

**CITY OF GRAND MARAIS, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2010**

CITY OF GRAND MARAIS, MINNESOTA

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December 31, 2010

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**CITY OF GRAND MARAIS, MINNESOTA**

**ORGANIZATION  
December 31, 2010**

**CITY COUNCIL**

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

**ADMINISTRATION**

City Administrator	Michael J. Roth
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## **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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P.O. Box 960 • 225 1st Street North, Suite 2400 • Virginia, Minnesota 55792  
218-749-4880 • FAX 218-749-8528

**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Grand Marais, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grand Marais, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Grand Marais, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011, on our consideration of the City of Grand Marais, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Walker Hiron & Nelson, Ltd.*

June 16, 2011

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

## CITY OF GRAND MARAIS, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

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, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Grand Marais, Minnesota's financial statements.

#### FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$6,331,346, of which \$2,153,886 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$13,119,778. Invested in capital assets, net of related debt represents \$8,880,555 of the total.
- The City of Grand Marais's net assets increased by \$1,328,692 for the year ended December 31, 2010. Of the increase, an increase of \$1,120,234 was reported in the governmental activities' net assets and \$208,458 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$101,528 for the current year. General revenues totaled \$833,101.
- Governmental funds' fund balances decreased by \$1,482,506.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

#### Government-wide Financial Statements

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

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

## CITY OF GRAND MARAIS, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

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

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

#### **Fund Financial Statements**

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

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

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The City's combined net assets increased from \$18,122,432 to \$19,451,124. During 2010, both the governmental activities and the business-type activities had an increase in net assets. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2010**

**Table 1  
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 4,497,500	\$ 5,286,565	\$ 4,951,954	\$ 4,717,538	\$ 9,449,454	\$ 10,004,103
Capital assets	8,403,886	8,418,271	14,100,555	14,378,212	22,504,441	22,796,483
Total assets	<u>12,901,386</u>	<u>13,704,836</u>	<u>19,052,509</u>	<u>19,095,750</u>	<u>31,953,895</u>	<u>32,800,586</u>
Long-term debt outstanding	6,250,000	8,270,000	5,220,000	5,494,000	11,470,000	13,764,000
Other liabilities	320,040	223,724	712,731	690,430	1,032,771	914,154
Total liabilities	<u>6,570,040</u>	<u>8,493,724</u>	<u>5,932,731</u>	<u>6,184,430</u>	<u>12,502,771</u>	<u>14,678,154</u>
Net assets						
Invested in capital assets, net of debt	2,153,886	1,823,271	8,880,555	8,884,212	11,034,441	10,707,483
Restricted	-	1,659,748	987,700	987,700	987,700	2,647,448
Unrestricted	4,177,460	1,728,093	3,251,523	3,039,408	7,428,983	4,767,501
Total net assets	<u>\$ 6,331,346</u>	<u>\$ 5,211,112</u>	<u>\$13,119,778</u>	<u>\$ 12,911,320</u>	<u>\$19,451,124</u>	<u>\$ 18,122,432</u>

Net assets of the City's governmental activities increased by 21.5 percent (\$6,331,346 compared to \$5,211,112) in 2010.

Net assets of the City's business-type activities increased by 1.6 percent (\$13,119,778 compared to \$12,911,320) in 2010.

**Table 2  
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$1,124,419	\$1,009,405	\$5,295,059	\$5,166,774	\$6,419,478	\$6,176,179
Operating grants and contributions	153,196	220,552	-	71,527	153,196	292,079
Capital grants and contributions	876,532	995,589	99,887	8,714	976,419	1,004,303
General revenues:						
Property taxes	690,775	733,707	30,396	30,278	721,171	763,985
Intergovernmental	117,243	211,125	-	-	117,243	211,125
Other general revenues	25,083	21,612	20,088	28,672	45,171	50,284
Total revenues	<u>2,987,248</u>	<u>3,191,990</u>	<u>5,445,430</u>	<u>5,305,965</u>	<u>8,432,678</u>	<u>8,497,955</u>
Program expenses:						
General government	350,449	327,362	-	-	350,449	327,362
Public safety	262,236	253,633	-	-	262,236	253,633
Streets	333,471	281,233	-	-	333,471	281,233
Culture and recreation	1,041,014	1,055,144	-	-	1,041,014	1,055,144
Interest	268,505	287,274	-	-	268,505	287,274
Liquor store	-	-	1,397,804	1,357,165	1,397,804	1,357,165
Golf course	-	-	160,078	146,880	160,078	146,880
Electric	-	-	2,424,943	2,426,856	2,424,943	2,426,856
Water	-	-	395,314	404,496	395,314	404,496
Sewer	-	-	555,527	458,381	555,527	458,381
Total program expenses	<u>2,255,675</u>	<u>2,204,646</u>	<u>4,933,666</u>	<u>4,793,778</u>	<u>7,189,341</u>	<u>6,998,424</u>
Excess before extraordinary item and transfers	731,573	987,344	511,764	512,187	1,243,337	1,499,531
Extraordinary item	85,355	-	-	-	85,355	-
Transfers	<u>303,306</u>	<u>(944,989)</u>	<u>(303,306)</u>	<u>944,989</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$1,120,234</u>	<u>\$ 42,355</u>	<u>\$ 208,458</u>	<u>\$1,457,176</u>	<u>\$1,328,692</u>	<u>\$1,499,531</u>

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2010**

**Governmental Activities**

The cost of all governmental activities this year was \$2,255,675. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs in the amount of \$1,124,419 or by other governments and organizations that subsidized certain programs with grants and contributions in the amount of \$1,029,728. Our taxpayers paid \$690,775 in property taxes.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2010	2009	2010	2009
Culture and recreation	\$ 1,041,014	\$ 1,055,144	\$ (14,162)	\$ 28,333
General government	350,449	327,362	198,675	176,174
Streets	333,471	281,233	(528,061)	(714,356)
Interest on long-term debt	268,505	287,274	268,505	287,274
Public safety	262,236	253,633	201,571	201,675
Economic development	-	-	(25,000)	-
Totals	<u>\$ 2,255,675</u>	<u>\$ 2,204,646</u>	<u>\$ (101,528)</u>	<u>\$ (20,900)</u>

**Business-Type Activities**

Revenues of the City's business-type activities were \$5,445,430; expenses were \$4,933,666 (see Table 2). Operations produced income of \$591,623 during the year ended December 31, 2010. The factors driving these results include:

- Electric, water, and sewer utility fee rate increases.
- Reduction of capital improvements.
- Liquor store continued to perform well.
- Load control management of electric wholesale costs.
- Reduction in water loss and inflow/infiltration through previous capital improvement projects.

