

**CITY OF GRAND RAPIDS, MINNESOTA**

AUDIT MANAGEMENT LETTER

December 31, 2023

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To the Honorable Mayor and  
Members of the City Council

We have completed the 2023 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 audited by another audit firm and 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.

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 LLC*

REDPATH AND COMPANY, LLC  
St. Paul, Minnesota

May 9, 2024

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**REPORT SUMMARY**

A summary of reports issued in conjunction with the audit is as follows:

<b>Report Name</b>	<b>Elements of Report</b>	<b>Overview</b>
<i>Annual Comprehensive Financial Report</i>	<ul style="list-style-type: none"><li>• Auditor's opinion</li><li>• Management's Discussion and Analysis</li><li>• Financial statements</li><li>• Footnotes</li><li>• Supplemental information</li></ul>	<ul style="list-style-type: none"><li>• An unmodified ("clean") opinion was issued on the Basic Financial Statements</li></ul>
<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"><li>• Internal controls over financial reporting</li><li>• Compliance with laws, regulations, contracts and grants</li></ul>	<ul style="list-style-type: none"><li>• No findings of noncompliance</li><li>• One internal control finding as required by audit standards due to material audit adjustments</li></ul>
<i>State Legal Compliance Report</i>	<ul style="list-style-type: none"><li>• Results of testing certain provisions of Minnesota Statutes</li></ul>	<ul style="list-style-type: none"><li>• No findings of noncompliance</li></ul>
<i>Audit Management Letter</i>	<i>Analysis of financial condition and other issues</i> <ul style="list-style-type: none"><li>• Comparisons and trend analysis</li><li>• Policies and procedures</li><li>• Governance communications</li></ul>	<ul style="list-style-type: none"><li>• See page 3 of this report for Executive Summary</li></ul>

**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 31 years. Page 6

Key Financial Indicators:

- The City’s property tax collection rate in 2023 was 98.47%. The special assessment collection rate was 96.9% for 2023. Page 10
- The fund balance of the City’s General Fund increased approximately \$60,000 during 2023. Revenues and other sources exceeded budget by \$203,400 and expenditures and other uses exceeded budget by \$39,000. 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

**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*

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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.

