

CITY OF GRAND RAPIDS, MINNESOTA

AUDIT MANAGEMENT LETTER

December 31, 2022

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To the Honorable Mayor and
Members of the City Council

We have substantially completed the 2022 audit of the financial statements of the City of Grand Rapids, Minnesota (the City) and the Economic Development Authority (EDA). The Public Utilities Commission (PUC) is considered a “component unit” of the City. As such, the financial statements of the PUC are included in the City’s Annual Financial Report. The audit of the PUC is anticipated to be completed in May 2023. Therefore, we have issued draft financial statements pending completion of the PUC audit.

Following this introduction letter is a Report Summary and Executive Summary with page references to the areas discussed. Thank you for the opportunity to serve the City. We are available to discuss this report with you.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 6, 2023

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REPORT SUMMARY

Several reports are issued in conjunction with the audit. The Annual Comprehensive Financial Report and Report on Internal Control and Legal Compliance Report have been issued in draft form. Accounting standards require the financial statements of the Public Utilities Commission be included in the City's financial statements. At the time of issuance of this Management Letter, the PUC's audited financial statements were not available. Upon the issuance of the PUC's financial statements, the City's financial statements will be updated and issued in final form. A summary is as follows:

Report Name	Elements of Report	Overview
<i>Annual Comprehensive Financial Report</i>	<ul style="list-style-type: none">• Auditor's opinion• Management's Discussion and Analysis• Financial statements• Footnotes• Supplemental information	<ul style="list-style-type: none">• It is anticipated that an unmodified ("clean") opinion will be issued on the Basic Financial Statements
<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters</i>	<i>Results of testing</i> <ul style="list-style-type: none">• Internal controls over financial reporting• Compliance with laws, regulations, contracts and grants	<ul style="list-style-type: none">• We anticipate there will be: No findings of noncompliance• No internal control findings
<i>State Legal Compliance Report</i>	<ul style="list-style-type: none">• Results of testing certain provisions of Minnesota Statutes	<ul style="list-style-type: none">• We anticipate there will be: No findings of noncompliance
<i>Audit Management Letter</i>	<i>Analysis of financial condition and other issues</i> <ul style="list-style-type: none">• Comparisons and trend analysis• Policies and procedures• Audit committee communications	<ul style="list-style-type: none">• See page 3 of this report for Executive Summary

EXECUTIVE SUMMARY

Several areas highlighted for your reference include the following:

Awards:

- The City of Grand Rapids has been awarded the Certificate of Achievement for Excellence in Financial Reporting for the past 30 years. Page 6

Key Financial Indicators:

- The City's property tax collection rate in 2022 was 99.26%. The special assessment collection rate was 98.3% for 2022. Page 10
- The fund balance of the City's General Fund increased \$74,000 during 2022. Revenues exceeded budget by \$155,500 and expenditures exceeded budget by \$90,500. The General Fund has met the desired cash flow reserve needs. Page 14
- A comparison of Debt Service Fund assets and outstanding debt is shown herein. Page 23

For the Future:

- We recommend the City continue to monitor actual results of the Debt Service Funds with the projected amounts to ensure adequate funding of the Debt Service Funds. Page 25
- Governmental accounting standards affecting future years are summarized. Page 33

Required auditor communications are included in this report. Page 34

Governmental Accounting and Financial Reporting

GOVERNMENT ACCOUNTING VS. PRIVATE SECTOR ACCOUNTING

The City's financial statements are presented in a format that is significantly different than financial statements of a private business.

The key differences that impact accounting and financial reporting include the following:

- A. Service motive vs. profit motive
- B. Stewardship vs. return on investment
- C. Appropriated budget vs. financial plan

Service Motive vs. Profit Motive

In the private-sector, there generally is a direct relationship between what an individual pays and what that same individual receives. A customer that purchases two rolls of paper from Blandin Paper would expect to pay more than a customer purchasing one roll of paper. This is referred to as an "exchange-type" transaction.

The situation is different for most goods and services provided by the City of Grand Rapids, Minnesota. Generally, there is not a direct relationship between what a resident pays in taxes and the specific services that same resident receives from the City. This is referred to as a "non-exchange" transaction.

Stewardship vs. Return on Investment

Users of private-sector financial statements are investors and creditors. Investors interested in financial information that enables them to evaluate a business's ability to generate a return on their investment. Stock holders are concerned about earnings and earnings per share.

Governmental Accounting and Financial Reporting

Citizens and creditors of the City need financial information that allows them to assess the City's stewardship of the financial resources provided. In other words, the financial statements need to demonstrate accountability. This accountability is a foundation of fund accounting. Maintaining separate funds demonstrates accountability to taxpayers, creditors and grantors.

Budget vs. Financial Plan

Budgets are prepared by both private sector businesses and governments. The private-sector budgets often serve as a management tool for financial planning. In a government, a budget serves as authorization to spend resources for the provision of goods and services. For the City of Grand Rapids, there are annual budgets and project budgets. The Annual Budget Report includes the budget for twelve individual funds. Additionally, the budget process uses multiple internal meetings, several meetings with the City Council, and public meetings.

Summary

Financial reporting of budgetary performance serves as an accountability/compliance tool for the City Council and taxpayers.

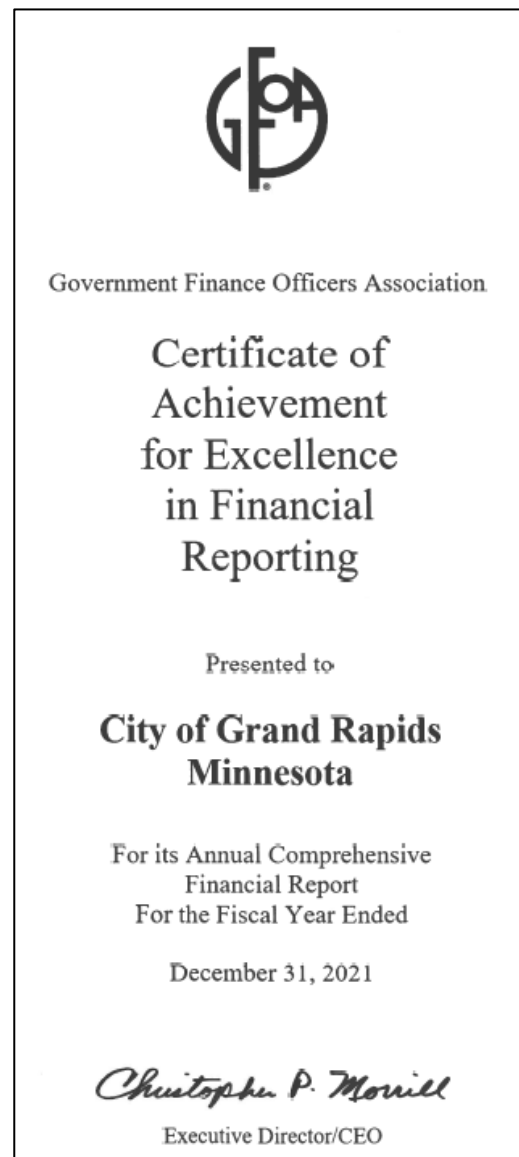
In summary, the City's financial statements serve to demonstrate accountability and compliance to taxpayers, creditors and grantors of council action, regulations, and grant agreements.