**CITY OF GRAND MARAIS, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

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

As the City completed the year, its governmental funds reported a combined fund balance of \$2,884,612 which is a decrease from last year's total of \$4,367,118. Included in this year's total fund balance is a surplus of \$1,483,093 in the City's general fund. The general fund had an increase of \$317,631. A decrease of \$1,733,919 was recorded in the Debt Service Fund due to the repayment of the temporary improvement bonds. The largest decrease in other governmental funds was in the EDA Cedar Grove Business Park Project Capital Projects Fund of \$113,692 due to expenditures for improvements and transfers to the Debt Service Fund.

**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 \$79,803 below the final budget amounts. Resources available for appropriation were \$85,684 above the final budgeted amounts. Although the City received less in property taxes than expected, more intergovernmental aids and charges for services were received.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2010, the City had \$22,504,441 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. (See Table 4 below.) This amount represents a net decrease (including additions and deductions) of \$292,042 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 630,922	\$ 630,922	\$ 186,100	\$ 186,100	\$ 817,022	\$ 817,022
Construction in progress	2,133,202	2,079,453	-	-	2,133,202	2,079,453
Buildings	1,120,894	1,094,525	4,338,770	4,516,151	5,459,664	5,610,676
Improvements	460,321	480,017	39,354	41,785	499,675	521,802
Infrastructure	3,633,569	3,749,811	9,243,976	9,251,637	12,877,545	13,001,448
Machinery and equipment	157,423	135,468	199,202	264,626	356,625	400,094
Licensed vehicles	267,555	248,075	93,153	117,913	360,708	365,988
<b>Totals</b>	<b><u>\$8,403,886</u></b>	<b><u>\$8,418,271</u></b>	<b><u>\$14,100,555</u></b>	<b><u>\$14,378,212</u></b>	<b><u>\$22,504,441</u></b>	<b><u>\$22,796,483</u></b>

This year's major additions were water main replacements and a new pool roof due to storm damage.

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

**CITY OF GRAND MARAIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010**

**Debt**

At year-end, the City had \$11,470,000 in long-term debt outstanding versus \$13,764,000 last year—as shown in Table 5.

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

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds (backed by the City)	\$6,250,000	\$8,270,000	\$ -	\$ -	\$ 6,250,000	\$ 8,270,000
Electric system revenue bonds	-	-	3,570,000	3,755,000	3,570,000	3,755,000
General obligation sewer revenue bonds	-	-	352,000	359,000	352,000	359,000
General obligation revenue notes	-	-	878,000	940,000	878,000	940,000
Water revenue note	-	-	420,000	440,000	420,000	440,000
<b>Total</b>	<b>\$6,250,000</b>	<b>\$8,270,000</b>	<b>\$5,220,000</b>	<b>\$5,494,000</b>	<b>\$11,470,000</b>	<b>\$13,764,000</b>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. As of December 31, 2010, the City had no outstanding qualifying net debt that applied to this \$4,809,264 state-imposed limit.

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

The City's elected and appointed officials considered many factors when setting the 2011 budget and tax rates.

- The property tax levy increase will be held to 3%.
- The City's capital improvement plan for 2011 includes paving and site upgrades at the recreation park, library expansion (paid by the County's 1% sales tax funding and library special revenue funds), and the purchase of a snowplow/sander/dumptruck.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF GRAND MARAIS, MINNESOTA**

**STATEMENT OF NET ASSETS  
December 31, 2010**

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,836,198	\$ 2,988,189	\$ 5,824,387
Investments	-	100,000	100,000
Taxes receivable	70,325	-	70,325
Special assessments receivable	1,242,218	211,015	1,453,233
Accounts receivable	1,634	365,794	367,428
Internal balances	146,259	(146,259)	-
Loans receivable	54,168	-	54,168
Inventories	12,828	410,475	423,303
Prepaid items	44,490	27,939	72,429
Deferred debt issue costs	89,380	98,847	188,227
Temporarily restricted assets			
Cash and cash equivalents	-	795,954	795,954
Investments	-	100,000	100,000
Capital assets not being depreciated:			
Land	630,922	186,100	817,022
Construction in progress	2,133,202	-	2,133,202
Capital assets, net of accumulated depreciation:			
Buildings	1,120,894	4,338,770	5,459,664
Improvements	460,321	39,354	499,675
Infrastructure	3,633,569	9,243,976	12,877,545
Machinery and equipment	157,423	199,202	356,625
Licensed vehicles	267,555	93,153	360,708
<b>TOTAL ASSETS</b>	<u>12,901,386</u>	<u>19,052,509</u>	<u>31,953,895</u>
<b>LIABILITIES</b>			
Accounts payable	43,574	219,857	263,431
Salaries payable	53,557	87,955	141,512
Customer deposits	-	15,450	15,450
Unearned revenues	114,365	338,773	453,138
Accrued interest payable	108,544	50,696	159,240
Noncurrent liabilities			
Due within one year	205,000	280,000	485,000
Due in more than one year	6,045,000	4,940,000	10,985,000
<b>TOTAL LIABILITIES</b>	<u>6,570,040</u>	<u>5,932,731</u>	<u>12,502,771</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,153,886	8,880,555	11,034,441
Restricted for other purposes	-	987,700	987,700
Unrestricted	4,177,460	3,251,523	7,428,983
<b>TOTAL NET ASSETS</b>	<u>\$ 6,331,346</u>	<u>\$ 13,119,778</u>	<u>\$ 19,451,124</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
General government	\$ 350,449	\$ 151,774	\$ -
Public safety	262,236	42,563	18,102
Streets	333,471	-	-
Culture and recreation	1,041,014	930,082	110,094
Economic development	-	-	25,000
Interest on long-term debt	268,505	-	-
<b>Total Governmental Activities</b>	<u>2,255,675</u>	<u>1,124,419</u>	<u>153,196</u>
<b>Business-type Activities</b>			
Liquor Store	\$ 1,397,804	\$ 1,630,565	\$ -
Golf Course	160,078	139,473	-
Electric	2,424,943	2,580,173	-
Water	395,314	378,318	-
Sewer	555,527	566,530	-
<b>Total Business-type Activities</b>	<u>4,933,666</u>	<u>5,295,059</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 7,189,341</u>	<u>\$ 6,419,478</u>	<u>\$ 153,196</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

**Extraordinary item**

Insurance recovery - storm damage

**Transfers**

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

**CHANGE IN NET ASSETS**

**NET ASSETS - JANUARY 1**

**NET ASSETS - DECEMBER 31**

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

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (198,675)	\$ -	\$ (198,675)
-	(201,571)	-	(201,571)
861,532	528,061	-	528,061
15,000	14,162	-	14,162
-	25,000	-	25,000
-	(268,505)	-	(268,505)
<u>876,532</u>	<u>(101,528)</u>	<u>-</u>	<u>(101,528)</u>
\$ -	-	232,761	232,761
-	-	(20,605)	(20,605)
-	-	155,230	155,230
99,887	-	82,891	82,891
-	-	11,003	11,003
<u>99,887</u>	<u>-</u>	<u>461,280</u>	<u>461,280</u>
<u>\$ 976,419</u>	<u>(101,528)</u>	<u>461,280</u>	<u>359,752</u>
	532,199	-	532,199
	158,576	30,396	188,972
	5,276	-	5,276
	117,243	-	117,243
	19,807	20,088	39,895
	85,355	-	85,355
	<u>303,306</u>	<u>(303,306)</u>	<u>-</u>
	<u>1,221,762</u>	<u>(252,822)</u>	<u>968,940</u>
	1,120,234	208,458	1,328,692
	<u>5,211,112</u>	<u>12,911,320</u>	<u>18,122,432</u>
	<u>\$ 6,331,346</u>	<u>\$ 13,119,778</u>	<u>\$ 19,451,124</u>

