

CITY OF GRAND MARAIS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2014**

CITY OF GRAND MARAIS, MINNESOTA

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CITY OF GRAND MARAIS, MINNESOTA

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CITY OF GRAND MARAIS, MINNESOTA

**ORGANIZATION
December 31, 2014**

CITY COUNCIL

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

ADMINISTRATION

City Administrator	Michael J. Roth
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Grand Marais, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2015, on our consideration of City of Grand Marais, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grand Marais, Minnesota's internal control over financial reporting and compliance.

Walker, Miroux & Helne, LLC

Virginia, Minnesota
June 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Grand Marais, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$9,034,370, of which net investment in capital assets is \$3,928,050.
- Business-type activities total net position is \$14,292,281. Net investment in capital assets represents \$9,382,751 of the total.
- The City of Grand Marais's net position increased by \$417,414 for the year ended December 31, 2014. Of the increase, an increase of \$103,171 was reported in the governmental activities' net position and \$314,243 represented the increase in business-type activities' net position. The changes are primarily due to transfers between fund types.
- The net expense of governmental activities was \$945,841 for the current year. General revenues totaled \$933,256.
- Governmental funds' fund balances decreased by \$153,210 mainly due to the payoff of the 2004A GO Improvement Bonds of \$495,000 in the debt service fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aids and the condition of City buildings also need to be considered in assessing the overall health of the City.

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

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

Fund Financial Statements

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

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

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for budgetary comparison schedules. Combining and individual 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 by \$23,326,651, an increase of \$417,414 from the prior year.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 8,128,555	\$ 8,270,404	\$ 5,619,002	\$ 5,303,453	\$ 13,747,557	\$ 13,573,857
Capital assets	8,806,040	9,274,877	13,389,369	13,750,414	22,195,399	23,025,291
Total assets	<u>16,934,595</u>	<u>17,545,281</u>	<u>19,008,361</u>	<u>19,053,867</u>	<u>35,942,956</u>	<u>36,599,148</u>
Deferred outflows of resources	-	-	131,910	147,658	131,910	147,658
Long-term debt outstanding	7,499,215	8,262,460	4,138,518	4,503,233	11,637,733	12,765,693
Other liabilities	401,010	351,622	709,472	720,254	1,110,482	1,071,876
Total liabilities	<u>7,900,225</u>	<u>8,614,082</u>	<u>4,847,990</u>	<u>5,223,487</u>	<u>12,748,215</u>	<u>13,837,569</u>
Net position						
Net investment in capital assets	3,928,050	4,359,877	9,382,751	9,394,839	13,310,801	13,754,716
Restricted	1,915,195	1,990,381	1,074,316	1,095,802	2,989,511	3,086,183
Unrestricted	3,191,125	2,580,941	3,835,214	3,487,397	7,026,339	6,068,338
Total net position	<u>\$ 9,034,370</u>	<u>\$ 8,931,199</u>	<u>\$ 14,292,281</u>	<u>\$ 13,978,038</u>	<u>\$ 23,326,651</u>	<u>\$ 22,909,237</u>

Net position of the City's governmental activities increased by 1.2 percent (\$9,034,370 compared to \$8,931,199) in 2014. Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from a \$2,580,941 surplus at December 31, 2013 to a \$3,191,125 surplus at the end of this year.

Net position of the City's business-type activities increased by 2.2 percent (\$14,292,281 compared to \$13,978,038) in 2014.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 1,156,702	\$ 1,223,663	\$ 5,850,907	\$ 5,654,213	\$ 7,007,609	\$ 6,877,876
Operating grants and contributions	493,665	182,391	5,000	5,000	498,665	187,391
Capital grants and contributions	87,304	679,161	72,912	-	160,216	679,161
General revenues:						
Property taxes	796,142	796,438	31,595	32,121	827,737	828,559
Grants and contributions not restricted to specific programs	109,307	105,716	-	-	109,307	105,716
Other general revenues	27,807	1,335	35,657	644	63,464	1,979
Total revenues	<u>2,670,927</u>	<u>2,988,704</u>	<u>5,996,071</u>	<u>5,691,978</u>	<u>8,666,998</u>	<u>8,680,682</u>
Program expenses:						
General government	696,467	618,175	-	-	696,467	618,175
Public safety	232,309	221,897	-	-	232,309	221,897
Streets	420,465	393,639	-	-	420,465	393,639
Culture and recreation	992,825	1,150,768	-	-	992,825	1,150,768
Economic development	85,040	-	-	-	85,040	-
Interest	256,406	363,075	-	-	256,406	363,075
Liquor store	-	-	1,596,470	1,567,685	1,596,470	1,567,685
Golf course	-	-	176,571	179,535	176,571	179,535
Electric	-	-	2,698,112	2,542,716	2,698,112	2,542,716
Water	-	-	375,152	358,438	375,152	358,438
Sewer	-	-	559,087	558,199	559,087	558,199
Total program expenses	<u>2,683,512</u>	<u>2,747,554</u>	<u>5,405,392</u>	<u>5,206,573</u>	<u>8,088,904</u>	<u>7,954,127</u>
Excess (deficit) before special item and transfers	(12,585)	241,150	590,679	485,405	578,094	726,555
Special item – loss on disposal of pool capital assets	(160,680)	-	-	-	(160,680)	-
Transfers	<u>276,436</u>	<u>249,259</u>	<u>(276,436)</u>	<u>(249,259)</u>	<u>-</u>	<u>-</u>
Change in net position	103,171	490,409	314,243	236,146	417,414	726,555
Net position, January 1,	<u>8,931,199</u>	<u>8,440,790</u>	<u>13,978,038</u>	<u>13,741,892</u>	<u>22,909,237</u>	<u>22,182,682</u>
Net position, December 31	<u>\$ 9,034,370</u>	<u>\$ 8,931,199</u>	<u>\$ 14,292,281</u>	<u>\$ 13,978,038</u>	<u>\$ 23,326,651</u>	<u>\$ 22,909,237</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 43% of revenues. Capital grants and contributions, 3% of revenues, include the grants for major projects or equipment. Operating grants and contributions, 18% of revenues, are used for operating expenses. Unrestricted grants and contributions, 4% of revenues, are used to finance the general activities. Property taxes levied for general purposes amount to \$599,296 or 22% of revenues, a decrease of \$33,800 over the prior year.

Culture and recreation expenses are the most significant (37%), followed by general government (26%), streets (15%), interest on long-term debt (10%), public safety (9%), and economic development (3%).

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Business-Type Activities

Revenues of the City's business-type activities were \$5,996,071; expenses were \$5,405,392 (see Table 2). Net assets increased by \$314,243 during the year ended December 31, 2014. Factors driving these results include:

- Operations produced income of \$579,481 during the year ended December 31, 2014.
- All segments recorded operating income except for the golf course.
- Transfers out to other funds totaled \$303,689.

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, 2014, the City's governmental funds reported total ending fund balances of \$6,823,607, a decrease of \$153,210 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, made up nearly 52%, or \$3,523,627 of the total ending fund balance. The nonspendable fund balance of \$53,165 is also not available for general operations. The committed fund balance of \$28,086 represents revenues collected to fund the operation of a local TV channel. The City assigned \$878,315 to specific purposes.

At the end of the year, the general fund reported a fund balance of \$3,023,249, increasing \$414,759 from the prior year. General fund revenues were \$336,364 less than the prior year's and expenditures decreased by \$323,185. During the current year, the general fund transfers to other funds were \$225,674, which were more than the prior year's transfers out of \$160,279.

The debt service fund recorded a decrease in fund balance of \$593,232 primarily due to the payoff of the 2004A GO Improvement Bonds from the 2013A GO Refunding Bond escrow account.

