

CITY OF GRAND MARAIS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

CITY OF GRAND MARAIS, MINNESOTA

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CITY OF GRAND MARAIS, MINNESOTA

**ORGANIZATION
December 31, 2017**

CITY COUNCIL

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

ADMINISTRATION

City Administrator	Michael J. Roth
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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Grand Marais, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Marais, Minnesota's basic financial statements. The combining nonmajor and individual fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2018, on our consideration of City of Grand Marais, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the City of Grand Marais, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grand Marais, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Grand Marais, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$12,372,162, of which net investment in capital assets is \$6,201,410.
- Business-type activities total net position is \$12,950,805. Net investment in capital assets represents \$7,220,208 of the total.
- The City of Grand Marais's net position increased by \$746,253 for the year ended December 31, 2017. Of the increase, an increase of \$2,076,923 was reported in the governmental activities' net position and \$(1,330,670) represented the decrease in business-type activities' net position.
- The net expense of governmental activities was \$800,763 for the current year. General revenues totaled \$981,309.
- Governmental funds' fund balances increased by \$461,169.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Grand Marais, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

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

Government-wide Financial Statements

The statement of net position and the statement of activities report information about the City, as a whole, and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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

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

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, streets, culture and recreation, and economic development. Property taxes and state and federal grants and aids finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's liquor store, electric, water, and sewer services are reported here. In 2016, the operations and residual assets of the golf course were transferred to the City.

Fund Financial Statements

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

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

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Grand Marais, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$25,322,967, an increase of \$734,228 from the prior year.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 7,207,048	\$ 6,850,589	\$ 7,044,815	\$ 6,593,512	\$ 14,251,863	\$ 13,444,101
Capital assets	<u>12,482,363</u>	<u>8,864,480</u>	<u>11,766,339</u>	<u>12,264,532</u>	<u>24,248,702</u>	<u>21,129,012</u>
Total assets	<u>19,689,411</u>	<u>15,715,069</u>	<u>18,811,154</u>	<u>18,858,044</u>	<u>38,500,565</u>	<u>34,573,113</u>
Deferred outflows related to pensions	<u>161,429</u>	<u>354,124</u>	<u>230,474</u>	<u>418,051</u>	<u>391,903</u>	<u>772,175</u>
Long-term liabilities	6,932,114	5,275,915	5,218,118	4,161,321	12,150,232	9,437,236
Other liabilities	<u>386,809</u>	<u>359,545</u>	<u>741,371</u>	<u>731,197</u>	<u>1,128,180</u>	<u>1,090,742</u>
Total liabilities	<u>7,318,923</u>	<u>5,635,460</u>	<u>5,959,489</u>	<u>4,892,518</u>	<u>13,278,412</u>	<u>10,527,978</u>
Deferred inflows related to pensions	<u>159,755</u>	<u>126,469</u>	<u>131,334</u>	<u>102,102</u>	<u>291,089</u>	<u>228,571</u>
Net position						
Net investment in capital assets	6,201,410	4,416,755	7,220,208	8,966,858	13,421,618	13,383,613
Restricted	2,332,154	2,250,182	433,869	451,839	2,766,023	2,702,021
Unrestricted	<u>3,838,598</u>	<u>3,640,327</u>	<u>5,296,728</u>	<u>4,862,778</u>	<u>9,135,326</u>	<u>8,503,105</u>
Total net position	<u>\$ 12,372,162</u>	<u>\$ 10,307,264</u>	<u>\$ 12,950,805</u>	<u>\$ 14,281,475</u>	<u>\$ 25,322,967</u>	<u>\$ 24,588,739</u>

Net position of the City's governmental activities increased by 20.0 percent (\$12,372,162 compared to \$10,307,264) in 2017. Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants,

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

enabling legislation, or other legal requirements - increased from a \$3,640,327 surplus at December 31, 2016 to a \$3,838,598 surplus at the end of this year.

Net position of the City's business-type activities decreased by 9.3 percent (\$12,950,805 compared to \$14,281,475) in 2017.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 1,567,056	\$ 1,492,699	\$ 6,087,612	\$ 5,971,543	\$ 7,654,668	\$ 7,464,242
Operating grants and contributions	231,843	232,650	213	2,981	232,056	235,631
Capital grants and contributions	411,442	203,825	2,500	-	413,942	203,825
General revenues:						
Property taxes	896,023	831,304	34,859	35,483	930,882	866,787
Grants and contributions not restricted to specific programs	60,927	77,542	-	-	60,927	77,542
Other general revenues	24,359	33,250	33,787	30,574	58,146	63,824
Total revenues	<u>3,191,650</u>	<u>2,871,270</u>	<u>6,158,971</u>	<u>6,040,581</u>	<u>9,350,621</u>	<u>8,911,851</u>
Program expenses:						
General government	776,265	547,681	-	-	776,265	547,681
Public safety	246,318	242,127	-	-	246,318	242,127
Streets	490,918	424,881	-	-	490,918	424,881
Culture and recreation	1,340,809	1,280,843	-	-	1,340,809	1,280,843
Interest	156,794	140,320	-	-	156,794	140,320
Liquor store	-	-	1,970,119	1,715,855	1,970,119	1,715,855
Electric	-	-	2,539,375	2,603,249	2,539,375	2,603,249
Water	-	-	346,288	356,543	346,288	356,543
Sewer	-	-	737,482	641,125	737,482	641,125
Total program expenses	<u>3,011,104</u>	<u>2,635,852</u>	<u>5,593,264</u>	<u>5,316,772</u>	<u>8,604,368</u>	<u>7,952,624</u>
Excess before transfers	180,546	235,418	565,707	723,809	746,253	959,227
Transfers	<u>1,896,377</u>	<u>537,117</u>	<u>(1,896,377)</u>	<u>(537,117)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	2,076,923	772,535	(1,330,670)	186,692	746,253	959,227
Net position, January 1	10,307,264	9,586,170	14,281,475	14,094,783	24,588,739	23,680,953
Prior period adjustment	<u>(12,025)</u>	<u>(51,441)</u>	<u>-</u>	<u>-</u>	<u>(12,025)</u>	<u>(51,441)</u>
Net position, December 31	<u>\$ 12,372,162</u>	<u>\$ 10,307,264</u>	<u>\$ 12,950,805</u>	<u>\$ 14,281,475</u>	<u>\$ 25,322,967</u>	<u>\$ 24,588,739</u>

Governmental Activities

The most significant revenues of the governmental activities are fees, fines, charges, and other, comprised mostly of culture and recreation fees, totaling 49% of revenues. Capital grants and contributions, 13% of revenues, include the grants for major projects. Operating grants and contributions, 7% of revenues, are used for operating expenses. Unrestricted grants and contributions, 2% of revenues, are used to finance the general activities. Property taxes levied

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

for general purposes amount to \$706,769 or 22% of revenues, an increase of \$27,689 over the prior year.

Culture and recreation expenses are the most significant (45%), followed by general government (26%), streets (16%), public safety (8%), and interest on long-term debt (5%).

Business-Type Activities

Revenues of the City's business-type activities were \$6,158,971; expenses were \$5,593,264 (see Table 2). Net position decreased by \$1,330,670 during the year ended December 31, 2017. Factors driving these results include:

- Operations produced income of \$659,406 during the year ended December 31, 2017.
- All segments recorded operating income except for the sewer enterprise fund.
- Net transfers out to other funds totaled \$1,896,377, including the transfer of \$1,584,498 of bond proceeds to the Public Works Facility Capital Projects Fund for the utilities portion of the project.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

At December 31, 2017, the City's governmental funds reported total ending fund balances of \$5,755,692, an increase of \$461,169 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised nearly 24%, or \$1,362,061 of the total ending fund balance. The nonspendable fund balance of \$47,514 is also not available for general operations. The committed fund balance of \$36,905 represents revenues collected to fund the operation of a local TV channel. The City assigned \$1,841,379 to specific purposes.

At the end of the year, the general fund reported a fund balance of \$4,093,899, increasing \$252,150 from the prior year. General fund revenues were \$206,021 more than the prior year's and expenditures increased by \$288,431. In 2017, the City received a MN DEED capital grant of \$225,000 to fund the hospital's infrastructure improvements. During the current year, the general fund transfers to other funds were \$316,882, which were more than the prior year's transfers out of \$154,332.

The debt service fund recorded an increase in fund balance of \$136,804 primarily due to transfers in of \$147,805 for debt service expenditures.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

The public works facility capital projects fund received an IRRRB grant of \$100,000, bond proceeds and bond premium totaling \$2,129,671, and transfers in of \$1,743,859 for construction of the public works facility, resulting in an ending fund balance of \$83,153.

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

Proprietary Funds

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

The liquor store enterprise fund accounts for the operations of the City owned liquor store. In 2017, operating revenues increased by \$35,497, while the operating expenses increased by \$254,264 from the prior year. The liquor store operations produced an operating income of \$167,929 for this current year, which is a decrease of \$218,767 from the prior year's operating income. A transfer out of \$200,000 was made during 2017 to the general fund, as in prior years. Net position decreased by \$27,917.