**NATIONAL RECOGNITION FOR
EXCELLENCE IN FINANCIAL REPORTING**

The “Certificate of Achievement for Excellence in Financial Reporting” is an award program offered by the Government Finance Officers Association of the United States and Canada (GFOA). This Award Program has three key objectives:

- Recognize governments that issue a high-quality Financial Report.
- Easily readable and understandable Financial Report.
- Providing educational materials, comments, and suggestions for improvements to program participants.

The City of Grand Rapids has been awarded the Certificate of Achievement for Excellence in Financial Reporting for twenty-nine consecutive years (every year since 1992).



FINANCIAL REPORTING ENTITY

The Governmental Accounting Standards Board (GASB) is the standard setting body for accounting principles and financial reporting. The foundation of financial reporting is the distinction between the *primary government* and *component units*.

A primary government consists of all organizations that make up its legal entity. Characteristics of a primary government are a) it has a separately elected governing body, b) it is legally separate, and c) it is fiscally independent of other governments. All funds, organizations, institutions, agencies and departments that are not legally separate are, for financial reporting purposes, part of a primary government.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

The City's finance department has evaluated all of the entities related to the City. A summary of this analysis is as follows:

Entity	Relationship
Library Board	Part of Primary Government
Arts and Culture Advisory Board	Part of Primary Government
Pokegama Golf Course Board	Part of Primary Government
Civic Center/Park & Recreation Board	Part of Primary Government
Human Rights Commission	Part of Primary Government
Planning Commission	Part of Primary Government
Public Utilities Commission	Component Unit – included in Financial Report
E.D.A.	Component Unit – included in Financial Report
Fire Relief Association	Excluded

ACCOUNT BALANCE ANALYSIS OF THE FUND FINANCIAL STATEMENTS**Summary of Financial Activity**

The schedule below presents a condensed financial summary of all funds:

<u>Fund Type</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund Transfers (Net)</u>	<u>Increase (Decrease) in Fund Balance</u>	<u>Fund Balance 12/31/2022</u>	<u>Cash Balance 12/31/2022</u>
General Fund	\$10,402,000	\$9,874,000	(\$454,000)	\$74,000	\$7,629,000	\$5,531,000
Special Revenue Funds	2,396,000	2,412,000	121,000	105,000	1,161,000	1,167,000
Debt Service Funds	3,065,000	3,390,000	330,000	5,000	6,082,000	6,194,000
Capital Project Funds	14,397,000	7,526,000	3,000	6,874,000	7,442,000	10,748,000
Enterprise Funds	<u>1,700,000</u>	<u>1,489,000</u>	<u>-</u>	<u>211,000</u>	<u>3,623,000</u>	<u>930,000</u>
Total	<u>\$31,960,000</u>	<u>\$24,691,000</u>	<u>\$ -</u>	<u>\$7,269,000</u>	<u>\$25,937,000</u>	<u>\$24,570,000</u>

Additional detail by fund is presented on the next page.

City of Grand Rapids, Minnesota

Audit Management Letter

Fund Financial Statements

All Funds Financial Summary - 2022					
Fund	Revenue and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Position	Fund Balance/ Net Position 12/31/2022
1 General	\$10,402,399	\$9,874,462	(\$453,645)	\$74,292	\$7,628,840
Special Revenue Funds:					
2 Public Library	978,761	933,640	-	45,121	701,649
3 Central School	62,801	130,914	90,285	22,172	94,631
4 Airport Operations	317,510	294,188	20,000	43,322	193,945
5 IRA Civic Center	641,973	617,390	(24,437)	146	(47,268)
6 Haz-Mat	76,770	77,339	-	(569)	440
7 Police Forfeiture	22,083	46,317	-	(24,234)	53,968
8 Cemetery	262,219	244,328	-	17,891	153,547
9 Domestic Animal Control Facility	33,672	68,286	34,657	43	10,550
Debt Service Funds:					
10 Improvement Bonds	1,852,339	1,783,234	-	69,105	3,703,515
11 Street Reconstruction Bonds of 2013B and 2020A	289,641	496,797	150,000	(57,156)	989,868
12 G.O. State-Aid Street Bonds of 2007B and 2012B	394,578	397,015	-	(2,437)	12,484
13 Refunding Bonds of 2017B	215,595	456,048	-	(240,453)	419,219
14 Taxable GO Temporary Bond	38	-	179,811	179,849	179,849
15 Tax Increment 1-6 Old Hospital Housing	57,191	52,281	-	4,910	98,640
16 Tax Increment 1-6 Old Hospital Housing Paygo	34,757	31,168	-	3,589	22,525
17 Tax Increment 1-4 Oakwood Terrace	32,127	104	-	32,023	535,832
18 Tax Increment 1-7 Block 37 Redevelopment	17,375	15,726	-	1,649	20,180
19 Tax Increment 1-8 Lakewood Heights	35,617	32,085	-	3,532	31,790
20 Tax Increment 1-10 River Hills	62,615	56,420	-	6,195	33,360
21 Tax Increment 1-11 Sawmill Inn Redevelopment	11,388	93	-	11,295	16,090
22 Tax Abatement - 1st Ave Condo	33,454	43,518	-	(10,064)	15,581
23 Tax Increment 1-12 The Pillars	27,825	25,129	-	2,696	2,696
Capital Project Funds:					
24 Capital Equipment Replacement	219,967	947,719	155,000	(572,752)	(1,129,094)
25 Civic Center Capital Improvements	9,959,111	1,418,930	(179,811)	8,360,370	7,096,512
26 2022 Infrastructure	2,178,567	2,342,791	-	(164,224)	(164,224)
27 General Capital Improvement Projects	797,682	929,845	25,372	(106,791)	173,345
28 Park Acquisition and Development	438	27,902	-	(27,464)	67,189
29 Arts and Culture Capital Project	147	79,197	28,383	(50,667)	21,104
30 Infrastructure Bonds	147,102	254,705	(104,334)	(211,937)	741,644
31 Airport Capital Fund	240,636	213,805	-	26,831	128,991
32 GR/Cohasset Industrial park	210,000	242,171	-	(32,171)	(161,762)
33 IRA Civic Center Project	387	-	24,437	24,824	-
34 Municipal State Aid	857,731	816,194	-	41,537	488,266
35 Permanent Improvement Revolving	(215,127)	253,206	54,282	(414,051)	179,879
Enterprise Funds:					
36 Golf Course	869,108	847,217	-	21,891	2,690,524
37 Storm Water	830,964	641,897	-	189,067	932,443
Total	\$31,959,441	\$24,692,061	\$0	\$7,267,380	\$25,936,748