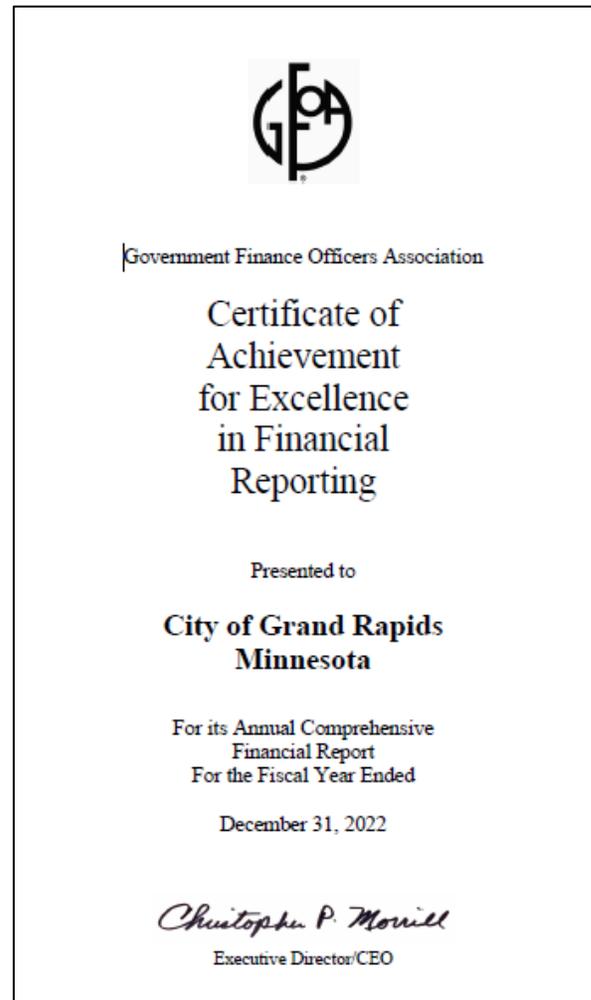


**NATIONAL RECOGNITION FOR  
EXCELLENCE IN FINANCIAL REPORTING**

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 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>Bonds Issued</u>	<u>Interfund Transfers (Net)</u>	<u>Increase (Decrease) in Fund Balance</u>	<u>Fund Balance 12/31/2023</u>	<u>Cash Balance 12/31/2023</u>
<b>General Fund</b>	\$11,268,000	\$10,500,000	\$ -	(\$709,000)	\$59,000	\$7,689,000	\$5,552,000
<b>Special Revenue Funds</b>	2,382,000	2,463,000	-	121,000	40,000	1,202,000	1,276,000
<b>Debt Service Funds</b>	4,767,000	3,976,000	-	150,000	941,000	7,023,000	6,923,000
<b>Capital Project Funds</b>	18,607,000	26,689,000	2,220,000	438,000	(5,424,000)	2,016,000	3,202,000
<b>Enterprise Funds</b>	1,876,000	1,667,000	-	-	209,000	3,832,000	1,184,000
<b>Total</b>	<u>\$38,900,000</u>	<u>\$45,295,000</u>	<u>\$2,220,000</u>	<u>\$ -</u>	<u>(\$4,175,000)</u>	<u>\$21,762,000</u>	<u>\$18,137,000</u>

Additional detail by fund is presented on the next page.

# City of Grand Rapids, Minnesota

## Audit Management Letter

### Property Taxes

All Funds Financial Summary - 2023					
Fund	Revenue and Other Sources	Expenditures and Other Uses	Interfund Transfers (Net)	Increase (Decrease) in Fund Balance/ Net Position	Fund Balance/ Net Position 12/31/2023
1 <b>General</b>	\$11,268,277	\$10,499,909	(\$708,524)	\$59,844	\$7,688,684
<b>Special Revenue Funds:</b>					
2 Public Library	1,010,006	940,868	4,452	73,590	775,239
3 Central School	58,787	116,681	58,289	395	95,026
4 Airport Operations	347,538	340,526	20,000	27,012	220,957
5 IRA Civic Center	515,317	561,560	-	(46,243)	(93,511)
6 Haz-Mat	95,314	91,114	-	4,200	4,640
7 Police Forfeiture	23,904	17,957	-	5,947	59,915
8 Cemetery	297,031	290,274	3,757	10,514	164,061
9 Domestic Animal Control Facility	34,520	69,273	34,753	-	10,550
10 Electric Vehicle Charging Stations	35	34,666	-	(34,631)	(34,631)
<b>Debt Service Funds:</b>					
11 Improvement Bonds	1,839,094	1,997,443	-	(158,349)	3,545,166
12 Street Reconstruction Bonds of 2013B and 2020A	319,979	507,298	150,000	(37,319)	952,549
13 G.O. State-Aid Street Bonds of 2007B and 2012B	322,354	322,800	-	(446)	12,038
14 Refunding Bonds of 2017B	92,380	308,875	-	(216,495)	202,724
15 Taxable GO Temporary Bond	1,578,948	286,747	-	1,292,201	1,472,050
16 Tax Increment 1-6 Old Hospital Housing	62,042	56,540	-	5,502	104,142
17 Tax Increment 1-6 Old Hospital Housing Paygo	43,817	39,207	-	4,610	27,135
18 Tax Increment 1-4 Oakwood Terrace	30,188	862	-	29,326	565,158
19 Tax Increment 1-7 Block 37 Redevelopment	16,182	14,625	-	1,557	21,737
20 Tax Increment 1-8 Lakewood Heights	48,179	43,293	-	4,886	36,676
21 Tax Increment 1-10 River Hills	79,329	71,278	-	8,051	41,411
22 Tax Increment 1-11 Sawmill Inn Redevelopment	38,631	49,723	-	(11,092)	4,998
23 Tax Abatement - 1st Ave Condo	38,331	45,427	-	(7,096)	8,485
24 Tax Increment 1-12 The Pillars	206,009	185,324	-	20,685	23,381
25 Tax Increment 1-13 Unique Opportunities	51,647	46,596	-	5,051	5,051
<b>Capital Project Funds:</b>					
26 Capital Equipment Replacement	1,200,233	646,742	443,000	996,491	(132,603)
27 Civic Center Capital Improvements	5,504,827	12,202,705	(39,807)	(6,737,685)	358,827
28 2022 Infrastructure	1,484,209	932,262	(398,378)	153,569	(10,655)
29 General Capital Improvement Projects	1,187,814	1,394,868	231,620	24,566	197,911
30 Park Acquisition and Development	8,655	18,559	-	(9,904)	57,285
31 Arts and Culture Capital Project	235	2,249	63,385	61,371	82,475
32 Infrastructure Bonds	4,758,913	4,566,587	(53,970)	138,356	880,000
33 Airport Capital Fund	542,500	724,980	28,000	(154,480)	(25,489)
34 GR/Cohasset Industrial park	5,031,340	4,866,030	-	165,310	3,548
35 Municipal State Aid	1,043,085	1,298,719	180,727	(74,907)	413,359
36 Permanent Improvement Revolving	64,790	35,650	(17,304)	11,836	191,715
<b>Enterprise Funds:</b>					
37 Golf Course	979,124	941,230	-	37,894	2,728,418
38 Storm Water	897,097	725,934	-	171,163	1,103,606
<b>Total</b>	<b>\$41,120,661</b>	<b>\$45,295,381</b>	<b>\$0</b>	<b>(\$4,174,720)</b>	<b>\$21,762,028</b>