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

Proprietary Funds

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

The liquor store enterprise fund accounts for the operations of the City owned liquor store. In 2014, operating revenues increased by \$44,799, while the operating expenses increased by \$28,785 from the prior year. The liquor store operations produced an operating income of \$317,178 for this current year, which is an increase of \$16,014 from the prior year's operating income. A transfer out of \$200,000 was made during 2014 to the general fund, as in prior years.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

The golf course enterprise fund accounts for the operations of the municipal golf course. In 2014, operating revenues decreased by \$7,012 compared to the prior year. The golf course operations produced an operating loss of \$55,469. The City transferred in \$25,380 from the general fund and the County contributed \$5,000 to partially fund this loss. Net position increased by \$1,666 for the year.

The electric enterprise fund accounts for the electric operations of the City. In 2014, operating revenues increased by \$150,774 compared to the prior year. Operating expenses also increased from the prior year by \$223,955. The electric operations produced operating income of \$270,040 in 2014. Interest expense charged to the electric distribution was \$93,166. Net position increased by \$233,156.

The water enterprise fund accounts for the water operations of the City. In 2014, operating revenues decreased by \$6,284 compared to the prior year. Operating expenses increased by \$19,313. In 2014, operating income of \$27,699 was recorded compared to an operating income of \$53,296 in the prior year. Interest expense charged to the water operations was \$32,144. A transfer to the debt service fund was made in the amount of \$45,315 during 2014. Net position decreased by \$7,619.

The sewer enterprise fund accounts for the sewer operations of the City. In 2014, operating revenues increased by \$14,417 compared to the prior year. Operating expenses increased from the prior year by \$7,694. The sewer operations produced operating income of \$20,033 in 2014. Interest expense charged to the sewer operations was \$8,656. A transfer of \$55,210 was made to the debt service fund. These transactions resulted in a decrease of \$33,705 in net position in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual charges to appropriations (expenditures) were \$23,805 below the final budget amounts. A negative variance occurred in general government (\$139,370) expenditures primarily due to district heating expenditures. Resources available for appropriation were \$418,680 above the final budgeted amounts. More intergovernmental aids and charges for services were received. Transfers out to other funds exceeded the amount budgeted by \$67,684.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$22,195,399 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of \$829,892 over last year.

CITY OF GRAND MARAIS, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

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

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 630,922	\$ 630,922	\$ 186,100	\$ 186,100	\$ 817,022	\$ 817,022
Construction in progress	52,810	47,526	-	-	52,810	47,526
Buildings	2,016,886	2,235,223	4,175,600	4,379,085	6,192,486	6,614,308
Improvements	494,432	519,985	31,895	33,759	526,327	553,744
Infrastructure	4,844,265	5,020,760	8,735,176	8,912,606	13,579,441	13,933,366
Machinery and equipment	345,069	371,745	218,453	207,813	563,522	579,558
Licensed vehicles	421,656	448,716	42,135	31,051	463,791	479,767
Totals	\$ 8,806,040	\$ 9,274,877	\$ 13,389,359	\$ 13,750,414	\$ 22,195,399	\$ 23,025,291

This year's major additions were:

- Ford F150 4WD Supercab
- Liquor store register system
- Asphalt by sliding hill
- Lift stations and oxidation ditch equipment
- Electric service installation

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 \$11,532,000 in long-term debt outstanding versus \$12,650,000 last year—as shown in Table 4.

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

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds (backed by the City)	\$ 7,450,000	\$ 8,210,000	\$ 325,000	\$ 340,000	\$ 7,775,000	\$ 8,550,000
Electric system revenue bonds	-	-	2,800,000	3,055,000	2,800,000	3,055,000
General obligation notes	-	-	617,000	685,000	617,000	685,000
Water revenue note	-	-	340,000	360,000	340,000	360,000
Total	\$ 7,450,000	\$ 8,210,000	\$ 4,082,000	\$ 4,440,000	\$ 11,532,000	\$ 12,650,000

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. As of December 31, 2014, the City had no outstanding qualifying net debt that applied to this \$4,506,036 state-imposed limit.

CITY OF GRAND MARAIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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 2015 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities.

- The property tax levy will be held to 0%.
- Utility rates increase is 2%.
- The City's capital plan for 2015 includes planning for a maintenance facility.
- Employees were given a 1.5% cost of living adjustment raise.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,220,625	\$ 3,586,640	\$ 7,807,265
Taxes receivable	107,128	-	107,128
Special assessments receivable	931,126	150,454	1,081,580
Accounts receivable	106,758	359,370	466,128
Grants receivable	37,400	-	37,400
Internal balances	57,661	(57,661)	-
Loans receivable	32,094	-	32,094
Inventories	23,537	387,679	411,216
Prepaid items	29,628	34,588	64,216
Temporarily restricted assets			
Cash and cash equivalents	925	1,058,962	1,059,887
Investments	2,581,673	98,970	2,680,643
Capital assets not being depreciated:			
Land	630,922	186,100	817,022
Construction in progress	52,810	-	52,810
Capital assets, net of accumulated depreciation:			
Buildings	2,016,886	4,175,600	6,192,486
Improvements	494,432	31,895	526,327
Infrastructure	4,844,265	8,735,176	13,579,441
Machinery and equipment	345,069	218,453	563,522
Licensed vehicles	421,656	42,135	463,791
TOTAL ASSETS	<u>16,934,595</u>	<u>19,008,361</u>	<u>35,942,956</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	-	131,910	131,910
LIABILITIES			
Accounts payable	187,734	249,342	437,076
Salaries payable	58,208	84,942	143,150
Customer deposits	-	15,275	15,275
Unearned revenues	50,000	338,773	388,773
Accrued interest payable	105,068	21,140	126,208
Noncurrent liabilities			
Due within one year	910,000	360,000	1,270,000
Due in more than one year	6,589,215	3,778,518	10,367,733
TOTAL LIABILITIES	<u>7,900,225</u>	<u>4,847,990</u>	<u>12,748,215</u>
NET POSITION			
Net investment in capital assets	3,928,050	9,382,751	13,310,801
Restricted for:			
Debt service	1,515,886	477,030	1,992,916
Library	251,730	-	251,730
Sewer equipment replacement	-	597,286	597,286
Storefront renovation	147,579	-	147,579
Unrestricted	3,191,125	3,835,214	7,026,339
TOTAL NET POSITION	<u>\$ 9,034,370</u>	<u>\$ 14,292,281</u>	<u>\$ 23,326,651</u>

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

<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	\$ 696,467	\$ 159,543	\$ 286,593
Public safety	232,309	45,377	300
Streets	420,465	-	25
Culture and recreation	992,825	951,782	206,747
Economic development	85,040	-	-
Interest on long-term debt	256,406	-	-
Total Governmental Activities	<u>2,683,512</u>	<u>1,156,702</u>	<u>493,665</u>
Business-type Activities			
Liquor Store	\$ 1,596,470	\$ 1,913,648	\$ -
Golf Course	176,571	121,102	5,000
Electric	2,698,112	2,874,986	-
Water	375,152	370,707	-
Sewer	559,087	570,464	-
Total Business-type Activities	<u>5,405,392</u>	<u>5,850,907</u>	<u>5,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,088,904</u>	<u>\$ 7,007,609</u>	<u>\$ 498,665</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings (loss)

Special Item - loss on disposal of pool capital assets

Transfers

Total General Revenues, Special Item, and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

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

<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (250,331)	\$ -	\$ (250,331)
-	(186,632)	-	(186,632)
87,304	(333,136)	-	(333,136)
-	165,704	-	165,704
-	(85,040)	-	(85,040)
-	(256,406)	-	(256,406)
<u>87,304</u>	<u>(945,841)</u>	<u>-</u>	<u>(945,841)</u>
\$ -	-	317,178	317,178
26,753	-	(23,716)	(23,716)
46,159	-	223,033	223,033
-	-	(4,445)	(4,445)
-	-	11,377	11,377
<u>72,912</u>	<u>-</u>	<u>523,427</u>	<u>523,427</u>
<u>\$ 160,216</u>	<u>(945,841)</u>	<u>523,427</u>	<u>(422,414)</u>
	599,296	-	599,296
	192,992	31,595	224,587
	3,854	-	3,854
	109,307	-	109,307
	27,807	35,657	63,464
	(160,680)	-	(160,680)
	<u>276,436</u>	<u>(276,436)</u>	<u>-</u>
	<u>1,049,012</u>	<u>(209,184)</u>	<u>839,828</u>
	103,171	314,243	417,414
	<u>8,931,199</u>	<u>13,978,038</u>	<u>22,909,237</u>
<u>\$ 9,034,370</u>	<u>\$ 14,292,281</u>	<u>\$ 23,326,651</u>	