CITY OF GRAND MARAIS, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2010

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,407,013	\$ 582,093	\$ 847,092	\$ 2,836,198
Taxes receivable	51,372	18,953	-	70,325
Special assessments receivable	-	1,242,218	-	1,242,218
Accounts receivable	369	-	1,265	1,634
Due from other funds	65,829	113,528	-	179,357
Loans receivables	5,040	-	49,128	54,168
Inventories	12,828	-	-	12,828
Prepaid items	42,099	-	2,391	44,490
<b>TOTAL ASSETS</b>	<u>\$ 1,584,550</u>	<u>\$ 1,956,792</u>	<u>\$ 899,876</u>	<u>\$ 4,441,218</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 41,413	\$ -	\$ 2,161	\$ 43,574
Salaries payable	39,379	-	14,178	53,557
Due to other funds	-	33,098	-	33,098
Deferred revenue	20,665	1,242,219	163,493	1,426,377
<b>TOTAL LIABILITIES</b>	<u>101,457</u>	<u>1,275,317</u>	<u>179,832</u>	<u>1,556,606</u>
<b>FUND BALANCES</b>				
Unreserved, designated	402,295	-	64,076	466,371
Unreserved, undesignated, reported in				
General Fund	1,080,798	-	-	1,080,798
Special revenue funds	-	-	522,363	522,363
Debt service fund	-	681,475	-	681,475
Capital projects funds	-	-	133,605	133,605
<b>TOTAL FUND BALANCES</b>	<u>1,483,093</u>	<u>681,475</u>	<u>720,044</u>	<u>2,884,612</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,584,550</u>	<u>\$ 1,956,792</u>	<u>\$ 899,876</u>	<u>\$ 4,441,218</u>

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

**CITY OF GRAND MARAIS, MINNESOTA**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
December 31, 2010**

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 2,884,612</b>
Unamortized bond issuance costs are susceptible to full accrual on the government-wide statements.	89,380
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	8,403,886
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements.	1,312,012
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(108,544)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(6,250,000)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 6,331,346</u></u></b>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended December 31, 2010

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Property	\$ 568,416	\$ 158,576	\$ -	\$ 726,992
Franchise	-	-	5,276	5,276
Special assessments	4,679	228,674	-	233,353
Licenses and permits	78,058	-	-	78,058
Intergovernmental	149,994	-	120,705	270,699
Charges for services	1,023,319	-	18,318	1,041,637
Fines	1,820	-	-	1,820
Gifts and contributions	1,100	-	8,639	9,739
Interest	12,668	1,683	5,456	19,807
Miscellaneous	7,904	-	15,433	23,337
<b>TOTAL REVENUES</b>	<u>1,847,958</u>	<u>388,933</u>	<u>173,827</u>	<u>2,410,718</u>
<b>EXPENDITURES</b>				
Current				
General government	349,054	-	-	349,054
Public safety	264,018	-	-	264,018
Streets	223,457	-	-	223,457
Culture and recreation	848,878	-	233,629	1,082,507
Economic development	-	-	15,000	15,000
Debt service				
Principal	-	2,020,000	-	2,020,000
Interest and other charges	-	274,100	-	274,100
Capital outlay				
Economic development	-	-	53,749	53,749
<b>TOTAL EXPENDITURES</b>	<u>1,685,407</u>	<u>2,294,100</u>	<u>302,378</u>	<u>4,281,885</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>162,551</u>	<u>(1,905,167)</u>	<u>(128,551)</u>	<u>(1,871,167)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,000	171,248	123,056	494,304
Transfers out	(130,275)	-	(60,723)	(190,998)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>69,725</u>	<u>171,248</u>	<u>62,333</u>	<u>303,306</u>
<b>EXTRAORDINARY ITEM</b>				
Insurance recovery - storm damage	85,355	-	-	85,355
<b>NET CHANGE IN FUND BALANCES</b>	317,631	(1,733,919)	(66,218)	(1,482,506)
<b>FUND BALANCES - JANUARY 1</b>	<u>1,165,462</u>	<u>2,415,394</u>	<u>786,262</u>	<u>4,367,118</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 1,483,093</u>	<u>\$ 681,475</u>	<u>\$ 720,044</u>	<u>\$ 2,884,612</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, 2010**

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ (1,482,506)**

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	262,275	
Less current year depreciation	(276,660)	
Net capital assets		(14,385)

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 deferred revenue - delinquent property taxes	(36,217)	
Change in deferred revenue - special assessments receivable	628,180	
Change in deferred revenue - loans receivable	(433)	
		591,530

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets.

Principal repaid		2,020,000
------------------	--	-----------

Governmental funds report bond discounts and issuance costs as expenditures; however, in the statement of activities, these costs are amortized over the life of the corresponding debt.

(5,546)