**Property Taxes**

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Property tax levy	<u>\$7,793,670</u>	<u>\$8,079,328</u>	<u>\$8,603,265</u>	<u>\$8,603,265</u>
Receipts:				
Current year levy	7,735,738	7,864,173	8,539,369	8,472,059
Delinquent (prior years levies)	32,894	99,195	49,671	20,957
Total receipts	<u>7,768,632</u>	<u>7,963,368</u>	<u>8,589,040</u>	<u>8,493,016</u>
Collection rates:				
Collections of current year levy as a percent of levy	<u>99.26%</u>	<u>97.34%</u>	<u>99.26%</u>	<u>98.47%</u>
Total receipts as percent of current year levy	<u>99.68%</u>	<u>98.56%</u>	<u>99.83%</u>	<u>98.72%</u>

**Special Assessments**

Special assessment collections have been as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Current portion due	<u>\$370,472</u>	<u>\$306,057</u>	<u>\$256,562</u>	<u>\$249,481</u>
Receipts:				
Current	336,097	270,910	252,254	241,772
Delinquent	<u>5,476</u>	<u>10,980</u>	<u>3,991</u>	<u>3,848</u>
Total receipts	<u>341,573</u>	<u>281,890</u>	<u>256,245</u>	<u>245,620</u>
Collection rates:				
Collection of amounts due	<u>90.7%</u>	<u>88.5%</u>	<u>98.3%</u>	<u>96.9%</u>
Total collections as a percent of amount due	<u>92.2%</u>	<u>92.1%</u>	<u>99.9%</u>	<u>98.5%</u>

The reduced collection rate for 2021 relates to an assessment in the General Fund for blight. For 2022 and 2023, the City’s collection rates have 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.

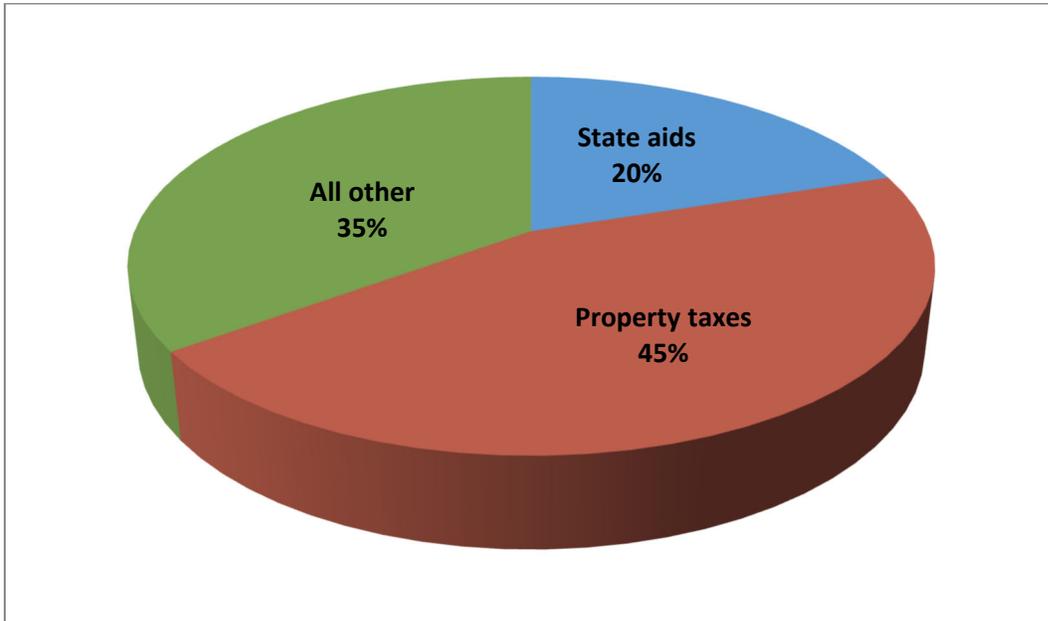
**GENERAL FUND**

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 <sup>(1)</sup>		Total Revenue	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
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%
2023	5,067,736	45%	2,221,612	20%	3,926,181	35%	11,215,529	100%