CITY OF GRAND MARAIS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,011,562	\$ 557,507	\$ 651,556	\$ 4,220,625
Cash and investments with fiscal agent	-	2,582,598	-	2,582,598
Taxes receivable	86,522	20,606	-	107,128
Special assessments receivable	-	931,126	-	931,126
Accounts receivable	105,748	-	1,010	106,758
Due from other funds	65,997	4,230	-	70,227
Grants receivable	37,400	-	-	37,400
Loans receivables	-	-	32,094	32,094
Inventories	23,537	-	-	23,537
Prepaid items	25,433	-	4,195	29,628
TOTAL ASSETS	\$ 3,356,199	\$ 4,096,067	\$ 688,855	\$ 8,141,121
LIABILITIES				
Accounts payable	\$ 185,264	\$ -	\$ 2,470	\$ 187,734
Salaries payable	47,506	-	10,702	58,208
Due to other funds	4,394	8,172	-	12,566
Unearned revenue	50,000	-	-	50,000
TOTAL LIABILITIES	287,164	8,172	13,172	308,508
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	45,786	-	-	45,786
Unavailable revenue - special assessments	-	931,126	-	931,126
Unavailable revenue - loans receivable	-	-	32,094	32,094
TOTAL DEFERRED INFLOWS OF RESOURCES	45,786	931,126	32,094	1,009,006
FUND BALANCES				
Nonspendable	48,970	-	4,195	53,165
Restricted	-	3,156,769	366,858	3,523,627
Committed	-	-	28,086	28,086
Assigned	633,865	-	244,450	878,315
Unassigned	2,340,414	-	-	2,340,414
TOTAL FUND BALANCES	3,023,249	3,156,769	643,589	6,823,607
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 3,356,199	\$ 4,096,067	\$ 688,855	\$ 8,141,121

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, 2014

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 6,823,607
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	8,806,040
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,009,006
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(105,068)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(7,499,215)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 9,034,370</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, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property	\$ 593,228	\$ 192,992	\$ -	\$ 786,220
Franchise	-	-	3,854	3,854
Special assessments	1,265	135,915	-	137,180
Licenses and permits	85,079	-	-	85,079
Intergovernmental	443,309	-	102,030	545,339
Charges for services	1,045,721	-	19,923	1,065,644
Fines	4,489	-	-	4,489
Gifts and contributions	37,776	-	16,928	54,704
Investment earnings	6,812	15,790	1,960	24,562
Miscellaneous	4,418	-	16,267	20,685
TOTAL REVENUES	<u>2,222,097</u>	<u>344,697</u>	<u>160,962</u>	<u>2,727,756</u>
EXPENDITURES				
Current				
General government	704,544	-	-	704,544
Public safety	193,986	-	-	193,986
Streets	239,003	-	-	239,003
Culture and recreation	644,557	-	254,120	898,677
Economic development	5,040	-	80,000	85,040
Debt service				
Principal	-	760,000	-	760,000
Interest and other charges	-	278,454	-	278,454
TOTAL EXPENDITURES	<u>1,787,130</u>	<u>1,038,454</u>	<u>334,120</u>	<u>3,159,704</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>434,967</u>	<u>(693,757)</u>	<u>(173,158)</u>	<u>(431,948)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	203,164	100,525	198,421	502,110
Transfers out	(225,674)	-	-	(225,674)
Sale of capital assets	2,302	-	-	2,302
TOTAL OTHER FINANCING SOURCES (USES)	<u>(20,208)</u>	<u>100,525</u>	<u>198,421</u>	<u>278,738</u>
NET CHANGE IN FUND BALANCES	414,759	(593,232)	25,263	(153,210)
FUND BALANCES - JANUARY 1	<u>2,608,490</u>	<u>3,750,001</u>	<u>618,326</u>	<u>6,976,817</u>
FUND BALANCES - DECEMBER 31	<u>\$ 3,023,249</u>	<u>\$ 3,156,769</u>	<u>\$ 643,589</u>	<u>\$ 6,823,607</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, 2014

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (153,210)

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	42,185	
Less current year depreciation	<u>(348,040)</u>	(305,855)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(162,982)

Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

Change in unavailable revenue - delinquent property taxes	6,068	
Change in unavailable revenue - special assessments receivable	(49,877)	
Change in unavailable revenue - loans receivable	<u>(16,265)</u>	(60,074)

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.

Amortization of premium	3,245	
Principal repaid	<u>760,000</u>	763,245

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	<u>22,047</u>	
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CHANGE IN NET POSTION OF GOVERNMENTAL ACTIVITIES \$ 103,171

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2014

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,021,788	\$ 2,589	\$ 1,261,386	\$ 456,181	\$ 844,696	\$ 3,586,640
Accounts receivable	157	5,000	275,964	33,299	44,950	359,370
Due from other funds	-	-	1,847	8,922	1,797	12,566
Special assessments receivable	-	-	-	150,454	-	150,454
Inventories	202,356	5,381	172,726	7,092	124	387,679
Prepaid items	7,046	2,522	17,191	3,080	4,749	34,588
TOTAL CURRENT ASSETS	1,231,347	15,492	1,729,114	659,028	896,316	4,531,297
NONCURRENT ASSETS						
Restricted cash and cash equivalents	-	-	671,099	-	-	671,099
Revenue bond covenant accounts	-	-	-	-	387,863	387,863
MPCA contract accounts	-	-	-	-	387,863	387,863
Total restricted cash and cash equivalents	-	-	671,099	-	387,863	1,058,962
Restricted investments	-	-	-	-	98,970	98,970
MPCA contract accounts	-	-	-	-	98,970	98,970
Capital assets	-	154,100	25,000	5,000	2,000	186,100
Land	-	89,466	2,998,692	2,286,662	2,462,238	7,857,587
Buildings	20,529	310,058	-	-	-	310,058
Improvements	-	65,517	3,523,633	5,293,910	3,564,586	12,447,646
Infrastructure	-	197,992	172,240	382,361	1,144,457	2,053,969
Machinery and equipment	158,919	500	240,918	28,150	83,470	353,038
Licensed vehicles	-	500	240,918	28,150	83,470	353,038
Less accumulated depreciation	(140,999)	(501,787)	(2,539,827)	(2,966,594)	(3,669,832)	(9,819,039)
Total capital assets (net of accumulated depreciation)	36,449	315,846	4,420,656	5,029,489	3,586,919	13,389,359
TOTAL NONCURRENT ASSETS	36,449	315,846	5,091,755	5,029,489	4,073,752	14,547,291
TOTAL ASSETS	1,267,796	331,338	6,820,869	5,688,517	4,970,068	19,078,588
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refunding	-	-	131,910	-	-	131,910
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	33,281	1,317	202,530	3,532	8,682	249,342
Salaries payable	13,743	20,819	27,973	9,378	13,029	84,942
Accrued interest payable	-	-	11,953	5,677	3,510	21,140
Due to other funds	-	-	65,997	-	4,230	70,227
Unearned revenue	-	-	338,773	-	-	338,773
Customer deposits payable	-	-	15,275	-	-	15,275
Bonds, notes, and loans payable - current	-	-	255,000	90,000	15,000	360,000
TOTAL CURRENT LIABILITIES	47,024	22,136	917,501	108,587	44,451	1,139,699
NONCURRENT LIABILITIES						
Bonds, notes and loans payable, less current	-	-	2,601,518	867,000	310,000	3,778,518
TOTAL LIABILITIES	47,024	22,136	3,519,019	975,587	354,451	4,918,217
NET POSITION						
Net investment in capital assets	36,449	315,846	1,696,048	4,072,489	3,261,919	9,382,751
Restricted for debt service	-	-	326,576	150,454	-	477,030
Restricted for sewer equipment replacement	-	-	-	-	597,286	597,286
Unrestricted	1,184,323	(6,644)	1,411,136	489,987	756,412	3,835,214
TOTAL NET POSITION	\$ 1,220,772	\$ 309,202	\$ 3,433,760	\$ 4,712,930	\$ 4,615,617	\$ 14,292,281