*Property Taxes***Property Taxes**

Property tax collections (excluding tax increment levies) were as follows for the past four years:

	2019	2020	2021	2022
Property tax levy	<u>\$7,689,023</u>	<u>\$7,793,670</u>	<u>\$8,079,328</u>	<u>\$8,603,265</u>
Receipts:				
Current year levy	7,545,606	7,735,738	7,864,173	8,539,369
Delinquent (prior years levies)	<u>54,274</u>	<u>32,894</u>	<u>99,195</u>	<u>49,671</u>
Total receipts	<u>7,599,880</u>	<u>7,768,632</u>	<u>7,963,368</u>	<u>8,589,040</u>
Collection rates:				
Collections of current year levy as a percent of levy	<u>98.13%</u>	<u>99.26%</u>	<u>97.34%</u>	<u>99.26%</u>
Total receipts as percent of current year levy	<u>98.84%</u>	<u>99.68%</u>	<u>98.56%</u>	<u>99.83%</u>

*Special Assessments***Special Assessments**

Special assessment collections have been as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Current portion due	<u>\$414,361</u>	<u>\$370,472</u>	<u>\$306,057</u>	<u>\$256,562</u>
Receipts:				
Current	404,464	336,097	270,910	252,254
Delinquent	<u>14,160</u>	<u>5,476</u>	<u>10,980</u>	<u>3,991</u>
Total receipts	<u>418,624</u>	<u>341,573</u>	<u>281,890</u>	<u>256,245</u>
Collection rates:				
Collection of amounts due	<u>97.6%</u>	<u>90.7%</u>	<u>88.5%</u>	<u>98.3%</u>
Total collections as a percent of amount due	<u>101.0%</u>	<u>92.2%</u>	<u>92.1%</u>	<u>99.9%</u>

The reduced collection rate for 2021 relates to an assessment in the General Fund for blight. For 2022, the City's collection rate has returned to an acceptable amount. We recommend the City continue to monitor the special assessment collection rate and consider the impact on the funding of debt service payments.

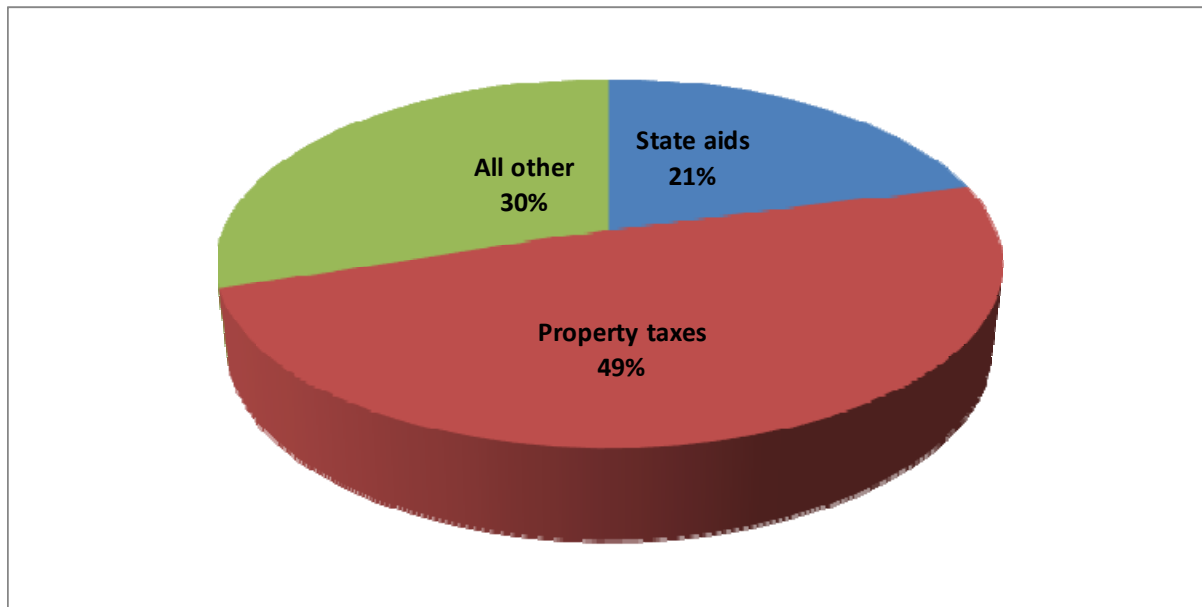
GENERAL FUND

The General Fund of the City is maintained to account for the current operating and capital outlay expenditures common to all cities. These basic services include (but are not limited to) public safety, public works, parks, culture and recreation and general government. A summary of the revenue sources of the General Fund of the City of Grand Rapids is as follows:

General Fund Revenue By Source								
Year	Property Taxes		State Tax Relief (LGA, MVHC and Supplemental Aid)		All Other Revenue ⁽¹⁾		Total Revenue	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2013	3,677,404	46%	1,214,925	16%	2,914,954	38%	7,807,283	100%
2014	3,622,374	44%	1,507,585	18%	3,032,665	38%	8,162,624	100%
2015	3,946,640	47%	1,556,892	18%	2,942,815	35%	8,446,347	100%
2016	4,156,865	48%	1,587,017	18%	2,847,848	34%	8,591,730	100%
2017	4,358,987	48%	1,582,391	18%	3,060,521	34%	9,001,899	100%
2018	4,330,676	47%	1,671,022	18%	3,241,955	35%	9,243,653	100%
2019	4,642,474	48%	1,668,617	17%	3,350,091	35%	9,661,182	100%
2020	4,719,439	43%	1,854,693	17%	4,475,527	40%	11,049,659	100%
2021	4,963,402	47%	1,944,564	18%	3,757,227	35%	10,665,193	100%
2022	5,083,920	49%	2,140,270	21%	3,122,317	30%	10,346,507	100%

⁽¹⁾"All other revenue" includes the PUC payment in lieu of tax.