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

A chart of 2023 General Fund revenue sources is as follows:





The fund balance of the General Fund increased by approximately \$60,000 in 2023 as follows:

	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues	\$10,605,000	\$11,216,000	\$611,000
Expenditures	10,471,000	10,500,000	(29,000)
Revenues over (under) expenditures	134,000	716,000	582,000
Other sources (uses):			
Sale of capital assets	-	1,400	1,400
Insurance recoveries	-	51,000	51,000
Transfers in	500,000	40,000	(460,000)
Transfers out	(738,000)	(748,000)	(10,000)
Total other sources (uses)	(238,000)	(655,600)	(417,600)
Net change in fund balance	(\$104,000)	\$60,400	\$164,400

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 \$142,000. The budget variance primarily relates to various state aids received in excess of budgeted amounts.

**Licenses and permits** – had a favorable variance of \$133,000. For 2023, the variance primarily relates to building permits.

**Investment income** – the City’s realized investment income is in-line with budget. For 2023, the City also recognized an increase in the fair (market) value of investments of \$65,000 in the General Fund.

Expenditures:

**City-wide** – had an unfavorable budget variance of \$21,000. Various off-setting variances across City functions make-up the overall amount.

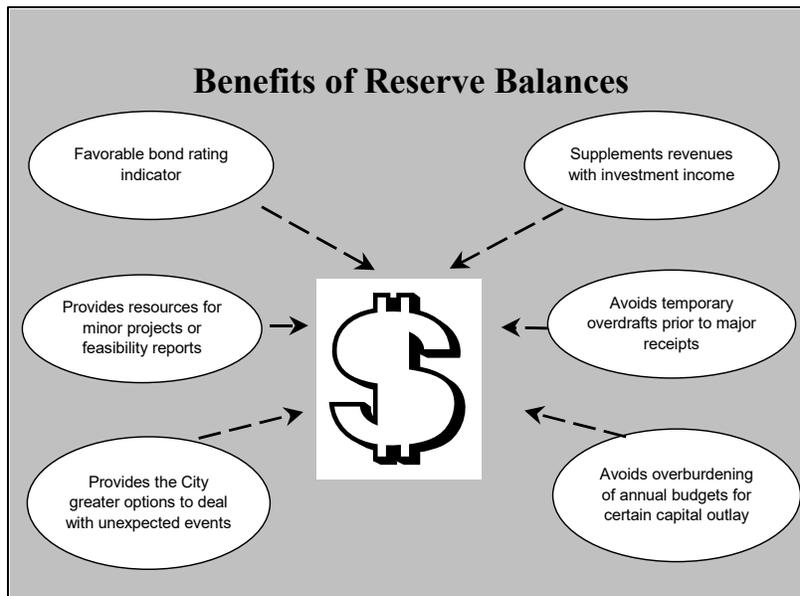
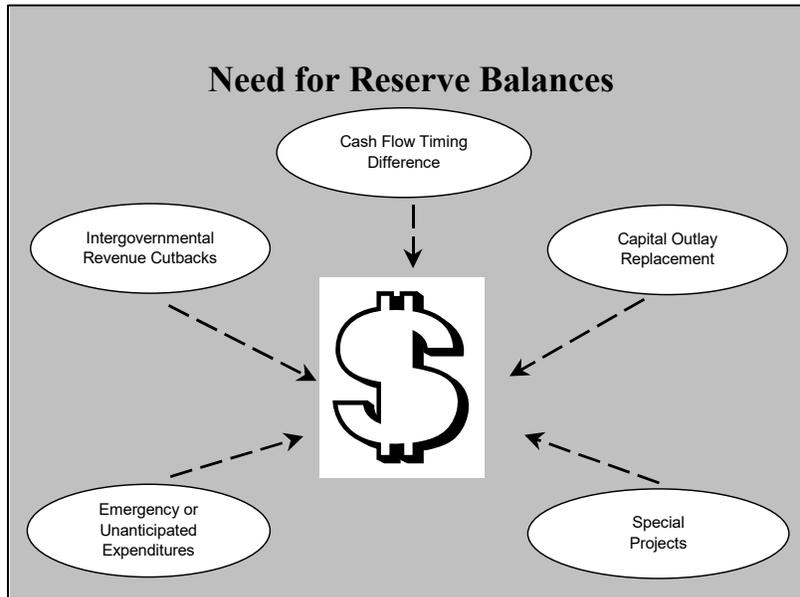
The City's General Fund balance has been as follows for the past ten years:

<b>General Fund Balance</b>		
<u>Year</u>	<u>Amount<sup>(1)</sup></u>	<u>Increase (Decrease)<sup>(1)</sup></u>
2014	\$5,651,000	\$5,651,000
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
2023	7,689,000	60,000

<sup>(1)</sup>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, 2023, the unassigned fund balance of the General Fund available for reserves was \$5,191,745, compared to its targeted balance of \$6,794,175. 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.