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		11,141
--	--	--------

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ 1,120,234**

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

## CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2010

## Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 766,492	\$ 5,960	\$ 1,079,506	\$ 167,177	\$ 969,054	\$ 2,988,189
Investments	-	-	-	-	100,000	100,000
Accounts receivable	281	118	287,924	31,758	45,713	365,794
Due from other funds	-	-	-	33,098	-	33,098
Special assessments receivable	-	-	-	211,015	-	211,015
Inventories	120,321	6,433	266,718	16,545	458	410,475
Prepaid items	5,659	4,688	9,838	3,638	4,116	27,939
<b>TOTAL CURRENT ASSETS</b>	<b>892,753</b>	<b>17,199</b>	<b>1,643,986</b>	<b>463,231</b>	<b>1,119,341</b>	<b>4,136,510</b>
<b>NONCURRENT ASSETS</b>						
Restricted cash and cash equivalents						
Revenue bond covenant accounts	-	-	406,892	-	-	406,892
MPCA contract accounts	-	-	-	-	389,062	389,062
Total restricted cash and cash equivalents	-	-	406,892	-	389,062	795,954
Restricted investments						
MPCA contract accounts	-	-	-	-	100,000	100,000
Deferred debt issue costs	-	-	90,075	8,772	-	98,847
Capital assets						
Land	-	154,100	25,000	5,000	2,000	186,100
Buildings	24,248	89,466	2,759,697	1,815,454	2,516,190	7,205,055
Improvements	-	310,058	-	-	-	310,058
Infrastructure	-	-	3,325,564	5,454,048	3,287,307	12,066,919
Machinery and equipment	145,875	161,566	137,045	400,193	1,320,451	2,165,130
Licensed vehicles	-	500	240,918	28,150	72,485	342,053
Less accumulated depreciation	(129,936)	(461,284)	(1,710,320)	(2,416,600)	(3,456,620)	(8,174,760)
Total capital assets (net of accumulated depreciation)	40,187	254,406	4,777,904	5,286,245	3,741,813	14,100,555
<b>TOTAL NONCURRENT ASSETS</b>	<b>40,187</b>	<b>254,406</b>	<b>5,274,871</b>	<b>5,295,017</b>	<b>4,230,875</b>	<b>15,095,356</b>
<b>TOTAL ASSETS</b>	<b>932,940</b>	<b>271,605</b>	<b>6,918,857</b>	<b>5,758,248</b>	<b>5,350,216</b>	<b>19,231,866</b>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	34,355	165	171,428	12,848	1,061	219,857
Salaries payable	20,580	17,704	21,655	10,277	17,739	87,955
Accrued interest payable	-	-	26,712	8,144	15,840	50,696
Due to other funds	-	-	65,829	48,318	65,210	179,357
Deferred revenue	-	-	338,773	-	-	338,773
Customer deposits payable	-	-	15,450	-	-	15,450
Bonds, notes, and loans payable - current	-	-	190,000	83,000	7,000	280,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>54,935</b>	<b>17,869</b>	<b>829,847</b>	<b>162,587</b>	<b>106,850</b>	<b>1,172,088</b>
<b>NONCURRENT LIABILITIES</b>						
Bonds, notes and loans payable	-	-	3,380,000	1,215,000	345,000	4,940,000
<b>TOTAL LIABILITIES</b>	<b>54,935</b>	<b>17,869</b>	<b>4,209,847</b>	<b>1,377,587</b>	<b>451,850</b>	<b>6,112,088</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	40,187	254,406	1,207,904	3,988,245	3,389,813	8,880,555
Restricted for other purposes	-	-	390,414	-	597,286	987,700
Unrestricted	837,818	(670)	1,110,692	392,416	911,267	3,251,523
<b>TOTAL NET ASSETS</b>	<b>\$ 878,005</b>	<b>\$ 253,736</b>	<b>\$ 2,709,010</b>	<b>\$ 4,380,661</b>	<b>\$ 4,898,366</b>	<b>\$ 13,119,778</b>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>REVENUES</b>						
Charges for sales and services	\$ 1,630,565	\$ 139,473	\$ 2,580,173	\$ 378,318	\$ 566,530	\$ 5,295,059
<b>OPERATING EXPENSES</b>						
Cost of sales	1,105,934	12,860	1,527,025	-	-	2,645,819
Salaries	159,616	83,022	196,443	87,017	139,245	665,343
Employee benefits and payroll taxes	49,204	19,830	63,733	34,178	47,106	214,051
Advertising	5,145	2,968	-	-	-	8,113
Contract services	-	-	53,827	8,307	94,501	156,635
Facility fees	-	-	63,108	-	-	63,108
Insurance	4,712	5,185	30,154	3,260	3,457	46,768
Miscellaneous	23,655	3,324	22,004	4,032	10,964	63,979
Rent	38,400	-	9,000	4,500	4,500	56,400
Repairs and maintenance	2,843	3,087	23,270	10,630	13,211	53,041
Supplies	3,767	13,693	47,805	13,716	12,161	91,142
Telephone	628	718	1,149	3,190	620	6,305
Utilities	-	3,389	5,163	19,222	57,030	84,804
Depreciation	3,900	12,002	210,794	164,340	156,892	547,928
<b>TOTAL OPERATING EXPENSES</b>	<u>1,397,804</u>	<u>160,078</u>	<u>2,253,475</u>	<u>352,392</u>	<u>539,687</u>	<u>4,703,436</u>
<b>OPERATING INCOME (LOSS)</b>	<u>232,761</u>	<u>(20,605)</u>	<u>326,698</u>	<u>25,926</u>	<u>26,843</u>	<u>591,623</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	5,044	6	5,494	145	9,399	20,088
Property taxes	-	-	-	30,396	-	30,396
Interest expense	-	-	(171,468)	(42,922)	(15,840)	(230,230)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>5,044</u>	<u>6</u>	<u>(165,974)</u>	<u>(12,381)</u>	<u>(6,441)</u>	<u>(179,746)</u>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND TRANSFERS</b>	<u>237,805</u>	<u>(20,599)</u>	<u>160,724</u>	<u>13,545</u>	<u>20,402</u>	<u>411,877</u>
Capital grants	-	-	-	99,887	-	99,887
Transfers in	-	5,346	1,217	281	375	7,219
Transfers out	(200,000)	-	-	(45,315)	(65,210)	(310,525)
<b>CHANGE IN NET ASSETS</b>	<u>37,805</u>	<u>(15,253)</u>	<u>161,941</u>	<u>68,398</u>	<u>(44,433)</u>	<u>208,458</u>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<u>840,200</u>	<u>268,989</u>	<u>2,547,069</u>	<u>4,312,263</u>	<u>4,942,799</u>	<u>12,911,320</u>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<u>\$ 878,005</u>	<u>\$ 253,736</u>	<u>\$ 2,709,010</u>	<u>\$ 4,380,661</u>	<u>\$ 4,898,366</u>	<u>\$ 13,119,778</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds					
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 1,631,143	\$ 139,616	\$ 2,551,090	\$ 378,418	\$ 578,088	\$ 5,278,355
Cash paid to suppliers	(1,215,402)	(66,977)	(1,840,916)	(92,893)	(244,869)	(3,461,057)
Cash paid to employees	(156,019)	(81,488)	(195,311)	(87,569)	(134,383)	(654,770)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>259,722</u>	<u>(8,849)</u>	<u>514,863</u>	<u>197,956</u>	<u>198,836</u>	<u>1,162,528</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in from other funds	-	5,346	1,217	281	375	7,219
Transfers out to other funds	(200,000)	-	-	(45,315)	(65,210)	(310,525)
Advances to other funds	-	-	-	(30,396)	-	(30,396)
Advances from other funds	-	-	756	45,315	65,210	111,281
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(200,000)</u>	<u>5,346</u>	<u>1,973</u>	<u>(30,115)</u>	<u>375</u>	<u>(222,421)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase or construction of fixed assets	-	-	(17,629)	(228,222)	(24,419)	(270,270)
Special assessments collected	-	-	-	10,227	-	10,227
Property taxes collected	-	-	-	30,396	-	30,396
Taconite production tax	-	-	-	99,887	-	99,887
Principal paid on long-term debt	-	-	(185,000)	(82,000)	(7,000)	(274,000)
Interest paid on long-term debt	-	-	(165,386)	(42,850)	(16,155)	(224,391)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>(368,015)</u>	<u>(212,562)</u>	<u>(47,574)</u>	<u>(628,151)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	-	-	-	-	(200,000)	(200,000)
Interest on investments	5,044	6	5,494	145	9,399	20,088
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>5,044</u>	<u>6</u>	<u>5,494</u>	<u>145</u>	<u>(190,601)</u>	<u>(179,912)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	64,766	(3,497)	154,315	(44,576)	(38,964)	132,044
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>701,726</u>	<u>9,457</u>	<u>1,332,083</u>	<u>211,753</u>	<u>1,397,080</u>	<u>3,652,099</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 766,492</u>	<u>\$ 5,960</u>	<u>\$ 1,486,398</u>	<u>\$ 167,177</u>	<u>\$ 1,358,116</u>	<u>\$ 3,784,143</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, 2010

