</u>	-	<u>227,677</u>	<u>739,017</u>
Unassigned	<u>2,027,873</u>	-	-	<u>2,027,873</u>
Total fund balances	<u>\$ 2,608,490</u>	<u>\$ 3,750,001</u>	<u>\$ 618,326</u>	<u>\$ 6,976,817</u>

NOTE 9 - RESTATEMENT OF NET POSITION

Due to the changes in accounting principles described in Note 1, beginning net position has been decreased for bond issue costs, amortized over the life of the related debt under the prior standards, but expensed in the period incurred under the new standards.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net Position December 31, 2012, as previously reported	\$ 8,520,754	\$ 13,818,386
Restatement	<u>(79,964)</u>	<u>(76,494)</u>
Net Position December 31, 2012, as restated	<u>\$ 8,440,790</u>	<u>\$ 13,741,892</u>

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 10 - 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 11 - 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.

NOTE 12 - 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 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 \$101,781 in 2013.

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12 - JOINT VENTURE (CONTINUED)

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 2013, 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:

- (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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 12- JOINT VENTURE (CONTINUED)

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 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.

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12- JOINT VENTURE (CONTINUED)

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 13 - 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, 2013, 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.

NOTE 14 - FUNDS HELD BY OTHERS

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to Minnesota Community Foundation to be held and administered for the benefit of the City of Grand Marais' Public Library. The market value of the fund assets was approximately \$25,355 on December 31, 2013.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 15 - DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

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

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 15 - DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the City of Grand Marais was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$88,660, \$87,713, and \$87,853, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 16 - DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Grand Marais, Minnesota during fiscal year 2013 were:

<u>Contribution Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rates</u>
\$ 240	\$ 240	5.0%	5.0%	5.0%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 634,006	\$ 634,006	\$ 639,783	\$ 5,777
Special assessments	4,930	4,930	1,265	(3,665)
Licenses and permits	78,690	78,690	82,223	3,533
Intergovernmental	169,737	169,737	690,886	521,149
Charges for services	1,022,954	1,022,954	1,105,784	82,830
Fines	2,740	2,740	5,425	2,685
Gifts and contributions	-	-	10,395	10,395
Interest	6,000	6,000	9,105	3,105
Miscellaneous	-	-	13,595	13,595
TOTAL REVENUES	<u>1,919,057</u>	<u>1,919,057</u>	<u>2,558,461</u>	<u>639,404</u>
EXPENDITURES				
Current				
General government	466,744	466,744	661,477	(194,733)
Public safety	224,311	224,311	430,706	(206,395)
Streets	344,230	344,230	228,050	116,180
Culture and recreation	927,210	927,210	790,082	137,128
TOTAL EXPENDITURES	<u>1,962,495</u>	<u>1,962,495</u>	<u>2,110,315</u>	<u>(147,820)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(43,438)</u>	<u>(43,438)</u>	<u>448,146</u>	<u>491,584</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	200,000	-
Transfers out	(158,561)	(158,561)	(160,279)	(1,718)
Sale of capital assets	-	-	7,800	7,800
TOTAL OTHER FINANCING SOURCES (USES)	<u>41,439</u>	<u>41,439</u>	<u>47,521</u>	<u>6,082</u>
NET CHANGE IN FUND BALANCE	(1,999)	(1,999)	495,667	497,666
FUND BALANCE - JANUARY 1	<u>2,112,823</u>	<u>2,112,823</u>	<u>2,112,823</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 2,110,824</u>	<u>\$ 2,110,824</u>	<u>\$ 2,608,490</u>	<u>\$ 497,666</u>

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2013

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.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2013:

	<u>Excess</u>
General Fund	\$ <u>147,820</u>

This overexpenditure was funded by intergovernmental revenues and available fund balance.

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 or committed 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.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition and construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

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

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 504,312	\$ 23,284	\$ 98,303	\$ 12,359	\$ 638,258
Accounts receivable	-	948	-	-	948
Loans receivables	-	-	48,359	-	48,359
Prepaid items	4,381	-	-	-	4,381
TOTAL ASSETS	\$ 508,693	\$ 24,232	\$ 146,662	\$ 12,359	\$ 691,946
LIABILITIES					
Accounts payable	\$ 8,114	\$ -	\$ -	\$ -	\$ 8,114
Salaries payable	17,147	-	-	-	17,147
TOTAL LIABILITIES	25,261	-	-	-	25,261
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - loans receivable	-	-	48,359	-	48,359
FUND BALANCES					
Nonspendable	4,381	-	-	-	4,381
Restricted	251,374	-	98,303	12,359	362,036
Committed	-	24,232	-	-	24,232
Assigned	227,677	-	-	-	227,677
TOTAL FUND BALANCES	483,432	24,232	98,303	12,359	618,326
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 508,693	\$ 24,232	\$ 146,662	\$ 12,359	\$ 691,946