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, 2014

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 1,913,648	\$ 121,102	\$ 2,874,986	\$ 370,707	\$ 570,464	\$ 5,850,907
OPERATING EXPENSES						
Cost of sales	1,279,192	21,833	1,708,541	-	-	3,009,566
Salaries	162,958	84,061	206,548	64,189	127,445	645,201
Employee benefits and payroll taxes	60,176	23,398	57,687	22,488	49,776	213,525
Advertising	6,776	2,497	-	-	-	9,273
Bad debts	26	-	-	-	-	26
Contract services	-	-	103,801	18,921	123,737	246,459
Facility fees	-	-	65,899	-	-	65,899
Insurance	7,044	2,122	36,427	1,817	5,313	52,723
Miscellaneous	31,039	3,289	27,290	3,162	4,134	68,914
Rent	38,400	-	9,000	4,500	4,500	56,400
Repairs and maintenance	2,634	4,032	43,300	3,968	14,672	68,606
Supplies	3,126	16,121	120,778	35,320	19,688	195,033
Telephone	864	763	998	2,273	587	5,485
Utilities	-	1,885	5,868	26,157	63,762	97,672
Depreciation	4,235	16,570	218,809	160,213	136,817	536,644
TOTAL OPERATING EXPENSES	<u>1,596,470</u>	<u>176,571</u>	<u>2,604,946</u>	<u>343,008</u>	<u>550,431</u>	<u>5,271,426</u>
OPERATING INCOME (LOSS)	<u>317,178</u>	<u>(55,469)</u>	<u>270,040</u>	<u>27,699</u>	<u>20,033</u>	<u>579,481</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings (loss)	3,567	2	10,768	10,869	10,451	35,657
Property taxes	-	-	-	31,595	-	31,595
Grants and contributions	-	5,000	-	-	-	5,000
Interest expense	-	-	(93,166)	(32,144)	(8,656)	(133,966)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,567</u>	<u>5,002</u>	<u>(82,398)</u>	<u>10,320</u>	<u>1,795</u>	<u>(61,714)</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND TRANSFERS	<u>320,745</u>	<u>(50,467)</u>	<u>187,642</u>	<u>38,019</u>	<u>21,828</u>	<u>517,767</u>
Capital grants	-	26,753	46,159	-	-	72,912
Transfers in	-	25,380	937	468	468	27,253
Transfers out	(200,000)	-	(1,582)	(46,106)	(56,001)	(303,689)
CHANGE IN NET POSITION	<u>120,745</u>	<u>1,666</u>	<u>233,156</u>	<u>(7,619)</u>	<u>(33,705)</u>	<u>314,243</u>
TOTAL NET POSITION - JANUARY 1	<u>1,100,027</u>	<u>307,536</u>	<u>3,200,604</u>	<u>4,720,549</u>	<u>4,649,322</u>	<u>13,978,038</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 1,220,772</u>	<u>\$ 309,202</u>	<u>\$ 3,433,760</u>	<u>\$ 4,712,930</u>	<u>\$ 4,615,617</u>	<u>\$ 14,292,281</u>

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, 2014

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,913,814	\$ 121,102	\$ 2,876,466	\$ 371,023	\$ 570,708	\$ 5,853,113
Cash paid to suppliers	(1,502,024)	(75,869)	(2,117,471)	(104,301)	(283,405)	(4,083,070)
Cash paid to employees	(169,919)	(81,749)	(205,806)	(65,082)	(129,310)	(651,866)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>241,871</u>	<u>(36,516)</u>	<u>553,189</u>	<u>201,640</u>	<u>157,993</u>	<u>1,118,177</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	-	25,380	937	468	468	27,253
Transfers out to other funds	(200,000)	-	(1,582)	(46,106)	(56,001)	(303,689)
Advances to other funds	-	(8,529)	(5,672)	(47,275)	(25,980)	(87,456)
Advances from other funds	-	-	-	-	513	513
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(200,000)</u>	<u>16,851</u>	<u>(6,317)</u>	<u>(92,913)</u>	<u>(81,000)</u>	<u>(363,379)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of fixed assets	(12,196)	(4,531)	(83,215)	-	(75,647)	(175,589)
Special assessments collected	-	-	-	21,486	-	21,486
Property taxes collected	-	-	-	31,595	-	31,595
Principal paid on long-term debt	-	-	(255,000)	(88,000)	(15,000)	(358,000)
Interest paid on long-term debt	-	-	(78,432)	(32,771)	(9,608)	(120,811)
Capital grants	-	26,753	46,159	-	-	72,912
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(12,196)</u>	<u>22,222</u>	<u>(370,488)</u>	<u>(67,690)</u>	<u>(100,255)</u>	<u>(528,407)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest on investments	3,567	2	4,053	10,869	5,927	24,418
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS	<u>33,242</u>	<u>2,559</u>	<u>180,437</u>	<u>51,908</u>	<u>(17,336)</u>	<u>250,809</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>988,546</u>	<u>30</u>	<u>1,752,048</u>	<u>404,275</u>	<u>1,249,894</u>	<u>4,394,793</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,021,788</u>	<u>\$ 2,589</u>	<u>\$ 1,932,485</u>	<u>\$ 456,181</u>	<u>\$ 1,232,559</u>	<u>\$ 4,645,602</u>

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, 2014

Business-type Activities - Enterprise Funds

	Liquor Store Enterprise Fund	Golf Course Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 246,756	\$ (55,469)	\$ 270,040	\$ 27,699	\$ 20,033	\$ 509,059
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	4,235	16,570	218,809	160,213	136,817	536,644
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	166	-	1,055	316	244	1,781
Inventories	-	1,585	60,677	15,501	158	77,921
Prepaid items	874	(182)	(115)	(883)	1,267	961
Increase (decrease) in:						
Accounts payable	(3,199)	(1,332)	1,556	(313)	1,339	(1,949)
Salaries payable	(6,961)	2,312	742	(893)	(1,865)	(6,665)
Customer deposits	-	-	425	-	-	425
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 241,871	\$ (36,516)	\$ 553,189	\$ 201,640	\$ 157,993	\$ 1,118,177
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS						
Cash and cash equivalents	\$ 1,021,788	\$ 2,589	\$ 1,261,386	\$ 456,181	\$ 844,696	\$ 3,586,640
Restricted cash and cash equivalents:						
Revenue bond covenant accounts	-	-	671,099	-	-	671,099
MPCA contract accounts	-	-	-	-	387,863	387,863
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 1,021,788	\$ 2,589	\$ 1,932,485	\$ 456,181	\$ 1,232,559	\$ 4,645,602

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, 2014

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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

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

Proprietary Funds

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

Major Proprietary Funds:

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

- 8) In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the proprietary funds and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 10) In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an outflow of resources in the period incurred. On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts are deferred and amortized over the life of the debt. The governmental fund financial statements report debt premiums and discounts as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures. The long-term debt consists primarily of general obligation improvement and revenue bonds and revenue notes.
- 11) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the Debt Service Fund, and loans receivable, which are reported in the Storefront Renovation Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 12) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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, 2014

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash	\$ 8,259,518
Petty Cash	1,910
Certificates of Deposit	372,000
Investments	<u>2,914,367</u>
Total	<u>\$ 11,547,795</u>

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	\$ <u>7,807,265</u>
Restricted cash and cash equivalents	1,059,887
Restricted investments	<u>2,680,643</u>
Total restricted cash, cash equivalents, and investments	<u>3,740,530</u>
Total	<u>\$ 11,547,795</u>

Deposits

Custodial Credit Risk – Deposits

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$8,631,518; the bank balance was \$8,681,092. Of the bank balance, \$1,301,739 was insured and \$7,379,353 was collateralized with securities held by the pledging financial institution's agent in the City's name.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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

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, 2014, had no investments in any issuer that exceeded five percent of total investments, except for the Minnesota Municipal Money Market Fund and U.S. Treasury Notes.