	Business-type Activities - Enterprise Funds					Totals
	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 232,761	\$ (20,605)	\$ 326,698	\$ 25,926	\$ 26,843	\$ 591,623
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	3,900	12,002	210,794	164,340	156,892	547,928
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	578	143	(31,831)	100	11,558	(19,452)
Inventories	5,957	(1,322)	12,555	(3,450)	-	13,740
Prepaid items	1,301	404	1,430	1,260	256	4,651
Increase (decrease) in:						
Accounts payable	11,628	(1,005)	(8,663)	10,332	(1,575)	10,717
Salaries payable	3,597	1,534	1,132	(552)	4,862	10,573
Customer deposits	-	-	2,748	-	-	2,748
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 259,722</u>	<u>\$ (8,849)</u>	<u>\$ 514,863</u>	<u>\$ 197,956</u>	<u>\$ 198,836</u>	<u>\$ 1,162,528</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF GRAND MARAIS, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the year ended December 31, 2010.

#### A. Financial Reporting Entity

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

#### B. Basic Financial Statements

##### Government-wide Financial Statements

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

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

**Fund Financial Statements**

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

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

**Governmental Funds**

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

**Major Governmental Funds:**

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

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

**Nonmajor Governmental Funds:**

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

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

**Proprietary Funds**

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

**Major Proprietary Funds:**

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2010**

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

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

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

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

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

**C. Measurement Focus and Basis of Accounting**

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

**D. Cash and Cash Equivalents**

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

**E. Assets, Liabilities and Fund Balances**

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

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

- 5) Restricted assets are cash, 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.
- 6) Capital assets, which include land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

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

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

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

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

- 8) In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010**

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

issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation improvement and revenue bonds and revenue notes.

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

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

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

**F. Revenues and Expenditures**

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

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

- 2) City employees earn vacation and sick leave based on years of service and union and employment contracts. 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2010

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

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

Cash	\$ 6,149,501
Petty Cash	3,368
Certificates of Deposit	212,000
Investments	<u>455,472</u>
Total	<u>\$ 6,820,341</u>

**Deposits**

*Custodial Credit Risk – Deposits*

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$6,361,501; the bank balance was \$6,647,894. Of the bank balance, \$800,164 was insured; of the remaining balance, \$734,718 was collateralized with securities held by the pledging financial institution's agent in the City's name and \$5,113,012 was collateralized with an irrevocable standby letter of credit.

**Investments**

*Custodial Credit Risk – Investments*

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

*Credit Risk and Concentration of Credit Risk*

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

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

The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2010, had no investments (other than U.S. government or U.S. government guaranteed obligations) in any issuer that exceeded five percent of total investments.

*Interest Rate Risk*

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

The City manages its exposure to fair value losses arising from changing interest rates by purchasing investments with varying maturity dates. As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Maturity</u>	
			<u>Less than 2 Years</u>	<u>Over 5 Years</u>
Minnesota Municipal Money Market Fund	\$ 215,180	not rated	\$ 215,180	\$ -
Morgan Stanley Smith Barney Money Market Funds	40,209	not rated	40,209	-
Wells Fargo Money Market Funds	83	not rated	83	-
Federal Home Loan Banks Step Coupon Bonds	<u>200,000</u>	AAA (Moody's)	-	<u>200,000</u>
Total Investments	<u>\$ 455,472</u>		<u>\$ 255,472</u>	<u>\$ 200,000</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, 2010 was \$49,128.

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, 2010 was \$5,040.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 630,922	\$ -	\$ -	\$ 630,922
Construction in progress	<u>2,079,453</u>	<u>53,749</u>	<u>-</u>	<u>2,133,202</u>
<b>Total capital assets, not being depreciated</b>	<u>2,710,375</u>	<u>53,749</u>	<u>-</u>	<u>2,764,124</u>
<b>Capital assets, being depreciated:</b>				
Buildings	4,367,380	97,087	-	4,464,467
Improvements	617,923	4,386	-	622,309
Infrastructure	5,835,374	28,326	-	5,863,700
Machinery and equipment	363,451	42,437	-	405,888
Licensed vehicles	<u>392,459</u>	<u>36,290</u>	<u>-</u>	<u>428,749</u>
<b>Total capital assets, being depreciated</b>	<u>11,576,587</u>	<u>208,526</u>	<u>-</u>	<u>11,785,113</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(3,272,855)	(70,718)	-	(3,343,573)
Improvements	(137,906)	(24,082)	-	(161,988)
Infrastructure	(2,085,563)	(144,568)	-	(2,230,131)
Machinery and equipment	(227,983)	(20,482)	-	(248,465)
Licensed vehicles	<u>(144,384)</u>	<u>(16,810)</u>	<u>-</u>	<u>(161,194)</u>
<b>Total accumulated depreciation</b>	<u>(5,868,691)</u>	<u>(276,660)</u>	<u>-</u>	<u>(6,145,351)</u>
<b>Total capital assets, being depreciated, net</b>	<u>5,707,896</u>	<u>(68,134)</u>	<u>-</u>	<u>5,639,762</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,418,271</u>	<u>\$ (14,385)</u>	<u>\$ -</u>	<u>\$ 8,403,886</u>
 <b>Business-type activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 186,100	\$ -	\$ -	\$ 186,100
<b>Capital assets, being depreciated:</b>				
Buildings	7,205,055	-	-	7,205,055
Improvements	310,058	-	-	310,058
Infrastructure	11,801,823	265,096	-	12,066,919
Machinery and equipment	2,159,956	5,174	-	2,165,130
Licensed vehicles	<u>342,053</u>	<u>-</u>	<u>-</u>	<u>342,053</u>
<b>Total capital assets, being depreciated</b>	<u>21,818,945</u>	<u>270,270</u>	<u>-</u>	<u>22,089,215</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(2,688,904)	(177,381)	-	(2,866,285)
Improvements	(268,273)	(2,431)	-	(270,704)
Infrastructure	(2,550,186)	(272,757)	-	(2,822,943)
Machinery and equipment	(1,895,330)	(70,598)	-	(1,965,928)
Licensed vehicles	<u>(224,140)</u>	<u>(24,760)</u>	<u>-</u>	<u>(248,900)</u>
<b>Total accumulated depreciation</b>	<u>(7,626,833)</u>	<u>(547,927)</u>	<u>-</u>	<u>(8,174,760)</u>
<b>Total capital assets, being depreciated, net</b>	<u>14,192,112</u>	<u>(277,657)</u>	<u>-</u>	<u>13,914,455</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 14,378,212</u>	<u>\$ (277,657)</u>	<u>\$ -</u>	<u>\$ 14,100,555</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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