The electric enterprise fund accounts for the electric operations of the City. In 2017, operating revenues increased by \$13,244 compared to the prior year. Operating expenses decreased from the prior year by \$57,097. The electric operations produced operating income of \$414,468 in 2017. Interest expense charged to the electric distribution was \$74,365. Net position increased by \$352,868.

The water enterprise fund accounts for the water operations of the City. In 2017, operating revenues increased by \$26,622 compared to the prior year. Operating expenses decreased by \$7,506. In 2017, operating income of \$99,842 was recorded compared to an operating income of \$65,714 in the prior year. Interest expense charged to the water operations was \$24,031. A transfer to the debt service fund was made in the amount of \$45,315 during 2017. Net position increased by \$75,862.

The sewer enterprise fund accounts for the sewer operations of the City. In 2017, operating revenues increased by \$40,706 compared to the prior year. Operating expenses increased from the prior year by \$37,581. The sewer operations produced an operating loss of \$22,833 in 2017. Interest expense charged to the sewer operations was \$30,303. A transfer of \$1,584,498 was made to the public works facility capital projects fund and a transfer of \$67,500 was made to the debt service fund. As a result, net position decreased \$1,731,483.

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 \$27,755 above the final budget amounts. A negative variance occurred in general government (\$250,788) expenditures. Resources available for appropriation were \$456,489 above the final budgeted amounts. More intergovernmental aids and charges for services were received.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$24,248,702 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$3,119,690 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,052,129	\$ 1,052,129	\$ 32,000	\$ 32,000	\$ 1,084,129	\$ 1,084,129
Construction in progress	3,888,486	78,656	-	-	3,888,486	78,656
Buildings	1,948,612	2,002,028	3,544,600	3,745,397	5,493,212	5,747,425
Improvements	583,408	498,070	-	-	583,408	498,070
Infrastructure	4,372,994	4,545,032	7,909,863	8,184,945	12,282,857	12,729,977
Machinery and equipment	288,012	315,608	170,720	178,512	458,732	494,120
Vehicles	348,722	372,957	109,156	123,678	457,878	496,635
Total	\$ 12,482,363	\$ 8,864,480	\$ 11,766,339	\$ 12,264,532	\$ 24,248,702	\$ 21,129,012

This year's major additions were:

- Public Works Facility construction

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

Debt

At year-end, the City had \$10,666,000 in long-term debt outstanding versus \$7,760,000 last year—as shown in Table 4.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds (backed by the City)	\$ 6,145,000	\$ 4,405,000	\$ 1,825,000	\$ 295,000	\$ 7,970,000	\$ 4,700,000
Electric system revenue bonds	-	-	2,015,000	2,285,000	2,015,000	2,285,000
General obligation notes	-	-	401,000	475,000	401,000	475,000
Water revenue note	-	-	280,000	300,000	280,000	300,000
Total	\$ 6,145,000	\$ 4,405,000	\$ 4,521,000	\$ 3,355,000	\$10,666,000	\$ 7,760,000

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

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, 2017, the City had no outstanding qualifying net debt that applied to this \$5,231,403 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2018 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities.

- The property tax levy will be held to 2.6%.
- Utility rate increases are:

Water	2%
Sewer	5%
- The City's capital plan for 2018 includes:
 - Meter Replacement Project - AMI
- Employees were given a 3% cost of living adjustment raise.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, Michael J. Roth, City of Grand Marais, P.O. Box 600, Grand Marais, Minnesota 55604.

BASIC FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2017

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,769,642	\$ 5,389,801	\$ 11,159,443
Taxes receivable	72,080	1,451	73,531
Special assessments receivable - current	71,584	20,656	92,240
Special assessments receivable - long-term	903,886	85,185	989,071
Accounts receivable	3,846	353,811	357,657
Grants receivable	120,000	-	120,000
Internal balances	66,335	(66,335)	-
Loans receivable	7,435	-	7,435
Inventories	16,448	475,484	491,932
Prepaid items	31,066	35,222	66,288
Temporarily restricted assets			
Cash and cash equivalents	-	749,540	749,540
Net pension asset	144,726	-	144,726
Capital assets not being depreciated:			
Land	1,052,129	32,000	1,084,129
Construction in progress	3,888,486	-	3,888,486
Capital assets, net of accumulated depreciation:			
Buildings	1,948,612	3,544,600	5,493,212
Improvements	583,408	-	583,408
Infrastructure	4,372,994	7,909,863	12,282,857
Machinery and equipment	288,012	170,720	458,732
Licensed vehicles	348,722	109,156	457,878
TOTAL ASSETS	<u>19,689,411</u>	<u>18,811,154</u>	<u>38,500,565</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	161,429	145,809	307,238
Deferred amount on refunding	-	84,665	84,665
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>161,429</u>	<u>230,474</u>	<u>391,903</u>
LIABILITIES			
Accounts payable	69,602	273,672	343,274
Salaries payable	116,335	74,505	190,840
Due to other governments	110,000	-	110,000
Customer deposits	-	16,045	16,045
Unearned revenues	10,000	338,773	348,773
Accrued interest payable	80,872	38,376	119,248
Noncurrent liabilities			
Bonds and notes payable			
Due within one year	295,000	391,000	686,000
Due in more than one year	5,985,953	4,239,796	10,225,749
Net pension liability	651,161	587,322	1,238,483
TOTAL LIABILITIES	<u>7,318,923</u>	<u>5,959,489</u>	<u>13,278,412</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	159,755	131,334	291,089
NET POSITION			
Net investment in capital assets	6,201,410	7,220,208	13,421,618
Restricted for:			
Capital projects	83,153	-	83,153
Debt service	1,847,425	433,869	2,281,294
Library	253,012	-	253,012
Storefront renovation	148,564	-	148,564
Unrestricted	3,838,598	5,296,728	9,135,326
TOTAL NET POSITION	<u>\$ 12,372,162</u>	<u>\$ 12,950,805</u>	<u>\$ 25,322,967</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 776,265	\$ 164,896	\$ 38,528
Public safety	246,318	51,307	25,059
Streets	490,918	-	9,482
Culture and recreation	1,340,809	1,350,853	158,774
Interest on long-term debt	156,794	-	-
Total Governmental Activities	<u>3,011,104</u>	<u>1,567,056</u>	<u>231,843</u>
Business-type Activities			
Liquor Store	\$ 1,970,119	\$ 2,138,048	\$ 79
Electric	2,539,375	2,879,478	66
Water	346,288	422,099	34
Sewer	737,482	647,987	34
Total Business-type Activities	<u>5,593,264</u>	<u>6,087,612</u>	<u>213</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,604,368</u>	<u>\$ 7,654,668</u>	<u>\$ 232,056</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

Prior period adjustment

NET POSITION - DECEMBER 31

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

<u>Net (Expense) Revenue and Changes in Net Position</u>			
<u>Primary Government</u>			
<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 225,000	\$ (347,841)	\$ -	\$ (347,841)
-	(169,952)	-	(169,952)
186,442	(294,994)	-	(294,994)
-	168,818	-	168,818
-	(156,794)	-	(156,794)
<u>411,442</u>	<u>(800,763)</u>	<u>-</u>	<u>(800,763)</u>
\$ -	-	168,008	168,008
-	-	340,169	340,169
2,500	-	78,345	78,345
-	-	(89,461)	(89,461)
<u>2,500</u>	<u>-</u>	<u>497,061</u>	<u>497,061</u>
<u>\$ 413,942</u>	<u>(800,763)</u>	<u>497,061</u>	<u>(303,702)</u>
	706,769	-	706,769
	185,360	34,859	220,219
	3,894	-	3,894
	60,927	-	60,927
	22,258	33,787	56,045
	2,101	-	2,101
	<u>1,896,377</u>	<u>(1,896,377)</u>	<u>-</u>
	<u>2,877,686</u>	<u>(1,827,731)</u>	<u>1,049,955</u>
	2,076,923	(1,330,670)	746,253
	10,307,264	14,281,475	24,588,739
	<u>(12,025)</u>	<u>-</u>	<u>(12,025)</u>
	<u>\$ 12,372,162</u>	<u>\$ 12,950,805</u>	<u>\$ 25,322,967</u>