Interest Rate Risk

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

The City manages its exposure to fair value losses arising from changing interest rates by purchasing investments with varying maturity dates. As of December 31, 2014, the City had the following investments:

Investment Type	Moody's Rating	Fair Value	Maturity		
			Less Than 1 Year	1 – 5 Years	6 - 10 Years
Minnesota Municipal Money Market Fund	N/A	\$ 215,326	\$ 215,326	\$ -	\$ -
Morgan Stanley Smith Barney Money Market Funds	N/A	18,398	18,398	-	-
Federal Home Loan Bank Step Bonds	AAA	98,970	-	-	98,970
U.S. Treasury Notes	AAA	2,581,673	673,279	1,908,394	-
Total Investments		\$ 2,914,367	\$ 907,003	\$ 1,908,394	\$ 98,970

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - NOTES RECEIVABLE

Several businesses have received loans from the City through the City's Storefront Loan Program. The unpaid principal balance on these loans as of December 31, 2014 was \$32,094.

On July 26, 2013, the City loaned \$10,000 and on April 10, 2014, the City loaned \$10,000 to the Cook County/Grand Marais Joint Economic Development Authority. The notes were non-interest bearing and were due with the first levy payments received by the Authority in 2013 and 2014. The notes were paid in 2014 and the balance as of December 31, 2014 was \$0.

On February 18, 2009, the City loaned \$100,000 to the Cook County/Grand Marais Joint Economic Development Authority, with interest at 6%. The note was due on October 15, 2010. A payment of \$100,000 was made in 2010 for principal and interest. The balance of \$5,040 was forgiven in 2014 by the City and the balance as of December 31, 2014 was \$0.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 630,922	\$ -	\$ -	\$ 630,922
Construction in Progress	<u>47,526</u>	<u>5,284</u>	<u>-</u>	<u>52,810</u>
Total capital assets not being depreciated	<u>678,448</u>	<u>5,284</u>	<u>-</u>	<u>683,732</u>
Capital assets, being depreciated:				
Buildings	5,870,934	-	(848,900)	5,022,034
Improvements	752,513	13,970	(24,576)	741,907
Infrastructure	7,743,389	-	-	7,743,389
Machinery and equipment	598,236	22,931	(73,503)	547,664
Licensed vehicles	<u>563,169</u>	<u>-</u>	<u>-</u>	<u>563,169</u>
Total capital assets, being depreciated	<u>15,528,241</u>	<u>36,901</u>	<u>(946,979)</u>	<u>14,618,163</u>
Less accumulated depreciation for:				
Buildings	(3,635,711)	(81,381)	711,944	(3,005,148)
Improvements	(232,528)	(22,456)	7,509	(247,475)
Infrastructure	(2,722,629)	(176,495)	-	(2,899,124)
Machinery and equipment	(226,491)	(40,648)	64,544	(202,595)
Licensed vehicles	<u>(114,453)</u>	<u>(27,060)</u>	<u>-</u>	<u>(141,513)</u>
Total accumulated depreciation	<u>(6,931,812)</u>	<u>(348,040)</u>	<u>783,997</u>	<u>(6,495,855)</u>
Total capital assets, being depreciated, net	<u>8,596,429</u>	<u>(311,139)</u>	<u>(162,982)</u>	<u>8,122,308</u>
Governmental activities capital assets, net	<u>\$ 9,274,877</u>	<u>\$ (305,855)</u>	<u>\$ (162,982)</u>	<u>\$ 8,806,040</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 186,100	\$ -	\$ -	\$ 186,100
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>186,100</u>	<u>-</u>	<u>-</u>	<u>186,100</u>
Capital assets, being depreciated:				
Buildings	7,857,587	-	-	7,857,587
Improvements	310,058	-	-	310,058
Infrastructure	12,364,193	103,040	(19,587)	12,447,646
Machinery and equipment	2,012,005	41,964	-	2,053,969
Licensed vehicles	<u>322,453</u>	<u>30,585</u>	<u>-</u>	<u>353,038</u>
Total capital assets, being depreciated	<u>22,866,298</u>	<u>175,589</u>	<u>(19,587)</u>	<u>23,022,298</u>
Less accumulated depreciation for:				
Buildings	(3,478,502)	(203,485)	-	(3,681,987)
Improvements	(276,299)	(1,864)	-	(278,163)
Infrastructure	(3,451,587)	(280,470)	19,587	(3,712,470)
Machinery and equipment	(1,804,192)	(31,324)	-	(1,835,516)
Licensed vehicles	<u>(291,402)</u>	<u>(19,501)</u>	<u>-</u>	<u>(310,903)</u>
Total accumulated depreciation	<u>(9,301,982)</u>	<u>(536,644)</u>	<u>19,587</u>	<u>(9,819,039)</u>
Total capital assets, being depreciated, net	<u>13,564,314</u>	<u>(361,055)</u>	<u>-</u>	<u>13,203,259</u>
Business-type activities capital assets, net	<u>\$ 13,750,414</u>	<u>\$ (361,055)</u>	<u>\$ -</u>	<u>\$ 13,389,359</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 5,277
Public safety	42,570
Streets	187,946
Culture and recreation	<u>112,247</u>
Total depreciation expense- governmental activities	\$ <u>348,040</u>
Business-type activities	
Liquor Store	\$ 4,235
Golf Course	16,570
Electric	218,809
Water	160,213
Sewer	<u>136,817</u>
Total depreciation expense- business-type activities	\$ <u>536,644</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, 2014, 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, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental Activities					
General Obligation Bonds					
2004A Improvement	06/01/2004	3.40-5.10%	\$ 710,000	02/01/2025	\$ -
2005C Improvement	11/22/2005	3.50-4.60%	\$ 895,000	02/01/2027	665,000
2008A Improvement	10/07/2008	3.25-4.50%	\$ 2,695,000	02/01/2029	2,060,000
2009A Improvement Refunding	12/10/2009	2.10-4.70%	\$ 1,675,000	02/01/2031	1,505,000
2013A Refunding	06/20/2014	2.00-3.15%	\$ 3,295,000	02/01/2029	<u>3,220,000</u>
Governmental Activities Long-term Liabilities					<u>7,450,000</u>
Business-type activities					
Revenue Bonds					
2012A Electric System Refunding	07/25/2014	2.00-2.50%	\$ 1,925,000	05/01/2023	1,595,000
2013B Electric System Refunding	06/20/2014	3.00%	\$ 1,300,000	05/01/2023	<u>1,205,000</u>
Total Revenue Bonds					<u>2,800,000</u>
General Obligation Bonds					
2013A Refunding	06/20/2014	2.00-3.15%	\$ 340,000	02/01/2030	<u>325,000</u>
General Obligation Notes					
1999 Water Revenue	04/27/1999	2.56%	\$ 484,112	08/20/2019	151,000
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	<u>466,000</u>
Total General Obligation Notes					<u>617,000</u>
Revenue Note					
2008A Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	<u>340,000</u>
Business-type Activities Long-term Liabilities					<u>4,082,000</u>
Total Long-Term Liabilities					<u>\$ 11,532,000</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. Principal and interest paid for the current year on these issues was \$916,043. At December 31, 2014 principal and interest on the bonds to be paid from special assessments levied upon the benefitted property, ad valorem taxes, and the 2013A Bond escrow account to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2005C	2027	\$ 679,808
2008A	2029	2,185,312
2013A	2030	<u>3,873,333</u>
		<u>\$ 6,738,453</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

In 2009, the City issued \$1,675,000 improvement refunding bonds of which the proceeds were used to effect a refunding of \$1,630,000 of the outstanding GO Temporary Improvement Bonds of 2007 issued to finance various municipal improvement projects within the City. Principal and interest paid for the current year was \$121,410. At December 31, 2014, principal and interest to maturity in 2031 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$2,124,602.