At December 31, 2023, the fund balance of the General Fund was as follows:

Fund Balance Constraint	2023		Balance 12/31/2023	Targeted Balance	Difference
	Balance 12/31/22	Increase (Decrease)			
1 <b>Nonspendable:</b>					
2 Interfund loan	\$1,219,669	(\$262,041)	\$957,628	\$957,628	\$ -
3 Prepaid items	192,005	23,836	215,841	215,841	-
4 <b>Restricted:</b>					
5 Cash - Superior USA	16,624	435	17,059	17,059	-
6 Donor restrictions	18,750	1,539	20,289	20,289	-
7 <b>Committed:</b>					
8 Revenue stabilization	1,169,769	116,353	1,286,122	1,286,122	-
9 <b>Unassigned (Available for Reserves):</b>					
10 Cash flow	4,031,113	442,182	4,473,295	4,473,295	-
11 Compensated absences	599,175	(10,415)	588,760	588,760	-
12 Emergency / unanticipated	381,735	(252,045)	129,690	1,034,651	(904,961)
13 Economic development	-	-	-	697,469	(697,469)
14 Unassigned	-	-	-	-	-
15 Total	<u>\$7,628,840</u>	<u>\$59,844</u>	<u>\$7,688,684</u>	<u>\$9,291,114</u>	<u>(\$1,602,430)</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 2023:

<b>Fund</b>	<b>Revenue</b>	<b>Expenditures</b>	<b>Interfund Transfers</b>	<b>Change in Fund Balance</b>	<b>Fund Balance 12/31/2023</b>	<b>Comments</b>
Public Library	\$1,010,006	\$940,868	\$4,452	\$73,590	\$775,239	This fund had a balanced budget for 2023. Revenues exceeded budget by \$89,000 primarily relating to charges for services and contributions over budget.
Central School	58,787	116,681	58,289	395	95,026	This fund had a balanced budget for 2023 and actual results were close to budget. This fund receives transfers from General Fund - for 2023 the transfer was \$58,289.
Airport Operations	347,538	340,526	20,000	27,012	220,957	This fund had a balanced budget for 2023. Revenue exceeded budget by \$101,000. Expenditures exceed budget by \$80,000.
IRA Civic Center	515,317	561,560	-	(46,243)	(93,511)	The City budgeted an increase in fund balance of \$127,000. Revenues were in line with budget and expenditures were more than budget by \$180,000.
Haz-Mat	95,314	91,114	-	4,200	4,640	Balanced budget for 2023.
Police Forfeiture	23,904	17,957	-	5,947	59,915	This fund budgeted a slight increase in 2023 of \$750.
Cemetery	297,031	290,274	3,757	10,514	164,061	This fund had a balanced budget for 2023. Revenues were in line with budget. Expenditures were over budget by \$25,000
Domestic Animal Control Facility	34,520	69,273	34,753	-	10,550	Balanced budget for 2023.
Electric Vehicle Charging Stations	35	34,666	-	(34,631)	(34,631)	This is a new fund for 2023 that was established after the 2023 budget was approved.
Totals	<u>\$2,382,452</u>	<u>\$2,462,919</u>	<u>\$121,251</u>	<u>\$40,784</u>	<u>\$1,202,246</u>	

**Public Library**

Approximately 75% 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, 2023 is as follows:

Fund Balance Constraint	December 31, 2023		
	Targeted Balance	Actual Balance	Difference
Nonspendable:			
Prepaid items	\$13,788	\$13,788	\$ -
Committed:			
Cash flow	476,564	476,564	-
Compensated absences	-	-	-
Emergency/unanticipated expenditures	69,091	69,091	-
Major equipment replacement	78,961	215,796	(136,835)
Total committed	624,616	761,451	(136,835)
Total fund balance	\$638,404	\$775,239	(\$136,835)

As shown above, the actual fund balance is \$136,835 greater than the targeted fund balance at December 31, 2023.