CITY OF GRAND MARAIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General Fund	Debt Service Fund	Public Works Facility Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,196,810	\$ 862,812	\$ 2,243	\$ 707,777	\$ 5,769,642
Taxes receivable	61,650	10,430	-	-	72,080
Special assessments receivable	-	975,470	-	-	975,470
Accounts receivable	2,552	-	-	1,294	3,846
Due from other funds	67,622	-	-	-	67,622
Grants receivable	20,000	-	100,000	-	120,000
Loans receivables	-	-	-	7,435	7,435
Inventories	16,448	-	-	-	16,448
Prepaid items	27,577	-	-	3,489	31,066
TOTAL ASSETS	\$ 4,392,659	\$ 1,848,712	\$ 102,243	\$ 719,995	\$ 7,063,609
LIABILITIES					
Accounts payable	\$ 47,987	\$ -	\$ 19,090	\$ 2,525	\$ 69,602
Salaries payable	100,173	-	-	16,162	116,335
Due to other funds	-	1,287	-	-	1,287
Due to other governments	110,000	-	-	-	110,000
Unearned revenue	10,000	-	-	-	10,000
TOTAL LIABILITIES	268,160	1,287	19,090	18,687	307,224
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	30,600	-	-	-	30,600
Unavailable revenue - special assessments	-	962,658	-	-	962,658
Unavailable revenue - loans receivable	-	-	-	7,435	7,435
TOTAL DEFERRED INFLOWS OF RESOURCES	30,600	962,658	-	7,435	1,000,693
FUND BALANCES					
Nonspendable	44,025	-	-	3,489	47,514
Restricted	-	884,767	83,153	394,141	1,362,061
Committed	-	-	-	36,905	36,905
Assigned	1,582,041	-	-	259,338	1,841,379
Unassigned	2,467,833	-	-	-	2,467,833
TOTAL FUND BALANCES	4,093,899	884,767	83,153	693,873	5,755,692
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,392,659	\$ 1,848,712	\$ 102,243	\$ 719,995	\$ 7,063,609

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

CITY OF GRAND MARAIS, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2017

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 5,755,692
The City's net pension asset related to the Volunteer Firefighter Plan is not reported in the governmental funds.	144,726
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	12,482,363
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,000,693
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(80,872)
Long-term liabilities, including bonds payable, bond premium, and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.	(6,932,114)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore not reported in the governmental funds.	
Deferred outflows of resources related to pensions	161,429
Deferred inflows of resources related to pensions	<u>(159,755)</u>
	<u>1,674</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,372,162</u></u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Public Works Facility Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes					
Property	\$ 700,256	\$ 185,360	\$ -	\$ -	\$ 885,616
Franchise	-	-	-	3,893	3,893
Special assessments	2,974	205,696	-	-	208,670
Licenses and permits	92,194	-	-	-	92,194
Intergovernmental	309,266	16,417	100,000	127,811	553,494
Charges for services	1,452,833	-	-	13,348	1,466,181
Fines	2,994	-	-	4,452	7,446
Gifts and contributions	39,085	-	-	20,963	60,048
Investment earnings	9,835	1,169	2,215	2,595	15,814
Miscellaneous	2,286	-	-	2,540	4,826
TOTAL REVENUES	<u>2,611,723</u>	<u>408,642</u>	<u>102,215</u>	<u>175,602</u>	<u>3,298,182</u>
EXPENDITURES					
Current					
General government	760,566	-	-	-	760,566
Public safety	200,251	-	-	-	200,251
Streets	263,681	-	-	-	263,681
Culture and recreation	1,023,294	-	-	340,125	1,363,419
Debt service					
Principal	-	290,000	-	-	290,000
Interest and other charges	-	129,643	-	-	129,643
Bond issuance costs	-	-	47,772	-	47,772
Capital outlay					
Streets	-	-	3,809,830	-	3,809,830
TOTAL EXPENDITURES	<u>2,247,792</u>	<u>419,643</u>	<u>3,857,602</u>	<u>340,125</u>	<u>6,865,162</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>363,931</u>	<u>(11,001)</u>	<u>(3,755,387)</u>	<u>(164,523)</u>	<u>(3,566,980)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	203,000	147,805	1,743,859	156,585	2,251,249
Transfers out	(316,882)	-	(34,990)	(3,000)	(354,872)
General obligation bonds issued	-	-	2,030,000	-	2,030,000
Premium on general obligation bonds issued	-	-	99,671	-	99,671
Sale of capital assets	2,101	-	-	-	2,101
TOTAL OTHER FINANCING SOURCES (USES)	<u>(111,781)</u>	<u>147,805</u>	<u>3,838,540</u>	<u>153,585</u>	<u>4,028,149</u>
NET CHANGE IN FUND BALANCES	252,150	136,804	83,153	(10,938)	461,169
FUND BALANCES - JANUARY 1	3,853,774	747,963	-	704,811	5,306,548
Prior period adjustment	(12,025)	-	-	-	(12,025)
FUND BALANCES - DECEMBER 31	<u>\$ 4,093,899</u>	<u>\$ 884,767</u>	<u>\$ 83,153</u>	<u>\$ 693,873</u>	<u>\$ 5,755,692</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, 2017**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 461,169
<p>Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	3,964,249	
Less current year depreciation	<u>(346,366)</u>	3,617,883
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Change in unavailable revenue - delinquent property taxes	6,513	
Change in unavailable revenue - special assessments receivable	(138,645)	
Change in unavailable revenue - loans receivable	<u>(2,540)</u>	(134,672)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
General obligation bonds issued	(2,030,000)	
Premium on general obligations issued	(99,671)	
Amortization of premium	6,443	
Principal repaid	<u>290,000</u>	(1,833,228)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.</p>		
Change in accrued interest payable on long-term debt	(27,151)	
Change in net pension asset, net pension liability, and related deferred outflows and inflows	<u>(7,078)</u>	<u>(34,229)</u>
CHANGE IN NET POSTION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,076,923</u></u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	Business-type Activities - Enterprise Funds				Totals
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,273,081	\$ 1,906,711	\$ 795,312	\$ 1,414,697	\$ 5,389,801
Taxes receivable	-	-	1,451	-	1,451
Accounts receivable	-	278,064	32,055	43,692	353,811
Due from other funds	-	-	1,287	-	1,287
Special assessments receivable	-	-	20,656	-	20,656
Inventories	212,614	243,693	18,486	691	475,484
Prepaid items	8,747	18,374	2,123	5,978	35,222
TOTAL CURRENT ASSETS	1,494,442	2,446,842	871,370	1,465,058	6,277,712
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	-	-	-	-
Revenue bond covenant accounts	-	749,540	-	-	749,540
Special assessments receivable	-	-	85,185	-	85,185
Capital assets	-	25,000	5,000	2,000	32,000
Land	-	25,000	5,000	2,000	32,000
Buildings	20,529	2,998,692	2,286,662	2,462,238	7,768,121
Infrastructure	-	3,545,163	5,293,910	3,615,103	12,454,176
Machinery and equipment	156,919	172,240	401,811	1,185,577	1,916,547
Licensed vehicles	-	269,102	28,150	83,470	380,722
Less accumulated depreciation	(152,405)	(3,097,776)	(3,448,613)	(4,086,433)	(10,785,227)
Total capital assets (net of accumulated depreciation)	25,043	3,912,421	4,566,920	3,261,955	11,766,339
TOTAL NONCURRENT ASSETS	25,043	4,661,961	4,652,105	3,261,955	12,601,064
TOTAL ASSETS	1,519,485	7,108,803	5,523,475	4,727,013	18,878,776
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	53,810	45,999	23,000	23,000	145,809
Deferred amount on refunding	-	84,665	-	-	84,665
TOTAL DEFERRED OUTFLOWS OF RESOURCES	53,810	130,664	23,000	23,000	230,474
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	40,271	204,941	5,789	22,671	273,672
Salaries payable	18,246	26,575	9,987	19,697	74,505
Accrued interest payable	-	8,836	3,686	25,854	38,376
Due to other funds	-	67,622	-	-	67,622
Unearned revenue	-	338,773	-	-	338,773
Customer deposits payable	-	16,045	-	-	16,045
Bonds, notes, and loans payable - current	-	280,000	96,000	15,000	391,000
TOTAL CURRENT LIABILITIES	58,517	942,792	115,462	83,222	1,199,993
NONCURRENT LIABILITIES					
Bonds, notes and loans payable, less current	-	1,771,372	585,000	1,883,424	4,239,796
Net pension liability	217,054	185,134	92,567	92,567	587,322
TOTAL NONCURRENT LIABILITIES	217,054	1,956,506	677,567	1,975,991	4,827,118
TOTAL LIABILITIES	275,571	2,899,298	793,029	2,059,213	6,027,111
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	43,816	43,758	21,880	21,880	131,334
NET POSITION					
Net investment in capital assets	25,043	1,945,714	3,885,920	1,363,531	7,220,208
Restricted for debt service	-	326,576	107,293	-	433,869
Unrestricted	1,228,865	2,024,121	738,353	1,305,389	5,296,728
TOTAL NET POSITION	\$ 1,253,908	\$ 4,296,411	\$ 4,731,566	\$ 2,668,920	\$ 12,950,805