A chart of 2022 General Fund revenue sources is as follows:



General Fund

The fund balance of the General Fund increased by \$74,000 in 2022 as follows:

	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues	\$10,191,000	\$10,346,500	\$155,500
Expenditures	9,784,000	9,874,500	(90,500)
Revenues over (under) expenditures	407,000	472,000	65,000
Other sources (uses):			
Sale of capital assets	-	6,500	6,500
Insurance recoveries	-	49,500	49,500
Transfers out	(407,000)	(454,000)	(47,000)
Total other sources (uses)	(407,000)	(398,000)	9,000
Net change in fund balance	\$0	\$74,000	\$74,000

Detail of the preceding budget variances is presented in Statement 11 of the Annual Comprehensive Financial Report. A summary of the budget variances is as follows:

Revenue:

Intergovernmental revenue – had a favorable budget variance of \$158,000. The City recognized \$117,000 of Taconite aid in excess of budget.

Licenses and permits – had a favorable variance of \$182,000. For 2022, building activity included one large permit for the Itasca County public safety project.

Investment income – the City’s realized investment income is in-line with budget. For 2022, the City also recognized a reduction in the fair (market) value of investments of \$245,000 in the General Fund. This reduction represents unrealized losses. If the City holds its investments until maturity, these losses are expected to self-correct.

Expenditures:

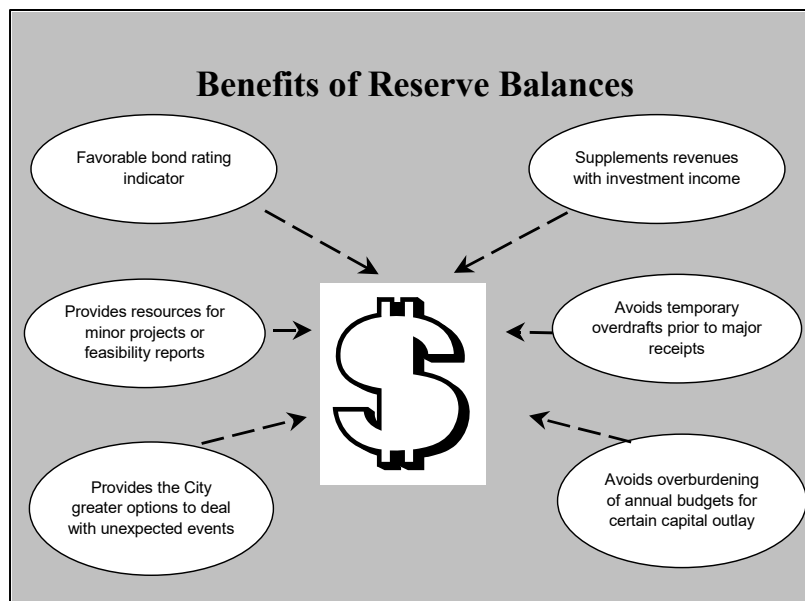
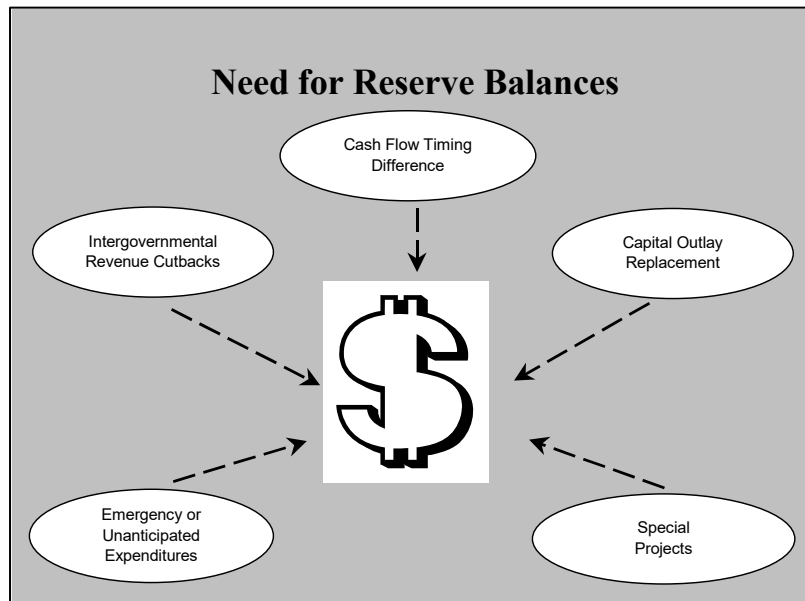
City-wide – had an unfavorable budget variance of \$90,000. Various off-setting variances make-up the overall amount, with public works expenditures over budget being a significant contributing factor.

The City's General Fund balance has been as follows for the past ten years:

General Fund Balance		
<u>Year</u>	<u>Amount⁽¹⁾</u>	<u>Increase (Decrease)⁽¹⁾</u>
2013	5,497,000	5,497,000
2014	5,651,000	154,000
2015	6,001,000	350,000
2016	6,239,000	238,000
2017	6,271,000	32,000
2018	6,219,000	(52,000)
2019	6,621,000	402,000
2020	7,342,000	721,000
2021	7,555,000	213,000
2022	7,629,000	74,000
⁽¹⁾ Rounded to nearest thousand		

The fund balance of a city's general fund is a key financial indicator. Management controls over the level of fund balance is based on a city's philosophy and approach to determining optimum balances.