*Special Revenue Funds*

**IRA Civic Center**

A summary of activity of this Fund is as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024 Budget</u>
Revenue	\$558,291	\$659,759	\$641,973	\$515,317	\$669,000
Expenditures:					
Operating	515,776	614,736	617,390	364,963	229,000
Debt service	-	-	-	196,597	440,000
Revenues over (under) expenditures	42,515	45,023	24,583	(46,243)	-
Other sources:					
Insurance recoveries	-	41,244	-	-	-
Sale of capital assets	-	-	-	-	-
Transfers (to)from other funds	-	-	(24,437)	-	-
Net change in fund balance	42,515	86,267	146	(46,243)	0
Fund balance (deficit) - January 1	<u>(176,196)</u>	<u>(133,681)</u>	<u>(47,414)</u>	<u>(47,268)</u>	<u>(93,511)</u>
Fund balance (deficit) - December 31	<u><u>(\$133,681)</u></u>	<u><u>(\$47,414)</u></u>	<u><u>(\$47,268)</u></u>	<u><u>(\$93,511)</u></u>	<u><u>(\$93,511)</u></u>

The Fund deficit of (\$93,511) at December 31, 2023 is partially financed by an interfund loan of \$23,242 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

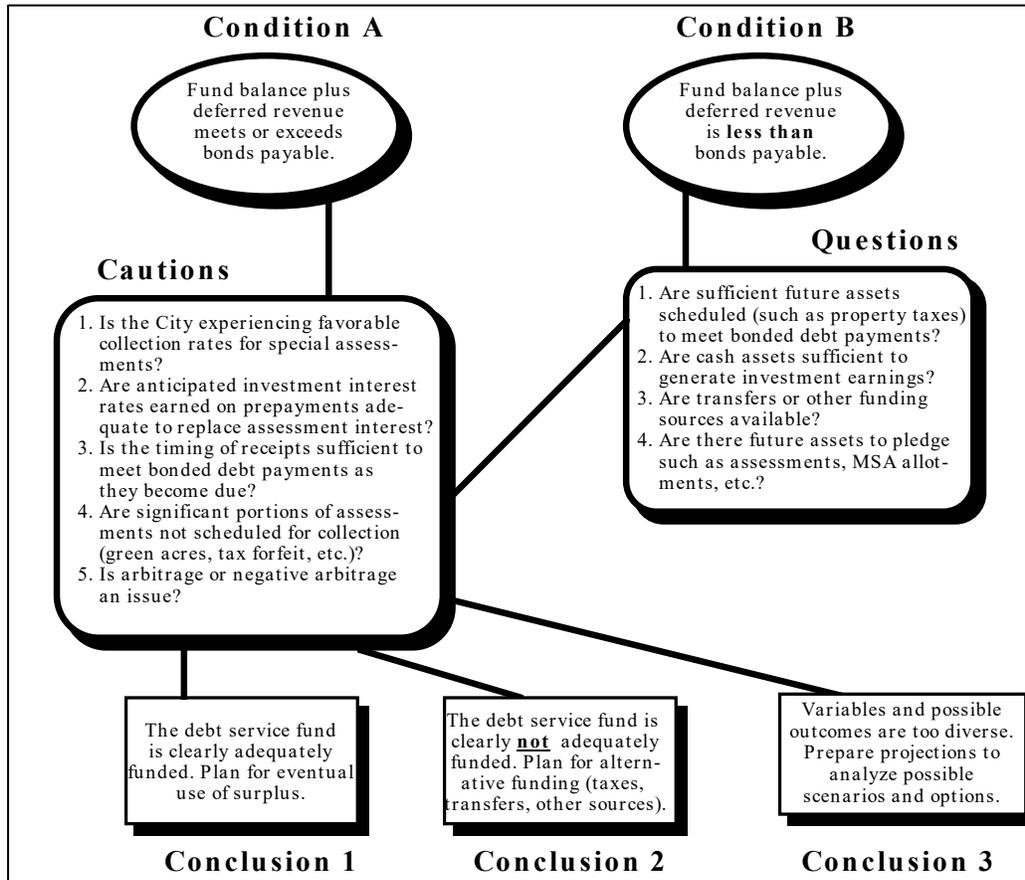
### Debt Service Funds

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	12/31/2023			Outstanding Debt	Scheduled Ad-valorem Property Taxes	Final Maturity Date
	Fund Balance	Unavailable Revenue	Total			
Special Assessment Debt:						
1 Improvement Bonds of 2009C <sup>(1)</sup>	\$502,723	\$45,717	\$548,440	\$720,000	\$303,165	2/1/2025
2 Improvement Bonds of 2010A	115,488	13,539	129,027	190,000	112,996	2/1/2026
3 Improvement Bonds of 2011B	214,693	64,439	279,132	300,000	175,508	2/1/2027
4 Improvement Bonds of 2012A	541,098	88,565	629,663	805,000	496,739	2/1/2028
5 Improvement Bonds of 2012B <sup>(2)</sup>	12,038	-	12,038	1,215,000	-	10/1/2027
6 Improvement Bonds of 2013B	737,823	111,558	849,381	1,830,000	545,895	2/1/2029
7 Improvement Bonds of 2014A	346,008	49,962	395,970	1,225,000	1,055,993	2/1/2030
8 Improvement Bonds of 2016A	310,868	94,530	405,398	1,385,000	1,209,000	2/1/3032
9 Improvement Bonds of 2021B	362,727	8,014	370,741	6,010,000	7,309,129	2/1/2042
10 Refunding Bonds of 2017B	202,724	132,852	335,576	165,000	-	2/1/2034
11 Street Reconstruction Bonds of 2017A	382,850	111,987	494,837	1,540,000	1,520,713	2/1/2033
12 Street Reconstruction Bonds of 2018A	319,485	101,247	420,732	1,520,000	1,422,216	2/1/2034
13 G. O. Abatement Bonds of 2019A	449,226	722,320	1,171,546	1,335,000	1,482,799	2/1/2035
14 Street Reconstruction Bonds of 2020A	214,726	99,650	314,376	2,015,000	1,989,610	2/1/2036
15 G.O. Temporary Bonds of 2022A	1,472,050	-	1,472,050	10,000,000	-	12/1/2025
16 Street Reconstruction Bonds of 2023A	-	-	-	2,220,000	3,252,073	2/1/2039
17 Supplemental levy <sup>(3)</sup>	-	-	-	-	(360,000)	
Total special assessment debt	<u>6,184,527</u>	<u>1,644,380</u>	<u>7,828,907</u>	<u>32,475,000</u>	<u>20,515,836</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.