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds				Totals
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
REVENUES					
Charges for sales and services	\$ 2,138,048	\$ 2,879,478	\$ 422,099	\$ 647,987	\$ 6,087,612
OPERATING EXPENSES					
Cost of sales	1,609,107	1,760,140	-	-	3,369,247
Salaries	184,664	183,102	57,361	137,241	562,368
Employee benefits and payroll taxes	66,484	55,213	30,411	57,813	209,921
Advertising	9,165	-	-	-	9,165
Bad debts	460	102	-	-	562
Contract services	-	65,636	15,991	211,935	293,562
Facility fees	-	65,991	-	-	65,991
Insurance	6,566	37,535	1,634	5,327	51,062
Miscellaneous	44,306	21,122	1,666	3,114	70,208
Rent	39,000	9,300	4,650	4,650	57,600
Repairs and maintenance	1,737	32,957	7,705	19,509	61,908
Supplies	4,253	16,821	15,946	25,374	62,394
Telephone	1,029	1,230	2,127	1,585	5,971
Utilities	-	2,694	23,649	62,578	88,921
Depreciation	3,348	213,167	161,117	141,694	519,326
TOTAL OPERATING EXPENSES	<u>1,970,119</u>	<u>2,465,010</u>	<u>322,257</u>	<u>670,820</u>	<u>5,428,206</u>
OPERATING INCOME (LOSS)	<u>167,929</u>	<u>414,468</u>	<u>99,842</u>	<u>(22,833)</u>	<u>659,406</u>
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	4,075	12,231	7,739	9,742	33,787
Property taxes	-	-	34,859	-	34,859
Grants and contributions	79	66	34	34	213
Interest expense	-	(74,365)	(24,031)	(30,303)	(128,699)
Bond issuance costs	-	-	-	(36,359)	(36,359)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>4,154</u>	<u>(62,068)</u>	<u>18,601</u>	<u>(56,886)</u>	<u>(96,199)</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND TRANSFERS	<u>172,083</u>	<u>352,400</u>	<u>118,443</u>	<u>(79,719)</u>	<u>563,207</u>
Capital grants	-	-	2,500	-	2,500
Transfers in	-	468	234	234	936
Transfers out	(200,000)	-	(45,315)	(1,651,998)	(1,897,313)
CHANGE IN NET POSITION	<u>(27,917)</u>	<u>352,868</u>	<u>75,862</u>	<u>(1,731,483)</u>	<u>(1,330,670)</u>
TOTAL NET POSITION - JANUARY 1	<u>1,281,825</u>	<u>3,943,543</u>	<u>4,655,704</u>	<u>4,400,403</u>	<u>14,281,475</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 1,253,908</u>	<u>\$ 4,296,411</u>	<u>\$ 4,731,566</u>	<u>\$ 2,668,920</u>	<u>\$ 12,950,805</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, 2017

	Business-type Activities - Enterprise Funds				Totals
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,138,346	\$ 2,940,244	\$ 423,607	\$ 652,765	\$ 6,154,962
Cash paid to suppliers	(1,696,171)	(2,110,647)	(100,088)	(380,083)	(4,286,989)
Cash paid to employees	(183,333)	(184,426)	(59,974)	(134,459)	(562,192)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>258,842</u>	<u>645,171</u>	<u>263,545</u>	<u>138,223</u>	<u>1,305,781</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in from other funds	-	468	234	234	936
Transfers out to other funds	(200,000)	-	(45,315)	(1,651,998)	(1,897,313)
Advances to other funds	-	(1,869)	(3,848)	(2,561)	(8,278)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(200,000)</u>	<u>(1,401)</u>	<u>(48,929)</u>	<u>(1,654,325)</u>	<u>(1,904,655)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of fixed assets	-	-	(5,719)	(15,414)	(21,133)
Special assessments collected	-	-	19,422	-	19,422
Property taxes collected	-	-	33,408	-	33,408
Principal paid on long-term debt	-	(270,000)	(94,000)	(15,000)	(379,000)
Interest paid on long-term debt	-	(59,689)	(24,713)	(7,710)	(92,112)
Capital grants	-	-	2,500	-	2,500
Proceeds from general obligation utility revenue bonds	-	-	-	1,545,000	1,545,000
Bond premium	-	-	-	75,857	75,857
Bond issuance costs	-	-	-	(36,359)	(36,359)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(329,689)</u>	<u>(69,102)</u>	<u>1,546,374</u>	<u>1,147,583</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>4,075</u>	<u>5,516</u>	<u>7,739</u>	<u>7,309</u>	<u>24,639</u>
NET INCREASE IN CASH AND AND CASH EQUIVALENTS	62,917	319,597	153,253	37,581	573,348
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,210,164</u>	<u>2,336,654</u>	<u>642,059</u>	<u>1,377,116</u>	<u>5,565,993</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,273,081</u>	<u>\$ 2,656,251</u>	<u>\$ 795,312</u>	<u>\$ 1,414,697</u>	<u>\$ 6,139,341</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, 2017

	Business-type Activities - Enterprise Funds				Totals
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 167,929	\$ 414,468	\$ 99,842	\$ (22,833)	\$ 659,406
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	3,348	213,167	161,117	141,694	519,326
Net pension liability, deferred outflows, and deferred inflows related to pensions	7,861	8,749	4,376	4,376	25,362
Changes in assets and liabilities (Increase) decrease in:					
Accounts receivable	298	57,466	1,508	4,778	64,050
Inventories	76,547	(22,892)	(2,344)	(397)	50,914
Prepaid items	(742)	(1,438)	(115)	(317)	(2,612)
Increase (decrease) in:					
Accounts payable	2,270	(26,325)	1,774	8,140	(14,141)
Salaries payable	1,331	(1,324)	(2,613)	2,782	176
Customer deposits	-	3,300	-	-	3,300
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 258,842</u>	<u>\$ 645,171</u>	<u>\$ 263,545</u>	<u>\$ 138,223</u>	<u>\$ 1,305,781</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS					
Cash and cash equivalents	\$ 1,273,081	\$ 1,906,711	\$ 795,312	\$ 1,414,697	\$ 5,389,801
Restricted cash and cash equivalents:					
Revenue bond covenant accounts	-	749,540	-	-	749,540
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,273,081</u>	<u>\$ 2,656,251</u>	<u>\$ 795,312</u>	<u>\$ 1,414,697</u>	<u>\$ 6,139,341</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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

B. Basic Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

The Public Works Facility Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the construction of the public works facility.

Nonmajor Governmental Funds:

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

Proprietary Funds

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

Major Proprietary Funds:

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

The 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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) The City maintains inventories in its general fund and enterprise funds. All inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.
- 4) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

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

- 5) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 6) Restricted assets are cash and cash equivalents and investments whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide and proprietary fund financial statements. In the business-type activities, restricted cash and cash equivalents include amounts restricted by electric system revenue bond covenants.
- 7) Capital assets, which include land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The City elected not to report general

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- 8) Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the proprietary funds and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions. See notes 15 and 16 for details.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

issuance costs are reported as debt service expenditures. The long-term debt consists primarily of general obligation improvement and revenue bonds and revenue notes.

- 11) For purposes of measuring the net pension liability/asset, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- 12) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the Debt Service Fund, and loans receivable, which are reported in the Storefront Renovation Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is related to pensions. See notes 15 and 16 for details.
- 13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. Fund balances of the governmental funds are classified as follows:

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Unassigned—all other spendable amounts.

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

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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Use of Estimates

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash	\$ 11,175,483
Petty cash	2,018
Certificates of deposit	496,000
Investments	<u>235,482</u>
Total	<u>\$ 11,908,983</u>

Reconciliation to financial statements:

Statement of Net Position:	
Cash and cash equivalents	\$ 11,159,443
Restricted cash and cash equivalents	<u>749,540</u>
	<u>\$ 11,908,983</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

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 \$11,671,483; the bank balance was \$12,629,369. Of the bank balance, \$1,677,254 was insured and \$10,952,115 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investments in money market funds are not rated as to credit risk. The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2017, had no investments in any issuer that exceeded five percent of total investments, except for the Minnesota Municipal Money Market Fund and Morgan Stanley U.S. Government Money Market Trust.

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

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, 2017, the City had the following investments:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Maturity Less Than 1 Year</u>
Minnesota Municipal Money Market Fund	N/A	\$ 217,058	\$ 217,058
Morgan Stanley U.S. Government Money Market Trust	N/A	<u>18,424</u>	<u>18,424</u>
Total Investments		<u>\$ 235,482</u>	<u>\$ 235,482</u>

Fair Value of Investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investments of \$235,482 are not subject to measurement.