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 \$329,350. At December 31, 2014, 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	\$ 1,766,412
2013B	2023	<u>1,402,325</u>
		<u>\$ 3,168,737</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 \$24,608. At December 31, 2014, principal and interest on the bonds to maturity in 2036 to be paid from pledged future revenues totals \$416,050.

The City has pledged future Water Enterprise Fund revenues, net of any normal and reasonable expenses for operations, to repay a \$484,112 GO revenue note issued in 1999, an \$812,229 GO improvement note issued in 2004, and a \$470,000 revenue note issued in 2008. Proceeds from all three issues were used to finance water system renovations and improvements. Principal and interest paid for the current year on these issues was \$117,563. At December 31, 2014, principal and interest on the notes to be paid from pledged future revenues, and special assessments and ad valorem taxes for the 2004 issue, to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
1999	2019	\$ 162,802
2004	2024	527,352
2008A	2027	<u>453,288</u>
		<u>\$ 1,143,442</u>

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2004A GO Improvements	\$ 495,000	\$ -	\$ (495,000)	\$ -	\$ -
2005C GO Improvements	700,000	-	(35,000)	665,000	665,000
2008A GO Improvement	2,155,000	-	(95,000)	2,060,000	100,000
2009A GO Improvement Refunding	1,565,000	-	(60,000)	1,505,000	65,000
2013A GO Refunding	<u>3,295,000</u>	-	<u>(75,000)</u>	<u>3,220,000</u>	<u>80,000</u>
Total Bonds Payable	8,210,000	-	(760,000)	7,450,000	910,000
Bond Premium	<u>52,460</u>	-	<u>(3,245)</u>	<u>49,215</u>	-
Governmental Activities - Long-term Liabilities	<u>\$ 8,262,460</u>	<u>\$ -</u>	<u>\$ (763,245)</u>	<u>\$ 7,499,215</u>	<u>\$ 910,000</u>
Business-type Activities					
Bonds Payable					
2012A Electric System Revenue Refunding	\$ 1,755,000	\$ -	\$ (160,000)	\$ 1,595,000	\$ 160,000
2013A GO Refunding	340,000	-	(15,000)	325,000	15,000
2013B Electric System Revenue Refunding	<u>1,300,000</u>	-	<u>(95,000)</u>	<u>1,205,000</u>	<u>95,000</u>
	3,395,000	-	(270,000)	3,125,000	270,000
Bond Premium	<u>63,233</u>	-	<u>(6,715)</u>	<u>56,518</u>	-
Total Bonds Payable	<u>3,458,233</u>	-	<u>(276,715)</u>	<u>3,181,518</u>	<u>270,000</u>
Notes Payable					
1999 GO Water Revenue	179,000	-	(28,000)	151,000	29,000
2004 GO Improvement	506,000	-	(40,000)	466,000	41,000
2008A Water Revenue	<u>360,000</u>	-	<u>(20,000)</u>	<u>340,000</u>	<u>20,000</u>
Total Notes Payable	<u>1,045,000</u>	-	<u>(88,000)</u>	<u>957,000</u>	<u>90,000</u>
Business-type Activities - Long-term Liabilities	<u>\$ 4,503,233</u>	<u>\$ -</u>	<u>\$ (364,715)</u>	<u>\$ 4,138,518</u>	<u>\$ 360,000</u>

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
2015	\$ 910,000	\$ 234,260	\$ 360,000	\$ 106,825	\$ 1,270,000	\$ 341,085
2016	2,135,000	172,795	367,000	97,731	2,502,000	270,526
2017	290,000	126,243	379,000	88,422	669,000	214,665
2018	295,000	119,510	391,000	78,814	686,000	198,324
2019	305,000	112,460	398,000	68,736	703,000	181,196
2020-2024	1,670,000	443,619	1,922,000	176,655	3,592,000	620,274
2025-2029	1,600,000	192,536	185,000	27,786	1,785,000	220,322
2030-2033	245,000	11,632	80,000	1,260	325,000	12,892
Total	<u>\$ 7,450,000</u>	<u>\$ 1,413,055</u>	<u>\$ 4,082,000</u>	<u>\$ 646,229</u>	<u>\$ 11,532,000</u>	<u>\$ 2,059,284</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

No interest was capitalized during 2014; interest incurred and charged to expense totaled \$366,334.

Advance Refundings

On June 20, 2013, the City issued \$3,635,000 General Obligation Refunding Bonds, Series 2013A with interest rates ranging between 2.00% and 3.15% to partially advance refund \$3,687,000 of the outstanding 2004A, 2005C, and 2008A General Obligation Improvement Bonds and the 2006 General Obligation Sewer Revenue Bonds with interest rates ranging between 3.50% and 4.10%. The proceeds of the new bonds were placed in an irrevocable trust to provide for future debt service payments on the old bonds; however, the City remains partially liable for payments on the old bonds through their respective call dates. Accordingly, the trust account assets and the liability for the refunded bonds are included in the City's financial statements. The balance in the escrow account at December 31, 2014 is \$2,582,598. As of December 31, 2014, the 2006 General Obligation Sewer Revenue Bonds and the 2004A General Obligation Improvement Bonds had been defeased. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$221,299.

On June 20, 2013, the City issued \$1,300,000 Electric System Revenue Refunding Bonds, Series 2013B with interest rates of 3.00% to advance refund \$1,335,000 of the outstanding 2004B and 2005B Electric System Revenue Bonds with interest rates ranging between 4.000% and 4.800%. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the City's financial statements. As of December 31, 2013, \$1,335,000 of the bonds outstanding were considered defeased. The 2004B and 2005B bonds were entirely paid off in 2014 by the escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$81,113 which was deferred and is being amortized over the life of the new debt. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$71,224.

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2014, is as follows:

Due to/from other funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Electric Enterprise Fund	\$ 65,997
Debt Service Fund	Sewer Enterprise Fund	4,230
Electric Enterprise Fund	General Fund	1,847
Water Enterprise Fund	General Fund	750
Water Enterprise Fund	Debt Service Fund	8,172
Sewer Enterprise Fund	General Fund	<u>1,797</u>
		<u>\$ 82,793</u>

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

Interfund transfers for the year ended December 31, 2014 consisted of the following:

	<u>Transfers Out</u>					<u>Total</u>
	<u>General Fund</u>	<u>Liquor Store Enterprise Fund</u>	<u>Electric Enterprise Fund</u>	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	
<u>Transfers In</u>						
General Fund	\$ -	\$ 200,000	\$ 1,582	\$ 791	\$ 791	\$ 203,164
Debt Service Fund	-	-	-	45,315	55,210	100,525
Golf Course Enterprise Fund	25,380	-	-	-	-	25,380
Electric Enterprise Fund	937	-	-	-	-	937
Water Enterprise Fund	468	-	-	-	-	468
Sewer Enterprise Fund	468	-	-	-	-	468
Nonmajor Funds -						130,810
Library Special Revenue Fund	130,810	-	-	-	-	-
Cedar Grove	<u>67,611</u>	-	-	-	-	<u>67,611</u>
	<u>\$ 225,674</u>	<u>\$ 200,000</u>	<u>\$ 1,582</u>	<u>\$ 46,106</u>	<u>\$ 56,001</u>	<u>\$ 529,363</u>