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, 2023 was \$307,500.

**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, 2023.

**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 \$166,339 at December 31, 2023.

**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 \$180,711 at December 31, 2023. 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 \$194,619 at December 31, 2023.

A Summary of the 2023 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 12/31/2023	PAYGO Balance 12/31/2023
Tax Increment 1-6 Old Hospital Housing	\$62,000	\$57,000	\$5,000	\$104,000	\$ -
Tax Increment 1-6 Old Hospital Housing Paygo	44,000	39,000	5,000	27,000	307,500
Tax Increment 1-4 Oakwood Terrace	30,000	1,000	29,000	565,000	-
Tax Increment 1-7 Block 37 Redevelopment	16,000	15,000	1,000	22,000	389,300
Tax Increment 1-8 Lakewood Heights	48,000	43,000	5,000	37,000	166,339
Tax Increment 1-10 River Hills	79,000	71,000	8,000	41,000	375,330
Tax Increment 1-11 Sawmill Inn Redevelopment	39,000	50,000	(11,000)	5,000	1,244,611
Tax Increment 1-12 The Pillars	206,000	185,000	21,000	5,000	1,689,291
Tax Increment 1-13 Unique Opportunities Apartments	52,000	47,000	5,000	42,000	366,290
Total	\$576,000	\$508,000	\$68,000	\$848,000	\$4,538,661

**CAPITAL PROJECT FUNDS**

The financial activity of the Capital Project Funds for 2023 was as follows:

<b>Fund</b>	<b>Revenue</b>	<b>Expenditures</b>	<b>Interfund Transfers</b>	<b>Change in Fund Balance</b>	<b>Fund Balance 12/31/2023</b>	<b>Comments</b>
Capital Equipment Replacement	\$1,200,233	\$646,742	\$443,000	\$996,491	(\$132,603)	2023 activity includes issuance of new lessee leases.
Civic Center Capital Improvements	5,504,827	12,202,705	(39,807)	(6,737,685)	358,827	This fund accounts for the Civic Center renovation.
2022 Infrastructure/ARPA	1,484,209	932,262	(398,378)	153,569	(10,655)	2023 activity in this fund includes the Forest Lake utility project.
General Capital Improvement Projects	1,187,814	1,394,868	231,620	24,566	197,911	The most significant activity during 2023 relates to the autonomous vehicle project and the Highway 2 lighting project.
Park Acquisition and Development	8,655	18,559	-	(9,904)	57,285	
Arts and Culture Capital Project	235	2,249	63,385	61,371	82,475	
Infrastructure Bonds	4,758,913	4,566,587	(53,970)	138,356	880,000	2023 activity in this fund includes the Sylvan Bay project.
Airport Capital Fund	542,500	724,980	28,000	(154,480)	(25,489)	
GR/Cohasset Industrial park	5,031,340	4,866,030	-	165,310	3,548	2023 activity in this fund primarily relates to utility extension costs.
Municipal State Aid	1,043,085	1,298,719	180,727	(74,907)	413,359	The most significant project in this fund during 2023 was the 7th Avenue Rehab and Roundabout.
Permanent Improvement Revolving	64,790	35,650	(17,304)	11,836	191,715	
<b>Totals</b>	<b>\$20,826,601</b>	<b>\$26,689,351</b>	<b>\$437,273</b>	<b>(\$5,425,477)</b>	<b>\$2,016,373</b>	