A summary of the purposes and benefits of General Fund designated balances is as follows:



Summary of General Fund Balance

The City has a policy regarding General Fund Reserve Balances (Resolution 11-110). The City's policy for reserves in the General Fund is:

Minimum cash flow – to equal 50% of the following year's General Fund property tax and anticipated local government aids.

Compensated absences – equal to the sum of flexible time off and compensatory time for all employees each December 31.

Emergency or unanticipated expenditures – equal to 10% of the prior year General Fund annual revenues.

Neighborhood and economic development – equal to the principal amount of the sale of the liquor store.

At December 31, 2022, the unassigned fund balance of the General Fund available for reserves was \$5,012,023, compared to its targeted balance of \$6,394,276. See schedule on next page.

In addition, the City has established a specified amount of General Fund balance for revenue stabilization, which is reported as committed fund balance. When sufficient reserves exist, the amount committed is equal to 10% of the prior year annual revenues.

City of Grand Rapids, Minnesota

Audit Management Letter

General Fund

At December 31, 2022, the fund balance of the General Fund was as follows:

Fund Balance Constraint	2022		Balance 12/31/2022	Targeted Balance	Difference
	Balance 12/31/21	Increase (Decrease)			
1 Nonspendable:					
2 Interfund loan	\$1,479,970	(\$260,301)	\$1,219,669	\$1,219,669	\$ -
3 Prepaid items	173,023	18,982	192,005	192,005	-
4 Restricted:					
5 Cash - Superior USA	16,112	512	16,624	16,624	-
6 Donor restrictions	23,404	(4,654)	18,750	18,750	-
7 Committed:					
8 Revenue stabilization	1,049,832	119,937	1,169,769	1,169,769	-
9 Unassigned (Available for Reserves):					
10 Cash flow	3,954,427	76,686	4,031,113	4,031,113	-
11 Compensated absences	483,807	115,368	599,175	599,175	-
12 Emergency / unanticipated	373,973	7,762	381,735	1,066,519	(684,784)
13 Economic development	-	-	-	697,469	(697,469)
14 Unassigned	-	-	-	-	-
15 Total	<u>\$7,554,548</u>	<u>\$74,292</u>	<u>\$7,628,840</u>	<u>\$9,011,093</u>	<u>(\$1,382,253)</u>

SPECIAL REVENUE FUNDS

Special Revenue Funds are a classification of funds to account for revenues (and expenditures related thereto) segregated by City policy or Federal or State statutes for specific purposes. The City maintained the following Special Revenue Funds during 2022:

Fund	Revenue	Expenditures	Interfund Transfers	Change in Fund Balance	Fund Balance 12/31/2022	Comments
Public Library	\$978,761	\$933,640	\$ -	\$45,121	\$701,649	This fund had a balanced budget for 2022. Revenues exceeded budget by \$15,000. Expenditures were less than budget by \$55,000.
Central School	62,801	130,914	90,285	22,172	94,631	This fund had a balanced budget for 2022. Revenues exceeded budget by \$2,700. Expenditures were greater than budget by \$14,400. This fund receives transfers from General Fund - for 2022 the transfer was \$34,000 more than budgeted.
Airport Operations	317,510	294,188	20,000	43,322	193,945	This fund had a balanced budget for 2022. Revenue exceeded budget by \$88,000. Expenditures exceed budget by \$44,000.
IRA Civic Center	641,973	617,390	(24,437)	146	(47,268)	The City budgeted an increase in fund balance of \$97,000. Revenues were in line with budget and expenditures were more than budget by \$74,000.
Haz-Mat	76,770	77,339	-	(569)	440	Balanced budget for 2022.
Police Forfeiture	22,083	46,317	-	(24,234)	53,968	This fund had a balanced budget for 2022. Revenues were under budget by \$3,000. Expenditures exceeded budget by \$21,000.
Cemetery	262,219	244,328	-	17,891	153,547	This fund had a balanced budget for 2022. Revenues exceeded budget by \$7,000. Expenditures were under budget by \$10,000.
Domestic Animal Control Facilit	33,672	68,286	34,657	43	10,550	Balanced budget for 2022.
Totals	\$2,395,789	\$2,412,402	\$120,505	\$103,892	\$1,161,462	

*Special Revenue Funds***Public Library**

Approximately 60% of the funding of library operations is from property taxes and state aids which are not received until the second-half of the year. Therefore, like the General Fund, a portion of the fund balance is required for cash flow purposes. In response to this circumstance, the Library Board adopted resolution 2012-12 amending the fund balance policy. A summary of Public Library Fund balance at December 31, 2022 is as follows:

Public Library Fund Balance Constraints			
Fund Balance Constraint	December 31, 2022		
	Targeted Balance	Actual Balance	Difference
Nonspendable:			
Prepaid items	\$12,814	\$12,814	\$ -
Committed:			
Cash flow	443,666	443,666	-
Compensated absences	44,648	44,648	-
Emergency/unanticipated expenditures	64,796	64,796	-
Major equipment replacement	74,053	135,725	(61,672)
Total committed	627,163	688,835	(61,672)
Total fund balance	\$639,977	\$701,649	(\$61,672)

As shown above, the actual fund balance is \$61,672 greater than the targeted fund balance at December 31, 2022.

*Special Revenue Funds***IRA Civic Center**

A summary of activity of this Fund is as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023 Budget</u>
Revenue	\$741,158	\$558,291	\$659,759	\$641,973	\$921,212
Expenditures:					
Operating	752,645	515,776	614,736	617,390	925,664
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	(11,487)	42,515	45,023	24,583	(4,452)
Other sources:					
Insurance recoveries	-	-	41,244	-	-
Sale of capital assets	-	-	-	-	-
Transfers (to)from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,437)</u>	<u>4,452</u>
Net change in fund balance	(11,487)	42,515	86,267	146	0
Fund balance (deficit) - January 1	<u>(164,709)</u>	<u>(176,196)</u>	<u>(133,681)</u>	<u>(47,414)</u>	<u>(47,268)</u>
Fund balance (deficit) - December 31	<u><u>(\$176,196)</u></u>	<u><u>(\$133,681)</u></u>	<u><u>(\$47,414)</u></u>	<u><u>(\$47,268)</u></u>	<u><u>(\$47,268)</u></u>

The Fund deficit of (\$47,268) at December 31, 2022 is partially financed by an interfund loan of \$37,688 which is to be repaid over ten years (through 2025).