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

NOTE 3 - LOANS RECEIVABLE

Several businesses have received loans from the City through the City's Storefront Loan Program. The unpaid principal balance on these loans as of December 31, 2017 was \$7,435.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,052,129	\$ -	\$ -	\$ 1,052,129
Construction in Progress	78,656	3,809,830	-	3,888,486
Total capital assets not being depreciated	<u>1,130,785</u>	<u>3,809,830</u>	<u>-</u>	<u>4,940,615</u>
Capital assets, being depreciated				
Buildings	5,221,360	26,420	-	5,247,780
Improvements	1,067,441	108,691	-	1,176,132
Infrastructure	7,808,906	-	-	7,808,906
Machinery and equipment	768,543	19,308	(9,555)	778,296
Licensed vehicles	566,169	-	-	566,169
Total capital assets, being depreciated	<u>15,432,419</u>	<u>154,419</u>	<u>(9,555)</u>	<u>15,577,283</u>
Less accumulated depreciation for:				
Building	(3,219,332)	(79,836)	-	(3,299,168)
Improvements	(569,371)	(23,353)	-	(592,724)
Infrastructure	(3,263,874)	(172,038)	-	(3,435,912)
Machinery and equipment	(452,935)	(46,904)	9,555	(490,284)
Licensed vehicles	(193,212)	(24,235)	-	(217,447)
Total accumulated depreciation	<u>(7,698,724)</u>	<u>(346,366)</u>	<u>9,555</u>	<u>(8,035,535)</u>
Total capital assets, being depreciated, net	<u>7,733,695</u>	<u>(191,947)</u>	<u>-</u>	<u>7,541,748</u>
Governmental activities capital assets, net	<u>\$ 8,864,480</u>	<u>\$ 3,617,883</u>	<u>\$ -</u>	<u>\$ 12,482,363</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Capital assets, being depreciated:				
Building	7,768,121	-	-	7,768,121
Infrastructure	12,449,160	5,016	-	12,454,176
Machinery and equipment	1,905,044	16,117	(4,614)	1,916,547
Licensed vehicles	380,722	-	-	380,722
Total capital assets, being depreciated	<u>22,503,047</u>	<u>21,133</u>	<u>(4,614)</u>	<u>22,519,566</u>
Less accumulated depreciation for:				
Building	(4,022,724)	(200,797)	-	(4,223,521)
Infrastructure	(4,264,215)	(280,098)	-	(4,544,313)
Machinery and equipment	(1,726,532)	(23,909)	4,614	(1,745,827)
Licensed vehicles	(257,044)	(14,522)	-	(271,566)
Total accumulated depreciation	<u>(10,270,515)</u>	<u>(519,326)</u>	<u>4,614</u>	<u>(10,785,227)</u>
Total capital assets, being depreciated, net	<u>12,232,532</u>	<u>(498,193)</u>	<u>-</u>	<u>11,734,339</u>
Business-type activities capital assets, net	<u>\$ 12,264,532</u>	<u>\$ (498,193)</u>	<u>\$ -</u>	<u>\$ 11,766,339</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 4,233
Public safety	42,971
Streets	179,464
Culture and recreation	<u>119,698</u>
Total depreciation expense- governmental activities	<u>\$ 346,366</u>
Business-type activities	
Liquor Store	\$ 3,348
Electric	213,167
Water	161,117
Sewer	<u>141,694</u>
Total depreciation expense- business-type activities	<u>\$ 519,326</u>

NOTE 5 - RATE STABILIZATION PROVISION

A reserve for rate stabilization in the electric enterprise fund was established in 1996. The concept of rate stabilization is used by utilities to defer current revenues to future periods to reduce impacts of future rate increases to customers. The reserve, which is recorded as unearned revenue, will be used to offset future rate increases and maintain income stability in future periods. At December 31, 2017, the rate stabilization reserve was \$338,773.

NOTE 6 - LONG-TERM LIABILITIES

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental Activities					
General Obligation Bonds					
2009A Improvement Refunding	12/10/2009	2.10-4.70%	\$1,675,000	02/01/2031	\$ 1,310,000
2013A Refunding	06/20/2013	2.00-3.15%	\$3,295,000	02/01/2030	2,805,000
2017A Capital Improvement Plan	06/28/2017	2.50-3.00%	\$2,030,000	02/01/2033	<u>2,030,000</u>
Governmental Activities Long-term Liabilities					<u>6,145,000</u>
Business-type Activities					
Revenue Bonds					
2012A Electric System Refunding	07/25/2012	2.00-2.50%	\$1,925,000	05/01/2023	1,100,000
2013B Electric System Refunding	06/20/2013	3.00%	\$1,300,000	05/01/2023	<u>915,000</u>
Total Revenue Bonds					<u>2,015,000</u>
General Obligation Bonds					
2013A Refunding	06/20/2013	2.00-3.15%	\$ 340,000	02/01/2030	280,000
2017A Utility Revenue	06/28/2017	2.50-3.00%	\$1,545,000	02/01/2033	<u>1,545,000</u>
Total General Obligation Bonds					<u>1,825,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	63,000
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	<u>338,000</u>
Total General Obligation Notes					<u>401,000</u>
Revenue Note					
2008A Water	01/24/2008	3.59%	\$ 470,000	12/01/2017	<u>280,000</u>
Business-type Activities Long-term Liabilities					<u>4,521,000</u>
Total Long-Term Liabilities					<u>\$ 10,666,000</u>

Governmental Funds

Pledged Revenues

The City issued GO improvement bonds to finance various improvement projects within the City in 2004 of \$710,000, in 2005 of \$895,000, and in 2008 of \$2,695,000. In 2013, the City issued \$3,295,000 general obligation refunding bonds of which the proceeds were used to partially advance refund the outstanding 2004, 2005, and 2008 GO improvement bonds. In 2014, the 2004 bonds were fully paid, in 2015, the 2005 bonds were fully paid, and in 2016, the 2008 bonds were fully paid. Principal and interest paid for the current year on the 2013 issue was \$295,230. At December 31, 2017, principal and interest to maturity in 2029 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$3,239,043.

In 2009, the City issued \$1,675,000 improvement refunding bonds of which the proceeds were used to effect a refunding of \$1,630,000 of the outstanding GO Temporary Improvement Bonds of 2007 issued to finance various municipal improvement projects within the City. Principal and interest paid for the current year was \$121,013. At December 31, 2017, principal and interest to maturity in 2031 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$1,755,715.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Enterprise Funds

Pledged Revenues

The City has pledged Electric Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay electric system revenue bonds. In 2012, the City issued \$1,925,000 electric system revenue refunding bonds of which the proceeds were used to effect an advance refunding of the outstanding 2003 electric system revenue bonds. In 2013, the City issued \$1,300,000 electric system revenue refunding bonds of which the proceeds were used to advance refund the outstanding 2004 and 2005 electric system revenue bonds. Proceeds from the original refunded bonds were used to finance electric system improvements. Principal and interest paid for the current year on these issues was \$325,925. At December 31, 2017, principal and interest on the bonds to be paid from pledged future revenues to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2012A	2023	\$ 1,180,537
2013B	2023	<u>1,016,775</u>
		<u>\$ 2,197,312</u>

The City has pledged future Sewer Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay GO sewer revenue bonds. In 2013, the City issued \$340,000 general obligation refunding bonds of which the proceeds were used to advance refund the outstanding 2006 GO sewer revenue bonds. Proceeds from the 2006 bonds were used to finance improvements to the sewer system. Principal and interest paid for the current year was \$22,710. At December 31, 2017, principal and interest on the bonds to maturity in 2030 to be paid from pledged future revenues total \$347,020.

The City has pledged future Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay \$1,545,000 GO utility revenue bonds issued in 2017 of which the proceeds were used to construct the public works facility. No principal and interest was paid for the current year. At December 31, 2017, principal and interest on the bonds to maturity in 2033 to be paid from pledged future revenues total \$1,953,025.

The City has pledged future Water Enterprise Fund revenues, net of any normal and reasonable expenses for operations, to repay a \$484,112 GO revenue note issued in 1999, an \$812,229 GO improvement note issued in 2004, and a \$470,000 revenue note issued in 2008. Proceeds from all three issues were used to finance water system renovations and improvements. Principal and interest paid for the current year on these issues was \$116,019. At December 31, 2017, principal and interest on the notes to be paid from pledged future revenues, and special assessments and ad valorem taxes for the 2004 issue, to maturity is:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
1999	2019	\$ 65,432
2004	2024	368,765
2008A	2027	<u>350,723</u>
		<u>\$ 784,920</u>

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds Payable					
2009A GO Improvement Refunding	\$ 1,375,000	\$ -	\$ (65,000)	\$ 1,310,000	\$ 70,000
2013A GO Refunding	3,030,000	-	(225,000)	2,805,000	225,000
2017A GO Capital Improvement Plan	-	2,030,000	-	2,030,000	-
Total Bonds Payable	<u>4,405,000</u>	<u>2,030,000</u>	<u>(290,000)</u>	<u>6,145,000</u>	<u>295,000</u>
Bond Premium	42,725	99,671	(6,443)	135,953	-
Governmental Activities - Long-term Liabilities	<u>\$ 4,447,725</u>	<u>\$ 2,129,671</u>	<u>\$ (296,443)</u>	<u>\$ 6,280,953</u>	<u>\$ 295,000</u>
Business-type Activities					
Bonds Payable					
2012A Electric System Revenue Refunding	\$ 1,270,000	\$ -	\$ (170,000)	\$ 1,100,000	\$ 175,000
2013A GO Refunding	295,000	-	(15,000)	280,000	15,000
2013B Electric System Revenue Refunding	1,015,000	-	(100,000)	915,000	105,000
2017A GO Utility Revenue	-	1,545,000	-	1,545,000	-
Total Bonds Payable	<u>2,580,000</u>	<u>1,545,000</u>	<u>(285,000)</u>	<u>3,840,000</u>	<u>295,000</u>
Bond Premium	43,088	75,857	(9,149)	109,796	-
Total	<u>2,623,088</u>	<u>1,620,857</u>	<u>(294,149)</u>	<u>3,949,796</u>	<u>295,000</u>
Notes Payable					
1999 GO Water Revenue	93,000	-	(30,000)	63,000	31,000
2004 GO Improvement	382,000	-	(44,000)	338,000	45,000
2008A Water Revenue	300,000	-	(20,000)	280,000	20,000
Total Notes Payable	<u>775,000</u>	<u>-</u>	<u>(94,000)</u>	<u>681,000</u>	<u>96,000</u>
Business-type Activities - Long-term Liabilities	<u>\$ 3,398,088</u>	<u>\$ 1,620,857</u>	<u>\$ (388,149)</u>	<u>\$ 4,630,796</u>	<u>\$ 391,000</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 295,000	\$ 184,068	\$ 391,000	\$ 127,939	\$ 686,000	\$ 312,007
2019	415,000	169,948	483,000	112,461	898,000	282,409
2020	430,000	159,191	467,000	99,322	897,000	258,513
2021	440,000	147,985	483,000	86,378	923,000	234,363
2022	450,000	136,410	489,000	72,911	939,000	209,321
2023-2027	2,380,000	479,178	1,393,000	191,268	3,773,000	670,446
2028-2032	1,570,000	137,655	690,000	69,123	2,260,000	206,778
2033	165,000	2,475	125,000	1,875	290,000	4,350
Total	\$ 6,145,000	\$ 1,416,910	\$ 4,521,000	\$ 761,277	\$10,666,000	\$ 2,178,187