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

<b>Governmental activities</b>	
General government	\$ 1,395
Public safety	26,101
Streets	150,688
Culture and recreation	<u>98,476</u>
Total depreciation expense- governmental activities	\$ <u>276,660</u>
 <b>Business-type activities</b>	
Liquor Store	\$ 3,900
Golf Course	12,002
Electric	210,793
Water	164,340
Sewer	<u>156,892</u>
Total depreciation expense- business-type activities	\$ <u>547,927</u>

**NOTE 5 - RATE STABILIZATION PROVISION**

A reserve for rate stabilization was established in 1996. The concept of rate stabilization is used by utilities to defer current revenues to future periods to reduce impacts of future rate increases to customers. The reserve, which is recorded as deferred revenue, will be used to offset future rate increases and maintain income stability in future periods. At December 31, 2010, 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. The sewer revenue bond is payable solely from the net revenues of the Sewer Enterprise Fund.

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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>Governmental Activities</b>					
General Obligation Bonds					
2004 Improvement	06/01/2004	3.40-5.10%	\$ 710,000	02/01/2025	\$ 585,000
2005 Improvement	11/22/2005	3.50-4.60%	\$ 895,000	02/01/2027	805,000
2005 Improvement Refunding	01/06/2005	3.40-4.60%	\$ 875,000	02/01/2021	770,000
2008 Improvement	10/07/2008	3.25-4.50%	\$ 2,695,000	02/01/2029	2,415,000
2009 Improvement Refunding	12/10/2009	2.10-4.70%	\$ 1,675,000	02/01/2031	<u>1,675,000</u>
<b>Governmental Activities Long-term Liabilities</b>					<u>6,250,000</u>
<b>Business-type activities</b>					
Revenue Bonds					
2003 Electric System	05/01/2003	3.00-4.875%	\$ 2,885,000	05/01/2023	2,100,000
2004 Electric System	09/01/2004	4.00-4.80%	\$ 815,000	05/01/2023	650,000
2005 Electric System	06/21/2005	2.75-4.60%	\$ 940,000	05/01/2024	<u>820,000</u>
Total Revenue Bonds					<u>3,570,000</u>
General Obligation Bonds					
2006 Sewer	01/17/2006	4.50%	\$ 372,000	01/01/2036	<u>352,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	258,000
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	<u>620,000</u>
Total General Obligation Notes					<u>878,000</u>
Revenue Note					
2008 Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	<u>420,000</u>
<b>Business-type Activities Long-term Liabilities</b>					<u>5,220,000</u>
<b>Total Long-Term Liabilities</b>					<u>\$ 11,470,000</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
Bonds Payable					
2004 GO Improvements	\$ 610,000	\$ -	\$ 25,000	\$ 585,000	\$ 30,000
2005 GO Improvements	835,000	-	30,000	805,000	35,000
2005 GO Improvement Refunding	825,000	-	55,000	770,000	55,000
2007 GO Temporary Improvement	1,630,000	-	1,630,000	-	-
2008 GO Improvement	2,695,000	-	280,000	2,415,000	85,000
2009 GO Improvement Refunding	<u>1,675,000</u>	-	-	<u>1,675,000</u>	-
<b>Governmental Activities - Long-term Liabilities</b>	<u>\$ 8,270,000</u>	<u>\$ -</u>	<u>\$ 2,020,000</u>	<u>\$ 6,250,000</u>	<u>\$ 205,000</u>

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2010**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Business-type Activities</b>					
<b>Bonds Payable</b>					
2003 Electric System Revenue	\$ 2,220,000	\$ -	\$ 120,000	\$ 2,100,000	\$ 125,000
2004 Electric System Revenue	685,000	-	35,000	650,000	35,000
2005 Electric System Revenue	850,000	-	30,000	820,000	30,000
2006 GO Sewer Revenue	<u>359,000</u>	-	<u>7,000</u>	<u>352,000</u>	<u>7,000</u>
Total Bonds Payable	<u>4,114,000</u>	<u>-</u>	<u>192,000</u>	<u>3,922,000</u>	<u>197,000</u>
<b>Notes Payable</b>					
1999 GO Water Revenue	283,000	-	25,000	258,000	26,000
2004 GO Improvement	657,000	-	37,000	620,000	37,000
2008 Water Revenue	<u>440,000</u>	-	<u>20,000</u>	<u>420,000</u>	<u>20,000</u>
Total Notes Payable	<u>1,380,000</u>	<u>-</u>	<u>82,000</u>	<u>1,298,000</u>	<u>83,000</u>
<b>Business-type Activities - Long-term Liabilities</b>	<u>\$ 5,494,000</u>	<u>\$ -</u>	<u>\$ 274,000</u>	<u>\$ 5,220,000</u>	<u>\$ 280,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 205,000	\$ 254,642	\$ 280,000	\$ 212,080	\$ 485,000	\$ 466,722
2012	265,000	246,626	292,000	201,747	557,000	448,373
2013	270,000	237,564	299,000	190,813	569,000	428,377
2014	280,000	227,890	311,000	179,374	591,000	407,264
2015	305,000	217,316	324,000	167,352	629,000	384,668
2016-2020	1,695,000	896,694	1,783,000	628,835	3,478,000	1,525,529
2021-2025	1,735,000	527,573	1,674,000	217,826	3,409,000	745,399
2026-2030	1,370,000	164,410	138,000	41,313	1,508,000	205,723
2031-2035	125,000	2,938	97,000	18,360	222,000	21,298
2036-2037	-	-	22,000	990	22,000	990
Total	<u>\$ 6,250,000</u>	<u>\$ 2,775,653</u>	<u>\$ 5,220,000</u>	<u>\$ 1,858,690</u>	<u>\$11,470,000</u>	<u>\$ 4,634,343</u>

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY**

The composition of interfund balances as of December 31, 2010, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric Enterprise	\$ 65,829
Debt Service	Water Enterprise	48,318
Debt Service	Sewer Enterprise	65,210
Water Enterprise	Debt Service	<u>33,098</u>
		<u>\$ 212,455</u>

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2010**

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

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

Interfund transfers for the year ended December 31, 2010 consisted of the following:

	Transfers Out					Total
	General Fund	Liquor Store Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Nonmajor Fund EDA Cedar Grove Business Park Capital Projects Fund	
<b>Transfers In</b>						
General Fund	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Debt Service Fund	-	-	45,315	65,210	60,723	171,248
Golf Course Enterprise Fund	5,346	-	-	-	-	5,346
Electric Enterprise Fund	1,217	-	-	-	-	1,217
Water Enterprise Fund	281	-	-	-	-	281
Sewer Enterprise Fund	375	-	-	-	-	375
Nonmajor Funds						
Library Special Revenue Fund	<u>123,056</u>	-	-	-	-	<u>123,056</u>
	<u>\$ 130,275</u>	<u>\$ 200,000</u>	<u>\$ 45,315</u>	<u>\$ 65,210</u>	<u>\$ 60,723</u>	<u>\$ 501,523</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 from the Cedar Grove Business Park Capital Projects Fund to the Debt Service Fund for debt service expenditures; and 4) fund the Golf Course Enterprise Fund.