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2013

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes - franchise fee	\$ -	\$ 4,154	\$ -	\$ -	\$ 4,154
Intergovernmental	102,281	-	-	-	102,281
Charges for services	19,627	-	-	-	19,627
Gifts and contributions	10,977	-	-	-	10,977
Investment earnings	1,006	-	1,479	32	2,517
Miscellaneous	-	-	18,559	-	18,559
TOTAL REVENUES	<u>133,891</u>	<u>4,154</u>	<u>20,038</u>	<u>32</u>	<u>158,115</u>
EXPENDITURES					
Current					
Culture and recreation	<u>263,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,637</u>
TOTAL EXPENDITURES	<u>263,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,637</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(129,746)</u>	<u>4,154</u>	<u>20,038</u>	<u>32</u>	<u>(105,522)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	130,561	-	-	-	130,561
Transfers out	-	-	-	(732)	(732)
TOTAL OTHER FINANCING SOURCES (USES)	<u>130,561</u>	<u>-</u>	<u>-</u>	<u>(732)</u>	<u>129,829</u>
NET CHANGE IN FUND BALANCES	815	4,154	20,038	(700)	24,307
FUND BALANCES - JANUARY 1	<u>482,617</u>	<u>20,078</u>	<u>78,265</u>	<u>13,059</u>	<u>594,019</u>
FUND BALANCES - DECEMBER 31	<u>\$ 483,432</u>	<u>\$ 24,232</u>	<u>\$ 98,303</u>	<u>\$ 12,359</u>	<u>\$ 618,326</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2013

REVENUES

Taxes

General property \$ 639,783

Special Assessments 1,265

Licenses and permits 82,223

Intergovernmental

Federal grants

FEMA 240,055

USDA, Forest Service 90,700

State

Local government aid 96,422

Taconite production 195,531

PERA aid 5,315

Other state aids 4,134

County

Swimming pool 58,729

Total Intergovernmental 690,886

Charges for Services

General government

Rent 63,342

Miscellaneous 10,036

Public safety

Fire protection contacts 44,733

Culture and recreation

Park 838,542

Swimming pool 61,160

Boat harbors 87,971

Total Charges for Services 1,105,784

Fines

Court fines 5,425

Gifts and Contributions 10,395

Investment earnings 9,105

Miscellaneous

Other 13,595

TOTAL REVENUES 2,558,461

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2013

EXPENDITURES

Current

General Government

Mayor and council	\$ 27,300
City clerk	160,647
Elections	10,683
Independent audit	13,800
Legal	21,459
Planning and zoning	26,558
Buildings	59,170
Public works	3,286
Public works capital outlay	47,526
Other	291,048
Total General Government	<u>661,477</u>

Public Safety

Police	140,000
Fire	46,171
Fire capital outlay	243,099
Animal control	1,436
Total Public Safety	<u>430,706</u>

Streets

Maintenance	183,831
Street lighting	25,710
Capital outlay	18,509
Total Streets	<u>228,050</u>

Culture and Recreation

Recreation	422,715
Recreation capital outlay	43,352
Swimming pool	231,600
Boat harbors	59,683
Boat harbors capital outlay	5,387
City parks	27,345
Total Culture and Recreation	<u>790,082</u>

TOTAL EXPENDITURES

2,110,315

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2013

EXCESS OF REVENUES OVER EXPENDITURES	<u>448,146</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	200,000
Transfers out	(160,279)
Sale of capital assets	<u>7,800</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>47,521</u>
NET CHANGE IN FUND BALANCE	495,667
FUND BALANCE - JANUARY 1	<u>2,112,823</u>
FUND BALANCE - DECEMBER 31	<u>\$ 2,608,490</u>

**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 City of Grand Marais, Minnesota, as of and for the year ended December 31, 2013, 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 18, 2014.

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 a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-002 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 item 2013-001 to be a significant deficiency.

Compliance

As part of obtaining reasonable assurance about whether 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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 Political Subdivisions*. 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 City of Grand Marais, Minnesota in a separate letter dated June 18, 2014, 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 are 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, Miray & Helme, LLC

Virginia, Minnesota
June 18, 2014

CITY OF GRAND MARAIS, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

SIGNIFICANT DEFICIENCIES

2013-001. 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, 2013

2013-002. 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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of 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 18, 2014, included under this cover, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 18, 2014, on the financial statements of the City of Grand Marais, Minnesota.

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

Receipts

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

Deposit - Collateral

Minnesota Statute §118A.03 requires that if a government desires to deposit an amount in excess of deposit insurance, it must obtain a bond or collateral which, when computed at its market value, is at least ten percent more than the excess deposit at the close of the banking day. As of December 31, 2013, the deposits were fully insured, or collateralized, but the ten percent test was not met. We suggest that you review the statutes and obtain the proper collateral.

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). The City should inform all departments of this State requirement and attempt to pay all bills within this time period.

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, Miray & Helne, LLC

Virginia, Minnesota
June 18, 2014