No interest was capitalized during 2017; interest incurred and charged to expense totaled \$259,887.

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2017, is as follows:

Due to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Electric Enterprise Fund	\$ 67,622
Water Enterprise Fund	Debt Service Fund	1,287
	Total	\$ 68,909

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Interfund transfers for the year ended December 31, 2017 consisted of the following:

	Transfers Out						Total
	General Fund	Public Works Facility Capital Projects Fund	Liquor Store Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Nonmajor Fund - Cable TV Special Revenue Fund	
Transfers In							
General Fund	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ 3,000	\$ 203,000
Debt Service Fund	-	34,990	-	45,315	67,500	-	147,805
Public Works Facility Capital Projects Fund	159,361	-	-	-	1,584,498	-	1,743,859
Electric Enterprise Fund	468	-	-	-	-	-	468
Water Enterprise Fund	234	-	-	-	-	-	234
Sewer Enterprise Fund	234	-	-	-	-	-	234
Nonmajor Fund - Library Special Revenue Fund	<u>156,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,585</u>
Totals	<u>\$ 316,882</u>	<u>\$ 34,990</u>	<u>\$ 200,000</u>	<u>\$ 45,315</u>	<u>\$ 1,651,998</u>	<u>\$ 3,000</u>	<u>\$ 2,252,185</u>

Transfers are used to: 1) move profits or excess cash from the Liquor Store Enterprise Fund to the General Fund; 2) move the City's contribution to the City library; 3) move funds to the Debt Service Fund for debt service expenditures; 4) fund the construction of the public works facility; and 5) reimburse the enterprise funds for their portion of revenue received by the General Fund.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 8 - FUND EQUITY

As of December 31, 2017, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Public Works Facility Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Inventories	\$ 16,448	\$ -	\$ -	\$ -	\$ 16,448
Prepaid items	<u>27,577</u>	<u>-</u>	<u>-</u>	<u>3,489</u>	<u>31,066</u>
Total Nonspendable	<u>44,025</u>	<u>-</u>	<u>-</u>	<u>3,489</u>	<u>47,514</u>
Restricted:					
Library	-	-	-	253,012	253,012
Storefront renovation	-	-	-	141,129	141,129
Debt service	-	884,767	-	-	884,767
Public Works Facility	-	-	<u>83,153</u>	<u>-</u>	<u>83,153</u>
Total Restricted	<u>-</u>	<u>884,767</u>	<u>83,153</u>	<u>394,141</u>	<u>1,362,061</u>
Committed:					
Cable TV	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,905</u>	<u>36,905</u>
Assigned:					
Buildings	91,246	-	-	-	91,246
Fire	117,801	-	-	-	117,801
Insurance reserve	10,804	-	-	-	10,804
Street equipment	77,769	-	-	-	77,769
Street improvements	605,534	-	-	-	605,534
Street sealcoat project	145,965	-	-	-	145,965
Recreation capital projects	532,922	-	-	-	532,922
Library	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,338</u>	<u>259,338</u>
Total Assigned	<u>1,582,041</u>	<u>-</u>	<u>-</u>	<u>259,338</u>	<u>1,841,379</u>
Unassigned	<u>2,467,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,467,833</u>
Total fund balances	<u>\$ 4,093,899</u>	<u>\$ 884,767</u>	<u>\$ 83,153</u>	<u>\$ 693,873</u>	<u>\$ 5,755,692</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities and the general fund's beginning fund balance has been decreased to correct the City's beginning grants receivable balance. Beginning governmental activities net position has been restated from \$10,307,264 to \$10,295,239 (a decrease of \$12,025). The beginning general fund balance has been restated from \$3,853,774 to \$3,841,749 (a decrease of \$12,025).

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - JOINTLY GOVERNED ORGANIZATION

Cook County/Grand Marais Joint Economic Development Authority

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

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

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

In June of 2015, the City entered into a joint powers agreement with the Cook County/Grand Marais Joint Economic Development Authority (EDA) and Cook County for reassessment of Cedar Grove Business Park lots and contributions for Business Park debt servicing, changing the original agreement. Under this new agreement, on or before July 1 of each year, the County is required to pay the City 50% of the annual bond payment the City must pay for that year on the 2009A Improvement Refunding Bonds. In 2017, the County paid \$16,417 to the City. The EDA will be credited towards the Business Park assessments for any amounts paid to the City by the County. On September 30, 2016, the City reassessed the lots that had not been sold in reduced assessment amounts of \$13,392.86 per lot. The EDA is required to pay to the City any levied assessments on lots sold in the Business Park, to be used by the City for payments on the 2009A Improvement Refunding Bonds. In 2017, the City received \$8,483 from the EDA under this agreement.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 12 - JOINT VENTURE

Joint Powers Agreement for Library Services

The City of Grand Marais entered into a joint powers agreement with Cook County on December 15, 1992. The purpose of the agreement is to provide library services to the residents of the City and County through the City's Grand Marais Public Library. The County, in consideration of the services provided to its residents, agrees to continue its membership in the multi-county Arrowhead Library System and contribute 50% of the budgeted annual operating costs of the library board to the City, which totaled \$127,811 in 2017.

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

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

Joint Recreation Board

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

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

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

In 2017, the City did not contribute to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, Cook County Courthouse, 411 West Second Street, Grand Marais, MN 55604.

Joint Powers Agreement for Shared Costs of Cook County Community Center

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 12 - JOINT VENTURE (CONTINUED)

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

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

In 2017, the City contributed \$110,000 to the County under this agreement.

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 12 - JOINT VENTURE (CONTINUED)

- (iii) Pay or arrange for payment of all other costs and expenses related to the Community Center.

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

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

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

NOTE 13 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2017, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Electric Utility Commitment

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 13 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2017 evidenced by contractual commitments with contractors.

	<u>Spent-to-Date</u>	<u>Commitment Remaining</u>
Public Works Facility	<u>\$ 3,721,213</u>	<u>\$ 773,280</u>

NOTE 14 - FUNDS HELD BY OTHERS

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to the Minnesota Community Foundation to be held and administered for the benefit of the City of Grand Marais' Public Library. The market value of the fund assets was approximately \$30,020 on December 31, 2017.

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Duluth-Superior Area Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Duluth-Superior Area Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Duluth-Superior Area Community Foundation at such times and in such amounts and for such charitable purposes as the Duluth-Superior Area Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to the Duluth-Superior Area Community Foundation to be held and administered for the benefit of the City of Grand Marais' Public Library. The market value of the fund assets was approximately \$59,185 on December 31, 2017.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

Benefits Provided

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

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

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

General Employees Plan Benefits

General Employees Plan 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 ten 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 ten 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City of Grand Marais, Minnesota was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City of Grand Marais, Minnesota's contributions to the General Employees Fund for the year ended December 31, 2017, were \$94,230. The City of Grand Marais, Minnesota's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City of Grand Marais, Minnesota reported a liability of \$1,238,483 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$15,537. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Grand Marais, Minnesota's proportion of the net pension liability was based on the City of Grand Marais, Minnesota's contributions received by PERA during the measurement period for employer paid payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the City of Grand Marais, Minnesota's proportionate share was .0194 percent which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City of Grand Marais, Minnesota recognized pension expense of \$50,880 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$448 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City of Grand Marais, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 40,817	\$ 80,845
Changes in actuarial assumptions	207,735	124,158
Difference between projected and actual investment earnings	11,230	-
Changes in proportion	-	57,777
Contributions paid to PERA subsequent to the measurement date	47,456	-
Total	\$ 307,238	\$ 262,780

\$47,456 reported as deferred outflows of resources related to pensions resulting from City of Grand Marais, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2018	\$ 11,926
2019	\$ 64,575
2020	\$ (26,927)
2021	\$ (52,572)
Thereafter	\$ -

D. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1 percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	General Employees Fund	
1% Lower	6.50%	\$ 1,920,979
Current Discount Rate	7.50%	\$ 1,238,483
1% Higher	8.50%	\$ 679,736

G. Pension Plan Fiduciary Net Position

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

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT

Plan Description

The City of Grand Marais, Minnesota Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2017, the plan covered 21 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed \$19,360 in fire state aid to the fund for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the Volunteer Firefighter Fund for the year ended December 31, 2017.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Pension Costs

At December 31, 2017, the City reported a net pension asset of \$144,726 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA by applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/16	\$ 296,755	\$ 399,607	\$ (102,852)
Changes for the Year			
Service Cost	14,361	-	14,361
Interest on Pension Liability	18,388	-	18,388
Actuarial Experience (Gains)/Losses	(2,406)	-	(2,406)
Projected Investment Earnings	-	23,975	(23,975)
Contributions (Employer)	-	-	-
Contributions (State)	-	19,359	(19,359)
Asset (Gain)/Loss	-	29,628	(29,628)
Benefit Payouts	(9,293)	(9,293)	-
PERA Administrative Fee	-	(745)	745
Net Changes	21,050	62,924	(41,874)
Balance End of Year 12/31/17	\$ 317,805	\$ 462,531	\$ (144,726)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City recognized pension expense of \$3,111.