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 8 - FUND EQUITY

As of December 31, 2014, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Inventories	\$ 23,537	\$ -	\$ -	\$ 23,537
Prepaid items	<u>25,433</u>	<u>-</u>	<u>4,195</u>	<u>29,628</u>
Total Nonspendable	<u>48,970</u>	<u>-</u>	<u>4,195</u>	<u>53,165</u>
Restricted:				
Library	-	-	251,374	251,374
Storefront renovation	-	-	115,484	115,484
Debt service	<u>-</u>	<u>3,156,769</u>	<u>-</u>	<u>3,156,769</u>
Total Restricted	<u>-</u>	<u>3,156,769</u>	<u>366,858</u>	<u>3,523,627</u>
Committed:				
Cable TV	<u>-</u>	<u>-</u>	<u>28,086</u>	<u>28,086</u>
Assigned:				
Buildings	69,738	-	-	69,738
Fire	28,709	-	-	28,709
Insurance reserve	10,804	-	-	10,804
Street equipment	31,280	-	-	31,280
Street improvements	392,370	-	-	392,370
Street sealcoat project	100,964	-	-	100,964
Library	<u>-</u>	<u>-</u>	<u>244,450</u>	<u>244,450</u>
Total Assigned	<u>633,865</u>	<u>-</u>	<u>244,450</u>	<u>878,315</u>
Unassigned	<u>2,340,414</u>	<u>-</u>	<u>-</u>	<u>2,340,414</u>
Total fund balances	<u>\$ 3,023,249</u>	<u>\$ 3,156,769</u>	<u>\$ 643,589</u>	<u>\$ 6,823,607</u>

NOTE 9 - RISK MANAGEMENT

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - JOINTLY GOVERNED ORGANIZATION

Cook County/Grand Marais Joint Economic Development Authority

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

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

The Authority is currently developing lots to be sold in Cedar Grove Business Park. The City, in consideration for construction of street improvements, water and sewer extensions and curb and gutter on the platted roads in the Business Park, has entered into an agreement with the Authority whereby owners will be assessed \$60,000 per platted lot, payable from the closing proceeds at the time of sale. The City received \$22,888 under this agreement in 2014.

NOTE 11 - JOINT VENTURE

Joint Powers Agreement for Library Services

The City of Grand Marais entered into a joint powers agreement with Cook County on December 15, 1992. The purpose of the agreement is to provide library services to the 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 \$102,030 in 2014.

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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 11 - JOINT VENTURE (CONTINUED)

In 2014, the City did not contribute to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, Cook County Courthouse, 411 West Second Street, Grand Marais, MN 55604.

Joint Powers Agreement for Shared Costs of Cook County Community Center

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

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

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

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

- (i) Annually contribute to the County fifty percent (50%) of the prior year's annual operating losses based on costs of maintenance of the Community Center building (not including any outdoor recreation areas or amenities) and programming up to \$100,000. If the annual operating losses exceed \$200,000 the City contribution shall increase annually by the lesser of five percent (5%) or a percentage equal to the annual Consumer Price Index (CPI - Midwest Urban Nonmetropolitan (less than 50,000) for the preceding calendar year; *provided, however,* that if such increase is greater than the lesser of five percent (5%) or a percentage equal to the annual CPI for the preceding calendar year, such greater amount must be approved by the City. The County shall annually invoice the City for the City's portion of the operating loss up to the maximum allowed 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.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 11 - JOINT VENTURE (CONTINUED)

In 2014, 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
- (iii) Pay or arrange for payment of all other costs and expenses related to the Community Center.

In 2014, the County contributed \$25,000 for demolition of the old pool and \$56,813 for the 2013 pool operating costs.

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 re-construction of the Community Center and all improvements thereto; provided that the County may assign operation and management obligations to the YMCA.

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

NOTE 12 - POOL DEMOLITION

In 2014, the City demolished the City-owned swimming pool. Demolition costs totaled \$64,726. The County contributed \$25,000 toward these demolition costs. The net book value of pool capital assets were written off resulting in a loss on disposal of \$160,680.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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, 2014, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Electric Utility Commitment

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

NOTE 14 - FUNDS HELD BY OTHERS

The City of Grand Marais' Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the City of Grand Marais' Public Library. The agreement provides that payments from the fund to the City of Grand Marais' Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to 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 \$26,883 on December 31, 2014.

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 14 - FUNDS HELD BY OTHERS (CONTINUED)

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 \$50,965 on December 31, 2014.

NOTE 15 - DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. In 2014, the City of Grand Marais was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$84,964, \$88,660, and \$87,713, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

NOTE 16 - DEFINED CONTRIBUTION PLAN

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

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

Total contributions made by the City of Grand Marais, Minnesota during fiscal year 2014 were:

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 17 - SUBSEQUENT EVENTS

Joint Powers Agreement

On June 9, 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 referred to in Note 10. Under this new agreement, on or before July 1 of each year, the County is required to pay the City 50% of the annual bond payment the City must pay for that year on the 2009A Improvement Refunding Bonds. The EDA will be credited towards the Business Park assessments for any amounts paid to the City by the County. The EDA is also 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. On May 27, 2015, the City received \$60,000 from the EDA.

Biomass District Heating

The Biomass District Heating project will not be further pursued.

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 597,053	\$ 597,053	\$ 593,228	\$ (3,825)
Special assessments	1,265	1,265	1,265	-
Licenses and permits	82,340	82,340	85,079	2,739
Intergovernmental	154,728	154,728	443,309	288,581
Charges for services	958,371	958,371	1,045,721	87,350
Fines	3,660	3,660	4,489	829
Gifts and contributions	-	-	37,776	37,776
Interest	6,000	6,000	6,812	812
Miscellaneous	-	-	4,418	4,418
TOTAL REVENUES	1,803,417	1,803,417	2,222,097	418,680
EXPENDITURES				
Current				
General government	565,174	565,174	704,544	(139,370)
Public safety	217,757	217,757	193,986	23,771
Streets	341,469	341,469	239,003	102,466
Culture and recreation	686,535	686,535	644,557	41,978
Economic development	-	-	5,040	(5,040)
TOTAL EXPENDITURES	1,810,935	1,810,935	1,787,130	23,805
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,518)	(7,518)	434,967	442,485
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	203,164	3,164
Transfers out	(157,810)	(157,810)	(225,674)	(67,864)
Sale of capital assets	-	-	2,302	2,302
TOTAL OTHER FINANCING SOURCES (USES)	42,190	42,190	(20,208)	(62,398)
NET CHANGE IN FUND BALANCE	34,672	34,672	414,759	380,087
FUND BALANCE - JANUARY 1	2,608,490	2,608,490	2,608,490	-
FUND BALANCE - DECEMBER 31	\$ 2,643,162	\$ 2,643,162	\$ 3,023,249	\$ 380,087

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014**

NOTE 1 - BUDGETING

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

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

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

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for 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.