We recommend the City continue to monitor the financial results of this Fund.

DEBT SERVICE FUNDS

Debt Service Funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than Enterprise Fund debt).

Current governmental reporting standards for fund financial statements do not provide for the matching of long-term debt with its related financing sources. Although this information can be found in the City's Annual Comprehensive Financial Report, it is located in several separate sections. The following schedule extracts information from the Annual Comprehensive Financial Report to provide an overview analysis of long-term debt and its related funding.

City of Grand Rapids, Minnesota

Audit Management Letter

Debt Service Funds

The reader is cautioned that 1) future interest revenue from assessments and investments, and 2) future interest expense on bonded debt, is not included in the following schedule.

Fund Description	12/31/2022				Scheduled	Final
	Fund Balance	Unavailable Revenue	Total	Outstanding Debt	Ad-valorem Property Taxes	Maturity Date
Special Assessment Debt:						
1 Improvement Bonds of 2009C ⁽¹⁾	568,382	98,032	666,414	1,065,000	606,647	2/1/2025
2 Improvement Bonds of 2010A	124,299	18,416	142,715	250,000	166,932	2/1/2026
3 Improvement Bonds of 2011B	241,548	85,314	326,862	370,000	230,123	2/1/2027
4 Improvement Bonds of 2012A	613,055	108,275	721,330	960,000	626,443	2/1/2028
5 Improvement Bonds of 2012B ⁽²⁾	12,484	-	12,484	1,505,000	-	10/1/2027
6 Improvement Bonds of 2013B	783,804	137,496	921,300	2,100,000	652,360	2/1/2029
7 Improvement Bonds of 2014A	356,226	58,276	414,502	1,430,000	1,291,294	2/1/2030
8 Improvement Bonds of 2016A	315,203	109,954	425,157	1,525,000	1,357,819	2/1/3032
9 Improvement Bonds of 2021B	333,883	14,521	348,404	6,255,000	7,718,170	2/1/2042
10 Refunding Bonds of 2017B	419,219	158,978	578,197	460,000	63,448	2/1/2034
11 Street Reconstruction Bonds of 2017A	393,880	123,646	517,526	1,670,000	1,691,113	2/1/2033
12 Street Reconstruction Bonds of 2018A	337,342	111,372	448,714	1,640,000	1,561,722	2/1/2034
13 G. O. Abatement Bonds of 2019A	419,697	736,399	1,156,096	1,425,000	1,616,706	2/1/2035
14 Street Reconstruction Bonds of 2020A	206,064	113,109	319,173	2,150,000	2,156,062	2/1/2036
15 G.O. Temporary Bonds of 2022A	179,849	-	179,849	10,000,000	-	12/1/2025
16 Supplemental levy ⁽³⁾	-	-	-	-	(510,000)	
Total special assessment debt	<u>5,304,935</u>	<u>1,873,788</u>	<u>7,178,723</u>	<u>32,805,000</u>	<u>19,228,839</u>	

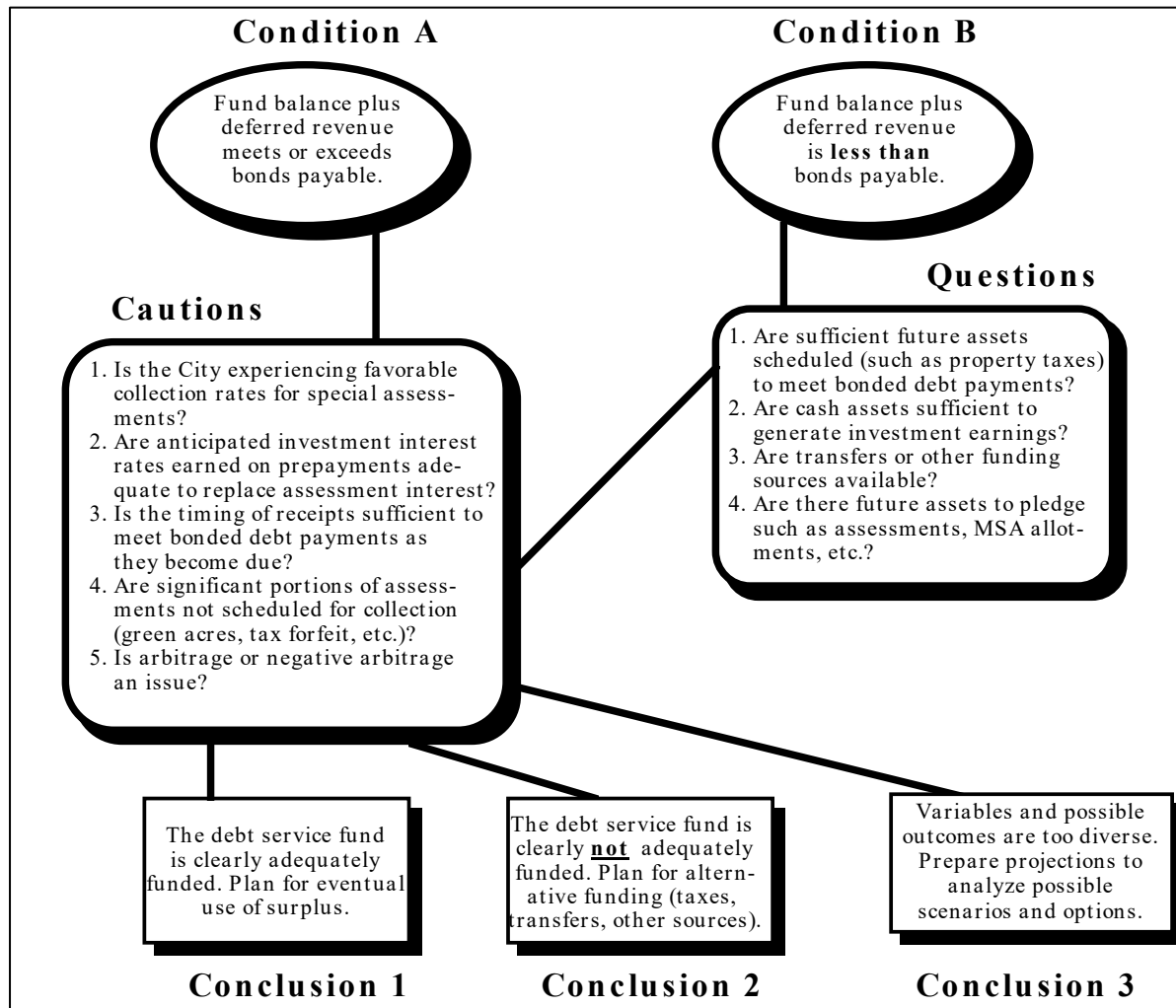
(1) These are "Build America Bonds", the interest is subsidized by a federal credit.