At December 31, 2017, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 17,358
Difference between actuarial assumptions and actual experience	-	10,951
Total	\$ -	\$ 28,309

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Year Ended December 31:	Pension Expense Amount
2018	\$ (6,428)
2019	\$ (6,428)
2020	\$ (9,047)
2021	\$ (6,406)
Thereafter	\$ -

Actuarial Assumptions

The total pension liability at December 31, 2017, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

There were no changes in actuarial assumptions in 2017.

Discount Rate

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

Pension Liability Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate, as well as what the City's net pension asset would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ 135,925	\$ 144,726	\$ 153,295

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the Board), state auditor, secretary of state and state attorney general.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

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

Asset Allocation:

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

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

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during Fiscal Year 2017 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2017, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 17 - DEFINED CONTRIBUTION PLAN

One City Council member is covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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 1 percent (.0025) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2017 were:

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAND MARAIS, MINNESOTA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property	\$ 700,560	\$ 700,560	\$ 700,256	\$ (304)
Special assessments	1,265	1,265	2,974	1,709
Licenses and permits	83,990	83,990	92,194	8,204
Intergovernmental	65,927	65,927	309,266	243,339
Charges for services	1,291,252	1,291,252	1,452,833	161,581
Fines	4,240	4,240	2,994	(1,246)
Gifts and contributions	-	-	39,085	39,085
Interest	8,000	8,000	9,835	1,835
Miscellaneous	-	-	2,286	2,286
TOTAL REVENUES	<u>2,155,234</u>	<u>2,155,234</u>	<u>2,611,723</u>	<u>456,489</u>
EXPENDITURES				
Current				
General government	509,778	509,778	760,566	(250,788)
Public safety	241,129	241,129	200,251	40,878
Streets	419,714	419,714	263,681	156,033
Culture and recreation	1,049,416	1,049,416	1,023,294	26,122
TOTAL EXPENDITURES	<u>2,220,037</u>	<u>2,220,037</u>	<u>2,247,792</u>	<u>(27,755)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(64,803)</u>	<u>(64,803)</u>	<u>363,931</u>	<u>428,734</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	207,000	207,000	203,000	(4,000)
Transfers out	(164,522)	(164,522)	(316,882)	(152,360)
Sale of capital assets	-	-	2,101	2,101
TOTAL OTHER FINANCING SOURCES (USES)	<u>42,478</u>	<u>42,478</u>	<u>(111,781)</u>	<u>(154,259)</u>
NET CHANGE IN FUND BALANCE	<u>(22,325)</u>	<u>(22,325)</u>	<u>252,150</u>	<u>274,475</u>
FUND BALANCE - JANUARY 1	<u>3,853,774</u>	<u>3,853,774</u>	<u>3,853,774</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(12,025)</u>	<u>(12,025)</u>
FUND BALANCE - DECEMBER 31	<u>\$ 3,831,449</u>	<u>\$ 3,831,449</u>	<u>\$ 4,093,899</u>	<u>\$ 262,450</u>

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
Year Ended December 31, 2017**

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

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with City (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/17	0.0194%	\$ 1,238,483	\$ 15,537	\$ 1,254,020	\$ 1,246,920	100.57%	75.90%
6/30/16	0.0196%	\$ 1,591,423	\$ 20,830	\$ 1,612,253	\$ 1,218,107	132.36%	68.91%
6/30/15	0.0200%	\$ 1,036,504	\$ -	\$ 1,036,504	\$ 1,175,231	88.20%	78.19%

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

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

**SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
12/31/17	\$ 94,230	\$ 94,230	\$ -	\$ 1,256,400	7.50%
12/31/16	\$ 92,217	\$ 92,217	\$ -	\$ 1,229,560	7.50%
12/31/15	\$ 89,570	\$ 89,570	\$ -	\$ 1,194,267	7.50%

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

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

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2017**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GRAND MARAIS VOLUNTEER FIRE DEPARTMENT**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 14,361	\$ 13,943	\$ 14,923
Interest on the pension liability	18,388	17,338	14,640
Actuarial experience (gains)/losses	(2,406)	(9,538)	(8,254)
Changes in benefit level	-	-	38,924
Benefit payments	<u>(9,293)</u>	<u>-</u>	<u>(28,600)</u>
Net Change in Total Pension Liability	21,050	21,743	31,633
Total Pension Liability - Beginning	<u>296,755</u>	<u>275,012</u>	<u>243,379</u>
Total Pension Liability - Ending (a)	<u>\$ 317,805</u>	<u>\$ 296,755</u>	<u>\$ 275,012</u>
Plan Fiduciary Net Position			
Contributions:			
Fire state aid	\$ 15,588	\$ 15,880	\$ 15,995
Fire supplemental aid	3,771	3,853	3,913
Supplemental benefit reimbursement	-	1,000	1,000
Voluntary municipal contribution	-	-	-
Net investment income	53,603	24,943	415
PERA administrative fee	(720)	(780)	(720)
SBI investment fee	(25)	(27)	(11)
Benefit payments	<u>(9,293)</u>	<u>-</u>	<u>(28,600)</u>
Net Change in Plan Fiduciary Net Position	62,924	44,869	(8,008)
Plan Fiduciary Net Position - Beginning	<u>399,607</u>	<u>354,738</u>	<u>362,746</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 462,531</u>	<u>\$ 399,607</u>	<u>\$ 354,738</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$(144,726)</u>	<u>\$(102,852)</u>	<u>\$ (79,726)</u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	145.5%	134.7%	129.0%

Note:

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

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2017**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GRAND MARAIS VOLUNTEER FIRE DEPARTMENT**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ -	\$ -	\$ -
Actual contributions paid	-	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes:

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

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

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

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

NOTE 1 - BUDGETING

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

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

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

NOTE 2 - EXCESS OF EXPENDITURES OVER BUDGET

For the year ended December 31, 2017 expenditures exceeded appropriations in the following fund:

General	<u>\$ 27,755</u>
---------	------------------

The excess was funded by available fund balances.

**NOTE 3 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS**

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017

**NOTE 3 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS (CONTINUED)**

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 530,737	\$ 35,911	\$ 141,129	\$ 707,777
Accounts receivable	300	994	-	1,294
Loans receivables	-	-	7,435	7,435
Prepaid items	3,489	-	-	3,489
TOTAL ASSETS	<u>\$ 534,526</u>	<u>\$ 36,905</u>	<u>\$ 148,564</u>	<u>\$ 719,995</u>
LIABILITIES				
Accounts payable	\$ 2,525	\$ -	\$ -	\$ 2,525
Salaries payable	16,162	-	-	16,162
TOTAL LIABILITIES	<u>18,687</u>	<u>-</u>	<u>-</u>	<u>18,687</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - loans receivable	-	-	7,435	7,435
FUND BALANCES				
Nonspendable	3,489	-	-	3,489
Restricted	253,012	-	141,129	394,141
Committed	-	36,905	-	36,905
Assigned	259,338	-	-	259,338
TOTAL FUND BALANCES	<u>515,839</u>	<u>36,905</u>	<u>141,129</u>	<u>693,873</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 534,526</u>	<u>\$ 36,905</u>	<u>\$ 148,564</u>	<u>\$ 719,995</u>