**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>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating revenue	\$651,736	\$776,841	\$864,518	\$961,245
Operating expenses	<u>635,929</u>	<u>718,957</u>	<u>845,560</u>	<u>940,164</u>
Operating income (loss)	15,807	57,884	18,958	21,081
Other income (expense) - net	(735)	119,188	2,933	9,213
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,600</u>
Change in net assets	<u>\$15,072</u>	<u>\$177,072</u>	<u>\$21,891</u>	<u>\$37,894</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>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating revenue	\$743,663	\$873,563	\$857,346	\$853,307
Operating expenses	<u>663,576</u>	<u>624,495</u>	<u>641,897</u>	<u>725,295</u>
Operating income	80,087	249,068	215,449	128,012
Other income (expense) - net	4,123	5,262	(26,382)	43,151
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$84,210</u>	<u>\$254,330</u>	<u>\$189,067</u>	<u>\$171,163</u>

Rates increased 6.25%, 2.94% and 0% for 2021, 2022 and 2023 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 12/31/2023</u>
General	\$35,128	\$14,137	\$20,991	\$25,287
Capital Project	811,666	1,549,142	(737,476)	352,976
Total	<u>\$846,794</u>	<u>\$1,563,279</u>	<u>(\$716,485)</u>	<u>\$378,263</u>

Capital Project expenditures for 2023 include the following:

L&M Distribution Center	\$1,084,733
Loans issued	165,000
Loan repayments	143,246
All other	<u>156,163</u>
Total	<u>\$1,549,142</u>

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

<u>Payee</u>	<u>Purpose</u>	<u>Balance 12/31/22</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/23</u>
Blandin Foundation	Block 20 & 21 soil remediation	\$100,000	\$ -	\$ -	\$100,000
Blandin Foundation	Airport industrial park	227,500	-	17,500	210,000
Blandin Foundation	Commercial building improvement loans	58,345	-	14,371	43,974
Blandin Foundation	VFW/Rose Bldgs	140,000	-	-	140,000
Blandin Foundation	EWCL	303,467	-	73,761	229,706
Blandin Foundation	EWCL	71,950	-	37,400	34,550
	Total	<u>\$901,262</u>	<u>\$ -</u>	<u>\$143,032</u>	<u>\$758,230</u>

The EDA also has inventory of Land Held for resale in the amount of \$2,657,072. 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	75,600
Block 5	258,602
Forest Lake school site	637,848
Block 18 (VFW and Rose)	134,927
Block 23	42,000
Blocks 20 and 21	267,300
	<u>\$2,657,072</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:

**Statement No. 99 *Omnibus 2022*.** The provisions of this Statement contain multiple effective dates, the next implementation date being for fiscal years beginning after June 15, 2023.

**Statement No. 102 *Certain Risk Disclosures*.** The provisions of this Statement are effective for fiscal years beginning after June 15, 2024.

The effect these standards may have on future financial statements is not determinable at this time.

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

We have audited 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, 2023. 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 29, 2024. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2023. 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.

*Communication With Those Charged With Governance*

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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, lease liability, 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 lease commencement 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. The following material misstatements detected as a result of audit procedures were corrected by management:

- An adjustment of approximately \$340,500 was recorded to accrue sales tax revenue and the related receivable at December 31, 2023.
- Adjustments of approximately \$694,500 were recorded to revenue and unearned revenue to properly account for 2023 grant activity.

**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 have requested certain representations from management that are included in the management representation letter dated May 9, 2024.

**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.



**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.

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*Communication With Those Charged With Governance*

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*Public Utilities Commission Debt*

The financial statement presentation of long-term debt relating to the Public Utilities Commission (PUC) was changed for 2023. The updated presentation is in accordance with Generally Accepted Accounting Principles and aligns the City's reporting with PUC's presentation.

Debt issued to fund PUC infrastructure has historically been repaid using utility revenues and accordingly was previously reported as a liability of the PUC. Because the City has made a general obligation pledge on the debt, the presentation has been updated in 2023 to reflect the PUC debt as a liability of the City, with an offsetting receivable from the PUC for the same amount. There is no net impact to the City's net position as a result of this change in presentation.

**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.

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