(2) To be paid by MSA allotments

(3) This amount represents decreased levies which were approved to eliminate projected cash surpluses in various Debt Service Funds.

Debt Service Funds

The following decision chart prompts questions to further evaluate a fund's financial position:



We recommend the City continue to compare actual results of the Debt Service Funds with the projected amounts to ensure adequate funding of the Debt Service Funds and/or possibly reduce future tax levies.

TAX INCREMENT DISTRICTS

The City of Grand Rapids currently has the following tax increment districts:

- TIF 1-4 Oakwood Terrace
- TIF 1-6 Old Hospital Housing
- TIF 1-7 Block 37 Redevelopment
- TIF 1-8 Lakewood Heights
- TIF 1-10 River Hills Apartments
- TIF 1-11 Rebound (Sawmill)
- TIF 1-12 The Pillars
- TIF 1-13 Unique Opportunities Apartments

Tax Increment 1-4 (Oakwood Terrace)

The final payment on a pay-as-you-go note was made in 2006. The fund no longer has note or debt service payments and is collecting tax increment. Any extra tax increment from this district has been pledged to pay any shortfalls of TIF 1-6 (relating to the 2017B TIF Refunding Bonds only). This pledge was made because the owner of Oakwood Terrace is the same owner as the Old Hospital Housing.

Tax Increment 1-6 (Old Hospital Housing)

The district is divided into two main parcels:

1. Assisted Living Facility on the East Clinic site:
 - 2008 was the first year tax increment was received relating to this parcel.
 - The tax increment (90%) is used to make debt service payments on the \$850,000 G.O. TIF Bonds, 2008A. This bond issue was refunded by the 2017B Bonds.
2. Old hospital site was redeveloped into low to moderate income housing:
 - The old hospital was demolished in 2008. TIF Bond proceeds financed the demolition costs.
 - The tax increment derived from this site is used to make the debt service payments on the \$307,500 Tax Increment Revenue Notes, 2008B (paygo).
 - The outstanding balance of this note at December 31, 2022 was \$307,500.

City of Grand Rapids, Minnesota

Audit Management Letter

Tax Increment Districts

Tax Increment 1-7 (Block 37 Redevelopment)

The tax increment derived from this site is used to pay the \$389,300 2008A TIF Note (paygo). 90% of the increment collected is pledged to pay the note. The outstanding balance of this note was \$389,300 at December 31, 2022.

Tax Increment 1-8 (Lakewood Heights)

The tax increment derived from this site are used to pay the \$350,000 2013A TIF Note (paygo). 90% of the increment collected is pledged to pay the note. 2013 was the first year tax increment was received. The outstanding balance of this note was \$210,463 at December 31, 2022.

Tax Increment 1-10 (River Hills)

Tax increment derived from the district are used to pay the \$300,000 2016A TIF Note. 90% of the increment collected is pledged to pay the Note. The outstanding balance of this Note was \$216,212 at December 31, 2022. In addition, tax increments derived from this district is used to pay the \$300,000 2017B TIF Note. 90% of the increment collected is pledged to pay the Note. The outstanding balance of this Note was \$232,212 at December 31, 2022.

A Summary of the 2022 financial activity of the TIF funds is as follows:

Fund	Revenue and Other Sources	Expenditures and Other Uses	Increase (Decrease) in Fund Balance	Fund Balance 12/31/2022	PAYGO Balance 12/31/2022
Tax Increment 1-6 Old Hospital Housing	57,000	52,000	5,000	99,000	-
Tax Increment 1-6 Old Hospital Housing Paygo	35,000	31,000	4,000	23,000	307,500
Tax Increment 1-4 Oakwood Terrace	32,000	-	32,000	536,000	-
Tax Increment 1-7 Block 37 Redevelopment	17,000	16,000	1,000	20,000	389,300
Tax Increment 1-8 Lakewood Heights	36,000	32,000	4,000	32,000	210,500
Tax Increment 1-10 River Hills	63,000	56,000	7,000	33,000	448,400
Tax Increment 1-11 Sawmill Inn Redevelopment	11,000	-	11,000	16,000	-
Tax Increment 1-12 The Pillars	28,000	25,000	3,000	3,000	1,751,800
Tax Increment 1-13 Unique Opportunities Apartments	-	-	-	-	372,000
Total	279,000	212,000	64,000	759,000	3,479,500

Capital Project Funds

CAPITAL PROJECT FUNDS

The financial activity of the Capital Project Funds for 2022 was as follows:

Fund	Revenue	Expenditures	Interfund Transfers	Change in Fund Balance	Fund Balance 12/31/2022	Comments
Capital Equipment Replacement	\$219,967	\$947,719	\$155,000	(\$572,752)	(\$1,129,094)	2022 expenditures include purchase of fire engine #21
Civic Center Capital Improvements	9,959,111	1,418,930	(179,811)	8,360,370	7,096,512	This fund accounts for the Civic Center renovation.
2022 Infrastructure	2,178,567	2,342,791	-	(164,224)	(164,224)	2022 activity in this fund includes the 21st SW Extension project
General Capital Improvement Project	797,682	929,845	25,372	(106,791)	173,345	The most significant activity during 2022 relate to the autonomous vehicle
Park Acquisition and Development	438	27,902	-	(27,464)	67,189	
Arts and Culture Capital Project	147	79,197	28,383	(50,667)	21,104	
Infrastructure Bonds	147,102	254,705	(104,334)	(211,937)	741,644	
Airport Capital Fund	240,636	213,805	-	26,831	128,991	
GR/Cohasset Industrial park	210,000	242,171	-	(32,171)	(161,762)	
IRA Civic Center Project	387	-	24,437	24,824	-	
Municipal State Aid	857,731	816,194	-	41,537	488,266	The most significant project in this fund during 2022 was the 7th Ave SE and 10th St SE Overlay
Permanent Improvement Revolving	(215,127)	253,206	54,282	(414,051)	179,879	
Totals	<u>\$14,396,641</u>	<u>\$7,526,465</u>	<u>\$3,329</u>	<u>\$6,873,505</u>	<u>\$7,441,850</u>	

ENTERPRISE FUNDS

The City maintains two Enterprise Funds, the Pokegama Golf Course and the Storm Water Utility Fund.