Capital Projects Funds

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

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

CITY OF GRAND MARAIS, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 508,996	\$ 27,076	\$ 115,484	\$ -	\$ 651,556
Accounts receivable	-	1,010	-	-	1,010
Loans receivables	-	-	32,094	-	32,094
Prepaid items	4,195	-	-	-	4,195
TOTAL ASSETS	\$ 513,191	\$ 28,086	\$ 147,578	\$ -	\$ 688,855
LIABILITIES					
Accounts payable	\$ 2,470	\$ -	\$ -	\$ -	\$ 2,470
Salaries payable	10,702	-	-	-	10,702
TOTAL LIABILITIES	13,172	-	-	-	13,172
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - loans receivable	-	-	32,094	-	32,094
FUND BALANCES					
Nonspendable	4,195	-	-	-	4,195
Restricted	251,374	-	115,484	-	366,858
Committed	-	28,086	-	-	28,086
Assigned	244,450	-	-	-	244,450
TOTAL FUND BALANCES	500,019	28,086	115,484	-	643,589
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 513,191	\$ 28,086	\$ 147,578	\$ -	\$ 688,855

CITY OF GRAND MARAIS, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2014

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	EDA Cedar Grove Business Park Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes - franchise fee	\$ -	\$ 3,854	\$ -	\$ -	\$ 3,854
Intergovernmental	102,030	-	-	-	102,030
Charges for services	19,923	-	-	-	19,923
Gifts and contributions	16,928	-	-	-	16,928
Investment earnings	1,014	-	916	30	1,960
Miscellaneous	2	-	16,265	-	16,267
TOTAL REVENUES	<u>139,897</u>	<u>3,854</u>	<u>17,181</u>	<u>30</u>	<u>160,962</u>
EXPENDITURES					
Current					
Culture and recreation	254,120	-	-	-	254,120
Economic development	-	-	-	80,000	80,000
TOTAL EXPENDITURES	<u>254,120</u>	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>334,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(114,223)	3,854	17,181	(79,970)	(173,158)
OTHER FINANCING SOURCES (USES)					
Transfers in	130,810	-	-	67,611	198,421
NET CHANGE IN FUND BALANCES	16,587	3,854	17,181	(12,359)	25,263
FUND BALANCES - JANUARY 1	<u>483,432</u>	<u>24,232</u>	<u>98,303</u>	<u>12,359</u>	<u>618,326</u>
FUND BALANCES - DECEMBER 31	<u>\$ 500,019</u>	<u>\$ 28,086</u>	<u>\$ 115,484</u>	<u>\$ -</u>	<u>\$ 643,589</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2014

REVENUES

Taxes	
General property	\$ 593,228
Special Assessments	<u>1,265</u>
Licenses and permits	<u>85,079</u>
Intergovernmental	
Federal grants	
Emergency management aid	92,889
USDA, Forest Service	159,300
State	
Local government aid	96,422
Taconite production	7,570
PERA aid	5,315
County	
Swimming pool	<u>81,813</u>
Total Intergovernmental	<u>443,309</u>
Charges for Services	
General government	
Rent	66,150
Miscellaneous	6,824
Public safety	
Fire protection contacts	40,888
Culture and recreation	
Park	843,597
Boat harbors	<u>88,262</u>
Total Charges for Services	<u>1,045,721</u>
Fines	
Court fines	<u>4,489</u>
Gifts and Contributions	<u>37,776</u>
Investment earnings	<u>6,812</u>
Miscellaneous	
Other	<u>4,418</u>
TOTAL REVENUES	<u>2,222,097</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)

Year Ended December 31, 2014

EXPENDITURES

Current

General Government

Mayor and council	\$ 27,198
City clerk	157,003
City clerk capital outlay	8,070
Elections	11,529
Independent audit	14,300
Legal	38,950
Planning and zoning	29,173
Buildings	61,585
Public works capital outlay	5,284
Other	<u>351,452</u>
Total General Government	<u>704,544</u>

Public Safety

Police	140,000
Fire	48,468
Fire capital outlay	4,248
Animal control	<u>1,270</u>
Total Public Safety	<u>193,986</u>

Streets

Maintenance	206,005
Street lighting	26,515
Capital outlay	<u>6,483</u>
Total Streets	<u>239,003</u>

Culture and Recreation

Recreation	454,318
Recreation capital outlay	18,100
Swimming pool	96,595
Boat harbors	51,529
City parks	<u>24,015</u>
Total Culture and Recreation	<u>644,557</u>

Economic Development

Loan forgiveness	<u>5,040</u>
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TOTAL EXPENDITURES

1,787,130

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2014

EXCESS OF REVENUES OVER EXPENDITURES	\$ 434,967
OTHER FINANCING SOURCES (USES)	
Transfers in	203,164
Transfers out	(225,674)
Sale of capital assets	<u>2,302</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(20,208)</u>
NET CHANGE IN FUND BALANCE	414,759
FUND BALANCE - JANUARY 1	<u>2,608,490</u>
FUND BALANCE - DECEMBER 31	\$ <u>3,023,249</u>

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

To the City Council
City of Grand Marais, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2014, 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 16, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-003 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 deficiencies described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002 to be significant deficiencies.

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

In connection with our audit, nothing came to our attention that caused us to believe that City of Grand Marais, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the schedule of findings and responses as item 2014-004. 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 16, 2015, 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 results 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 Miroux & Helne, LLC

Virginia, Minnesota
June 16, 2015

CITY OF GRAND MARAIS, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2014

2014-001. SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

2014-002. INVENTORIES

Condition

Several problems with the physical inventory counts exist.

1. The December 31, 2014 liquor store final inventory listing did not agree with the auditor's observed counts in some cases, contained negative quantities, and costs were not extended and totaled.
2. Electric wire inventory decreased, but the auditor was informed that the PUC did not use any of that particular wire during the year.
3. Several item costs did not appear to be updated in various inventories.

Criteria

The City's internal accounting controls over inventory aid in meeting management's operating control objectives. Periodic physical inventories provide a basis for updating inventory balances and aid in detecting significant inventory shortages. Physical inventories also serve as checks on the performance of those responsible for inventory custody and related functions of purchasing and receiving.

Effect

Inventory balances are not updated and significant shortages may not be detected.

Cause

This occurred due to a lack of written inventory procedures and follow-up, and new employees unfamiliar with inventory procedures.

Recommendations

Employees responsible for inventory custody and related functions of purchasing and receiving might have biased interests in the results of physical counts; therefore, those employees should not be responsible for physical inventory procedures. Personnel from the accounting department should have the responsibility of planning, supervising, and test counting physical inventories. However, the department supervisors should have input during the planning phase so efficient and effective physical inventories can be achieved.

Before inventory is counted, the accounting department should prepare and distribute to counters written instructions. Detailed written instructions, if followed, ensure that all pricing items are counted, each item is included only once, and proper summarization of counts is prepared.

Pricing of the physical quantities counted 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.

CITY OF GRAND MARAIS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

2014-002. INVENTORIES (Continued)

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will prepare written inventory counting instructions, discuss the instructions with department supervisors and employees, and review and test count physical inventories. In addition, the inventory item costs and extended inventory listing will be reviewed for accuracy.
3. Official Responsible for Ensuring CAP
The City Administrator is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City Administrator has monitored the performance of a liquor physical inventory at May 31, 2015. Written inventory instructions will be prepared and distributed prior to the next physical inventory on December 31, 2015.
5. Plan to Monitor Completion of CAP
Management will monitor inventories on an ongoing basis.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014**

2014-003. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014**

2014-004. COLLATERAL REQUIREMENTS

Condition

At December 31, 2014, the City's deposits in one of its designated financial institutions was not collateralized at 110% as required by State statutes.

Criteria

All of the City's deposits must be covered by insurance, 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.

Effect

The City is not in compliance with State statutes regarding deposits.

Cause

This occurred because policies in place to monitor the City's deposits and collateral agreements were not followed.

Recommendations

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will monitor its bank balances and will obtain the proper amount of collateral from the financial institution.
3. Official Responsible for Ensuring CAP
The City Administrator, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City Administrator will obtain the proper collateral agreements from the financial institution by June 30, 2015.
5. Plan to Monitor Completion of CAP
Management will monitor its bank balances and collateral agreements on an ongoing basis.

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, 2014, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 16, 2015, 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 16, 2015, on the financial statements of the City of Grand Marais, Minnesota.

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

Vendor Bills

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

We also noted two invoices without the proper approval signature. We recommend that City policies be reviewed with supervisory staff to reinforce compliance and strengthen internal controls.

Receipts

We noted that receipt documentation such as remittance advices and check stubs supporting deposits from other locations such as the library were not present in City files. We recommend that supporting documentation underlying all transactions be maintained in City Hall.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the City's statement of net position. The employer's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that, if material, will be reported in the City of Grand Marais, Minnesota's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.

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 16, 2015