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes - franchise fee	\$ -	\$ 3,893	\$ -	\$ 3,893
Intergovernmental	127,811	-	-	127,811
Charges for services	13,348	-	-	13,348
Fines	4,452	-	-	4,452
Gifts and contributions	20,963	-	-	20,963
Investment earnings	2,407	-	188	2,595
Miscellaneous	-	-	2,540	2,540
	<u>-</u>	<u>-</u>	<u>2,540</u>	<u>2,540</u>
TOTAL REVENUES	<u>168,981</u>	<u>3,893</u>	<u>2,728</u>	<u>175,602</u>
EXPENDITURES				
Current				
Culture and recreation	340,125	-	-	340,125
	<u>340,125</u>	<u>-</u>	<u>-</u>	<u>340,125</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(171,144)</u>	<u>3,893</u>	<u>2,728</u>	<u>(164,523)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	156,585	-	-	156,585
Transfers out	-	(3,000)	-	(3,000)
	<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>(3,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>156,585</u>	<u>(3,000)</u>	<u>-</u>	<u>153,585</u>
NET CHANGE IN FUND BALANCES	(14,559)	893	2,728	(10,938)
FUND BALANCES - JANUARY 1	<u>530,398</u>	<u>36,012</u>	<u>138,401</u>	<u>704,811</u>
FUND BALANCES - DECEMBER 31	<u>\$ 515,839</u>	<u>\$ 36,905</u>	<u>\$ 141,129</u>	<u>\$ 693,873</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017

REVENUES

Taxes

General property \$ 700,256

Special Assessments 2,974

Licenses and permits 92,194

Intergovernmental

State

Local government aid 55,612

PERA aid 5,315

Fire aid 5,699

Small cities assistance 9,482

MN DEED grant 225,000

IRRRB grant 8,158

Total Intergovernmental 309,266

Charges for Services

General government

Rent 65,467

Miscellaneous 6,000

Public safety

Fire protection contacts 48,313

Culture and recreation

Park 1,120,365

Boat harbors 85,650

Golf course 127,038

Total Charges for Services 1,452,833

Fines

Court fines 2,994

Gifts and Contributions 39,085

Investment earnings 9,835

Miscellaneous

Other 2,286

TOTAL REVENUES 2,611,723

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2017

EXPENDITURES

Current

General Government

Mayor and council	\$ 30,167
City clerk	185,107
City clerk capital outlay	3,619
Elections	9,798
Independent audit	15,150
Legal	30,052
Planning and zoning	31,365
Buildings	67,123
Buildings capital outlay	8,492
MN DEED grant to hospital	225,000
City planning consultants	82,238
Affordable housing	42,857
Professional services	<u>29,598</u>
Total General Government	<u>760,566</u>

Public Safety

Police	140,000
Fire	58,847
Animal control	<u>1,404</u>
Total Public Safety	<u>200,251</u>

Streets

Maintenance	238,914
Street lighting	<u>24,767</u>
Total Streets	<u>263,681</u>

Culture and Recreation

Recreation	528,442
Recreation capital outlay	132,701
Swimming pool	110,000
Boat harbors	52,747
City parks	31,917
Golf course	161,380
Golf course capital outlay	<u>6,107</u>
Total Culture and Recreation	<u>1,023,294</u>

TOTAL EXPENDITURES

2,247,792

**EXCESS OF REVENUES OVER
 EXPENDITURES**

363,931

OTHER FINANCING SOURCES (USES)

Transfers in	203,000
Transfers out	(316,882)
Sale of capital assets	<u>2,101</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(111,781)</u>

NET CHANGE IN FUND BALANCE

252,150

FUND BALANCE - JANUARY 1

3,853,774

Prior period adjustment

(12,025)

FUND BALANCE - DECEMBER 31

\$ 4,093,899



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

To the City Council
City of Grand Marais, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements, and have issued our report thereon dated June 21, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that City of Grand Marais, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Responses as item 2017-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Grand Marais, Minnesota's noncompliance with the above referenced provisions.

Other Matters

We noted certain matters that we reported to management of the City of Grand Marais, Minnesota in a separate letter dated June 21, 2018, included under this cover.

City of Grand Marais, Minnesota's Response to Findings

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

Purpose of this Report

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

Walker, Miray & Halne, LLC

Virginia, Minnesota
June 21, 2018

CITY OF GRAND MARAIS, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2017

Prior Audit Financial Statement Findings

FINDING 2016-001. SEGREGATION OF DUTIES

Summary of Condition

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

Summary of Corrective Action Previously Reported

The City Administrator is monitoring transactions and the structure of duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Current Status

Ongoing.

FINDING 2016-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition

Management requested that the auditor prepare a draft of the City's financial statements, including related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not possess the technical expertise to comply with governmental accounting standards.

Summary of Corrective Action Previously Reported

Management determined that the cost and training involved to review or prepare the City's financial statements exceeded the benefit that would result.

Current Status

Ongoing.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017**

2017-001. SEGREGATION OF DUTIES

Criteria

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

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.

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Views of Responsible Officials and Planned Corrective Action

Management agrees with audit finding. The City Administrator will continue to monitor transactions and the City's administration will 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.

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

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.

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

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.

Views of Responsible Officials and Planned Corrective Action

Management agrees with audit 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.

2017-003. COLLATERAL REQUIREMENTS

Criteria

Minnesota Statutes require that City deposits in excess of the \$250,000 covered by FDIC insurance must be protected by surety bonds or collateral. The total amount of collateral must be computed at its market value and be at least 10 percent more than the amount of deposits in excess of any insured portion.

Condition

At December 31, 2017, \$10,456,423 of the City's deposits held in one bank were FDIC insured or collateralized, but not at 10 percent more than the amount of deposits in excess of the insured portion.

Effect

The City is not in compliance with *Minnesota Statutes* regarding deposits.

Cause

This occurred because the City did not obtain collateral at 10 percent more than the amount of deposits in excess of the insured portion to protect the uninsured portion of the City's deposits at December 31, 2017.

Recommendations

Management must monitor the City's deposits and obtain the proper amount of collateral from all of their financial institutions.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. The City will monitor their bank balances and will obtain the proper amount of collateral from all of their financial institutions.

REPRESENTATION OF THE CITY OF GRAND MARAIS, MINNESOTA

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2017**

Finding Number: 2017-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Michael J. Roth, City Administrator

Corrective Action Planned

Management 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.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Michael J. Roth, City Administrator

Corrective Action Planned

Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-003

Finding Title: COLLATERAL REQUIREMENTS

Name of Contact Person Responsible for Corrective Action

Michael J. Roth, City Administrator

Corrective Action Planned

The City Council will monitor bank balances and obtain the proper collateral requirements from all of their financial institutions.

Anticipated Completion Date

The City Council will begin to monitor bank balances and obtain the proper collateral requirements from all of their financial institutions immediately.



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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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Grand Marais, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 21, 2018, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 21, 2018, on the financial statements of the City of Grand Marais, Minnesota.

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

1. Minnesota statutes require that if a government desires to deposit an amount in excess of deposit insurance, it must obtain a bond or collateral which, when computed at its market value, is at least ten percent more than the excess deposit at the close of the banking day. As of December 31, 2017, the deposits were fully insured, or collateralized, but the ten percent test was not met. We suggest that you review the statutes and obtain the proper collateral.
2. The liquor store inventory, as well as the profit margin, decreased significantly in 2017, resulting in operating income of \$167,929 in 2017 compared to operating income of \$386,696 in 2016 in the liquor store enterprise fund. The Council should review the liquor store inventory counting and costing procedures and possibly institute a permanent mark-up on liquor categories to ensure that the operating results are comparable between years and to ensure that significant changes in profit margin are not due to inventory costing errors, inventory counting errors, or theft.

3. The physical inventory count for several inventory listings was missing individual item cost amounts and was therefore not properly totaled. Periodic physical inventories provide a basis for updating inventory balances and aid in detecting significant inventory shortages.

We recommend that the City prepare detailed written inventory instructions. These instructions, if followed, ensure that all pricing items are counted, each item is included only once, and proper summarization of counts is prepared. Pricing should be consistent and well documented to be reliable. Persons responsible for pricing should indicate whether prices are from sources other than the most recent invoice. The computer can assist in keeping price records and computing extensions and footings.

4. During our review of bid/quote files we noted that copies of the original bid documents for the Public Works Facility were not maintained at City Hall. Bid files should be kept on all projects and should be arranged in an orderly fashion to assure all bid procedures are being followed. We suggest bid files contain at least the following:
 - a) Specifications;
 - b) Copy of Council minutes requesting bids;
 - c) Copy of newspaper advertisement;
 - d) Copy of bids, bid bonds, performance bonds, payment bonds, certified checks, and tabulations;
 - e) Council minutes should include bid opening dates, time, who was present, all bids submitted, and Council approval with a clear reference to who was awarded the bid;
 - f) If low bid is not awarded, minutes must state reasons;
 - g) Copy of all signed contracts and agreements.

We also noted that the Form IC134 or a Contractor's Withholding Affidavit Confirmation certifying that the contractor has complied with the withholding requirements of Minnesota Statute §290.92 was not on file for a contractor. We recommend that the proper forms be obtained to comply with Minnesota statutes.

5. The City received donations from February to June for park benches totaling \$10,000. These checks were not deposited into the bank account until July 5. To reduce the risk of theft or loss, receipts must be deposited on a timely basis. In addition, a Council resolution accepting these gifts, adopted by a two-thirds majority of its members, must be reflected in the minutes per Minnesota statutes.
6. We noted that the Employee Leave Control Report lists retired or terminated employees. We recommend that the report be updated to remove former employees.

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

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 21, 2018