Pokegama Golf Course Fund

A summary of golf course operations for the preceding four years is as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Operating revenue	\$589,751	\$651,736	\$776,841	\$864,518
Operating expenses	<u>624,109</u>	<u>635,929</u>	<u>718,957</u>	<u>845,560</u>
Operating income (loss)	(34,358)	15,807	57,884	18,958
Other income (expense) - net	5,190	(735)	119,188	2,933
Transfers in	-	-	-	-
Transfers out	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(\$32,668)</u>	<u>\$15,072</u>	<u>\$177,072</u>	<u>\$21,891</u>

Storm Water Utility Fund

This Fund was established in 2004. The transfers out of the Fund are for the storm water utility's portion of infrastructure improvements made during the year.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Operating revenue	\$694,278	\$743,663	\$873,563	\$857,346
Operating expenses	<u>740,480</u>	<u>663,576</u>	<u>624,495</u>	<u>641,897</u>
Operating income	(46,202)	80,087	249,068	215,449
Other income (expense) - net	3,236	4,123	5,262	(26,382)
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u><u>(\$42,966)</u></u>	<u><u>\$84,210</u></u>	<u><u>\$254,330</u></u>	<u><u>\$189,067</u></u>

Rates increased 13%, 6.25% and 2.94% for 2020, 2021 and 2022 respectively.

ECONOMIC DEVELOPMENT AUTHORITY

This organization was established and began operations in 1987 pursuant to Minnesota Statute 458C (subsequently amended and recodified). During 1994, the City adopted resolution 94-164 which modified the previous enabling resolution to refer to current statutory authority for EDA's as contained in Chapter 469 of Minnesota Statutes. Among other things, this resolution impacted the financial reporting of the EDA. The EDA is reported as a discrete component unit, similar to the Public Utilities Commission.

Fund balances of EDA funds are as follows:

<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Change in Fund Balance</u>	<u>Fund Balance 12/31/2022</u>
General	\$103	\$13,903	(\$13,800)	\$4,296
Capital Project	998,282	728,935	269,347	1,090,452
Total	<u>\$998,385</u>	<u>\$742,838</u>	<u>\$255,547</u>	<u>\$1,094,748</u>

Capital Project expenditures for 2022 include the following:

Great River Acres	\$26,059
Industrial Park Signage	12,865
Loans issued	12,265
Downtown Planning	78,871
Loan repayments	481,671
All other	<u>117,204</u>
Total	<u>\$728,935</u>

City of Grand Rapids, Minnesota

Audit Management Letter

Economic Development Authority

The EDA has several loans payable. A summary of these loans is as follows:

Payee	Purpose	Balance 12/31/21	Additions	Deletions	Balance 12/31/22
Blandin Foundation	Block 20 & 21 soil remediation	\$100,000	\$ -	\$ -	\$100,000
Blandin Foundation	Airport industrial park	245,000	-	17,500	227,500
Blandin Foundation	Commercial building improvement loans	73,630	-	15,285	58,345
Blandin Foundation	VFW/Rose Bldgs	140,000	-	-	140,000
IRRRB	Airport Hangar	268,091	-	268,091	-
IEDC	Airport Hangar	46,085	-	46,085	-
Blandin Foundation	EWCL	426,162	-	122,695	303,467
Blandin Foundation	EWCL	84,197	-	12,247	71,950
	Total	<u>\$1,383,165</u>	<u>\$ -</u>	<u>\$481,903</u>	<u>\$901,262</u>

The EDA also has inventory of Land Held for resale in the amount of \$2,831,472. A summary of these assets are as follows:

Industrial park East	\$274,500
Airport South Industrial Park - Phase 1	162,212
Airport South Industrial Park - Phase 2	197,739
Airport properties	576,344
Carlson Property	30,000
Great River Acres	637,848
Block 5	258,602
Forest Lake school site	250,000
Block 18 (VFW and Rose)	134,927
Block 23	42,000
Blocks 20 and 21	267,300
	<u>\$2,831,472</u>

ACCOUNTING STANDARDS

Governmental Accounting Standards Board (GASB) statements that are required to be implemented in future years that may affect the City are as follows:

Upcoming GASB Statements	City Implementation Required By
Statement No. 94 <i>Public-Private and Private-Private Partnerships and Availability Payment Arrangements</i>	2023
Statement No. 96 <i>Subscription-Based Information Technology Arrangements</i>	2023
Statement No. 99 <i>Omnibus 2022</i>	2023
Statement No. 100 <i>Accounting Changes and Error Corrections</i>	2024

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have substantially completed the audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the for the year ended December 31, 2022. We did not audit the financial statements of the Public Utilities Commission (a discretely presented component unit). Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated January 16, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 23 to the financial statements, the City adopted new accounting guidance for 2022, Governmental Accounting Standards Board Statement No. 87, *Leases*.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements are the estimated present value of the lease receivable, the estimate of OPEB liability and the estimates used to calculate the net pension liability, the pension related deferred outflows and inflows of resources, and pension expense. These estimates are based on the City's estimated incremental borrowing rate as of January 1, 2022 and actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Determining sensitivity is subjective, however, we believe the disclosures most likely to be considered sensitive are Note 9 – Defined Benefit Pension Plans.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We will be requesting certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Accounting standards require the City to report investments at fair value. Historically, the City has reported its brokered certificates of deposits at cost due to an immaterial difference between cost and fair value. Other investments were reported at fair value. Market conditions at the end of 2022 resulted in a material difference between cost and fair value and accordingly, the City has reported all investments (including certificates of deposit) at fair value, resulting in an unrealized loss relating to investment income of \$665,709 and \$51,646 for the City and EDA respectively.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the budgetary comparison information, Schedule of Changes in total OPEB Liability and related ratios and The Schedules of Proportionate Share of Pensions Liability and Pension contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on that RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, statistical section and other information section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

Restriction on Use

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