**NOTE 8 - FUND EQUITY**

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

General Fund

Designated for:

Street seal coat project	\$ 70,965
Buildings	51,713
Insurance reserve	10,804
Street equipment	18,282
Street improvements	<u>250,531</u>
Total General Fund - Designated	<u>\$ 402,295</u>

Library Special Revenue Fund

Designated for library improvements	<u>\$ 64,076</u>
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**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 8 - FUND EQUITY (CONTINUED)**

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

**Business-Type Activities**

Electric Enterprise Fund  
Restricted for debt service

\$ 390,414

Sewer Enterprise Fund  
Restricted for MPCA contract

\$ 597,286

**NOTE 9 - RISK MANAGEMENT**

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

**NOTE 10 - JOINTLY GOVERNED ORGANIZATION**

**Cook County/Grand Marais Joint Economic Development Authority**

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

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

The Authority is currently developing lots to be sold in Cedar Grove Business Park. The City, in consideration for construction of street improvements, water and sewer extensions and curb and gutter on the platted roads in the Business Park, has entered into an agreement with the Authority whereby owners will be assessed \$60,000 per platted lot, payable from the closing proceeds at the time of sale. The City expended \$53,749 in 2010 on infrastructure for this project.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 10 - JOINTLY GOVERNED ORGANIZATION (CONTINUED)**

On January 9, 2007, the City of Grand Marais issued \$1,630,000 General Obligation Temporary Improvement Bonds Series 2007A to temporarily finance the improvements. On January 9, 2010, the \$1,630,000 General Obligation Temporary Improvements Bonds, Series 2007A, were repaid with the proceeds of the \$1,675,000 General Obligation Improvement Refunding Bonds, Series 2009A.

**NOTE 11 - JOINT VENTURE**

**Joint Recreation Board**

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

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

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

In 2010, the City did not contribute to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, Cook County Courthouse, 411 West Second Street, Grand Marais, MN 55604.

**NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES**

**Grants**

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2010, 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

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

**NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)**

agreement in which SMMPA has agreed to purchase all of the energy and capacity of the Grand Marais generating plant. SMMPA will pay the Grand Marais Public Utilities \$216,000 annually for the capacity of the plant. The term of this contract is the period commencing on the commercial operating date of the plant (February 18, 2004) and ending on the day of the contract year that includes the twentieth anniversary of the commercial operating date, unless earlier terminated or extended as provided in the agreement.

**Construction Commitment**

The City had outstanding construction projects as of December 31, 2010. The projects were evidenced by contractual commitments with contractors.

<u>Project</u>	<u>Spent-to-Date</u>	<u>Commitment Remaining</u>
Business Park	\$ 2,133,202	\$ 247,970

**NOTE 13 - FUNDS HELD BY OTHERS**

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to Minnesota Community Foundation to be held and administered for the benefit of the City of Grand Marais' Public Library. The market value of the fund assets was approximately \$20,345 on December 31, 2010.

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan Description**

All full-time and certain part-time employees of the City of Grand Marais, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

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

Two methods are used to compute benefits for 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling 1-651-296-7460 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010. In 2010, the City of Grand Marais was

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2010**

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

required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$83,267, \$78,148, and \$73,401, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 15 - DEFINED CONTRIBUTION PLAN**

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

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

Total contributions made by the City of Grand Marais, Minnesota during fiscal year 2010 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%

**NOTE 16 - EXTRAORDINARY ITEM - STORM DAMAGE**

In October of 2010, a storm caused significant damage to the City owned pool building. Costs to repair or replace the damages totaled \$95,355. The City recovered \$85,355 from insurance proceeds.

**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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property	\$ 601,802	\$ 601,802	\$ 568,416	\$ (33,386)
Special assessments	5,084	5,084	4,679	(405)
Licenses and permits	81,065	81,065	78,058	(3,007)
Intergovernmental	101,737	101,737	149,994	48,257
Charges for services	966,186	966,186	1,023,319	57,133
Fines	1,400	1,400	1,820	420
Gifts and contributions	-	-	1,100	1,100
Interest	5,000	5,000	12,668	7,668
Miscellaneous	-	-	7,904	7,904
<b>TOTAL REVENUES</b>	<u>1,762,274</u>	<u>1,762,274</u>	<u>1,847,958</u>	<u>85,684</u>
<b>EXPENDITURES</b>				
Current				
General government	362,541	362,541	349,054	13,487
Public safety	228,566	228,566	264,018	(35,452)
Streets	330,408	330,408	223,457	106,951
Culture and recreation	843,695	843,695	848,878	(5,183)
<b>TOTAL EXPENDITURES</b>	<u>1,765,210</u>	<u>1,765,210</u>	<u>1,685,407</u>	<u>79,803</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(2,936)</u>	<u>(2,936)</u>	<u>162,551</u>	<u>165,487</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	(148,734)	(148,734)	(130,275)	18,459
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>51,266</u>	<u>51,266</u>	<u>69,725</u>	<u>18,459</u>
<b>EXTRAORDINARY ITEM</b>				
Insurance recovery - storm damage	-	-	85,355	85,355
<b>NET CHANGE IN FUND BALANCE</b>	48,330	48,330	317,631	269,301
<b>FUND BALANCE - JANUARY 1</b>	<u>1,165,462</u>	<u>1,165,462</u>	<u>1,165,462</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 1,213,792</u>	<u>\$ 1,213,792</u>	<u>\$ 1,483,093</u>	<u>\$ 269,301</u>

See note to required supplementary information.

**CITY OF GRAND MARAIS, MINNESOTA**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2010**

**NOTE 1 - BUDGETING**

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

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

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

**OTHER SUPPLEMENTARY INFORMATION**

## **NONMAJOR GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

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

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

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

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

### **Capital Projects Funds**

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

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

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2010

	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
<b>ASSETS</b>					
Cash and cash equivalents	\$ 496,410	\$ 10,236	\$ 92,476	\$ 247,970	\$ 847,092
Accounts receivable	-	1,265	-	-	1,265
Loans receivables	-	-	49,128	-	49,128
Prepaid items	2,391	-	-	-	2,391
<b>TOTAL ASSETS</b>	<u>\$ 498,801</u>	<u>\$ 11,501</u>	<u>\$ 141,604</u>	<u>\$ 247,970</u>	<u>\$ 899,876</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 2,161	\$ -	\$ -	\$ -	\$ 2,161
Salaries payable	14,178	-	-	-	14,178
Deferred revenue	-	-	49,128	114,365	163,493
<b>TOTAL LIABILITIES</b>	<u>16,339</u>	<u>-</u>	<u>49,128</u>	<u>114,365</u>	<u>179,832</u>
<b>FUND BALANCES</b>					
Unreserved, designated	64,076	-	-	-	64,076
Unreserved, undesignated	418,386	11,501	92,476	133,605	655,968
<b>TOTAL FUND BALANCES</b>	<u>482,462</u>	<u>11,501</u>	<u>92,476</u>	<u>133,605</u>	<u>720,044</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 498,801</u>	<u>\$ 11,501</u>	<u>\$ 141,604</u>	<u>\$ 247,970</u>	<u>\$ 899,876</u>

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended December 31, 2010

	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
<b>REVENUES</b>					
Taxes - franchise fee	\$ -	\$ 5,276	\$ -	\$ -	\$ 5,276
Intergovernmental	95,705	-	25,000	-	120,705
Charges for services	18,318	-	-	-	18,318
Gifts and contributions	8,639	-	-	-	8,639
Interest	2,821	-	1,855	780	5,456
Miscellaneous	-	-	15,433	-	15,433
<b>TOTAL REVENUES</b>	<u>125,483</u>	<u>5,276</u>	<u>42,288</u>	<u>780</u>	<u>173,827</u>
<b>EXPENDITURES</b>					
Current					
Culture and recreation	233,629	-	-	-	233,629
Economic development	-	-	15,000	-	15,000
Capital outlay					
Economic development	-	-	-	53,749	53,749
<b>TOTAL EXPENDITURES</b>	<u>233,629</u>	<u>-</u>	<u>15,000</u>	<u>53,749</u>	<u>302,378</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(108,146)</u>	<u>5,276</u>	<u>27,288</u>	<u>(52,969)</u>	<u>(128,551)</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers in	123,056	-	-	-	123,056
Transfers out	-	-	-	(60,723)	(60,723)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>123,056</u>	<u>-</u>	<u>-</u>	<u>(60,723)</u>	<u>62,333</u>
<b>NET CHANGE IN FUND BALANCES</b>	14,910	5,276	27,288	(113,692)	(66,218)
<b>FUND BALANCES - JANUARY 1</b>	<u>467,552</u>	<u>6,225</u>	<u>65,188</u>	<u>247,297</u>	<u>786,262</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 482,462</u>	<u>\$ 11,501</u>	<u>\$ 92,476</u>	<u>\$ 133,605</u>	<u>\$ 720,044</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 Year Ended December 31, 2010

REVENUES

<b>Taxes</b>	
General property	\$ 568,416
<b>Special Assessments</b>	4,679
<b>Licenses and permits</b>	78,058
<b>Intergovernmental</b>	
State	
Local government aid	96,422
Market value credit	15,505
PERA aid	5,315
Fire aid	17,388
Other state aids	15,364
<b>Total Intergovernmental</b>	<u>149,994</u>
<b>Charges for Services</b>	
General government	
Rent	61,376
Miscellaneous	9,442
Public safety	
Fire protection contacts	40,736
Culture and recreation	
Park	704,209
Swimming pool	126,528
Boat harbors	81,028
<b>Total Charges for Services</b>	<u>1,023,319</u>
<b>Fines</b>	
Court fines	1,820
<b>Gifts and Contributions</b>	1,100
<b>Interest</b>	12,668
<b>Miscellaneous</b>	
Insurance recoveries	543
Reimbursements	5,000
Other	2,361
<b>Total Miscellaneous</b>	<u>7,904</u>
<b>TOTAL REVENUES</b>	<u>1,847,958</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 (CONTINUED)  
 Year Ended December 31, 2010

EXPENDITURES

Current

General Government

Mayor and council	\$ 27,603
City clerk	156,849
Independent audit	12,200
Legal	29,236
Planning and zoning	25,230
Buildings	66,186
Other	31,750

**Total General Government** 349,054

Public Safety

Police	140,000
Fire	93,040
Fire capital outlay	27,884
Medical services	2,042
Animal control	1,052

**Total Public Safety** 264,018

Streets

Maintenance	156,074
Street lighting	26,708
Capital outlay	40,675

**Total Streets** 223,457

Culture and Recreation

Recreation	393,963
Recreation capital outlay	28,326
Swimming pool	245,733
Swimming pool capital outlay	100,972
Boat harbors	53,995
Boat harbors capital outlay	6,150
City parks	19,739

**Total Culture and Recreation** 848,878

**TOTAL EXPENDITURES** 1,685,407

**EXCESS OF REVENUES OVER EXPENDITURES** 162,551

OTHER FINANCING SOURCES (USES)

Transfers in	200,000
Transfers out	(130,275)

**TOTAL OTHER FINANCING SOURCES (USES)** 69,725

EXTRAORDINARY ITEM

Insurance recovery - storm damage	85,355
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**NET CHANGE IN FUND BALANCE** 317,631

**FUND BALANCE - JANUARY 1** 1,165,462

**FUND BALANCE - DECEMBER 31** \$ 1,483,093



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

To the City Council  
City of Grand Marais, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grand Marais, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-2 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 2010-1 to be a significant deficiency.

### **Compliance and Other Matters**

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

We also conducted our audit in accordance with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Grand Marais, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We noted certain matters that we reported to management of City of Grand Marais, Minnesota in a separate letter dated June 16, 2011, included under this cover.

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

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

*Walker, Hirose & Nelson, Ltd.*

June 16, 2011

**CITY OF GRAND MARAIS, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2010**

**SIGNIFICANT DEFICIENCIES**

**2010-1. SEGREGATION OF DUTIES**

**Condition**

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

**Criteria**

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

**Effect**

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

**Cause**

This occurred because of staffing limitation caused by fiscal constraints.

**Recommendations**

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

**Corrective Action Plan (CAP)**

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

**CITY OF GRAND MARAIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended December 31, 2010**

**2010-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS**

**Condition and Criteria**

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management 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.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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**MANAGEMENT LETTER**

To the City Council  
City of Grand Marais, Minnesota

In planning and performing our audit of the financial statements of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 16, 2011, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 16, 2011, on the financial statements of the City of Grand Marais, Minnesota.

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

**Interfund Activity**

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

**Receipts**

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

**Met Life Stock**

We noted that dividend income was received from Met Life in 2010. The stock was probably received in a prior year as a result of the insurance company's demutualization. This stock investment should be recorded on the general ledger for internal control purposes. In addition, we recommend that you consult your legal advisor as to whether this is an allowable investment.

**New Accounting Standard**

Governmental Accounting Standards Board Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for reporting periods beginning after June 15, 2010. We recommend that the City administration review the new reporting requirements and establish the necessary policies and procedures to comply with the new fund balance classifications.

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

*Walker, Hironaka + Nelson, LLP*

June 16, 2011