

**CITY OF GRAND RAPIDS, MINNESOTA**

**AUDIT MANAGEMENT LETTER**

December 31, 2021

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To the Honorable Mayor and  
Members of the City Council

We have substantially completed the 2021 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 will be completed in May, 2022. 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.

A handwritten signature in black ink, appearing to read "Dan Muel", is positioned above the typed name of the company.

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

April 18, 2022

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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:

| <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>• It is anticipated that an unmodified ("clean") opinion will be 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>• No internal control findings</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>• Audit committee 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 29 years. Page 6

Key Financial Indicators:

- The City’s property tax collection rate in 2021 was 97.34%. The special assessment collection rate was 88.5% for 2021. Page 10
- The fund balance of the City’s General Fund increased \$213,000 during 2021. Revenues exceeded budget by \$608,000 and expenditures exceeded budget by \$473,000. 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 thirteen 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.



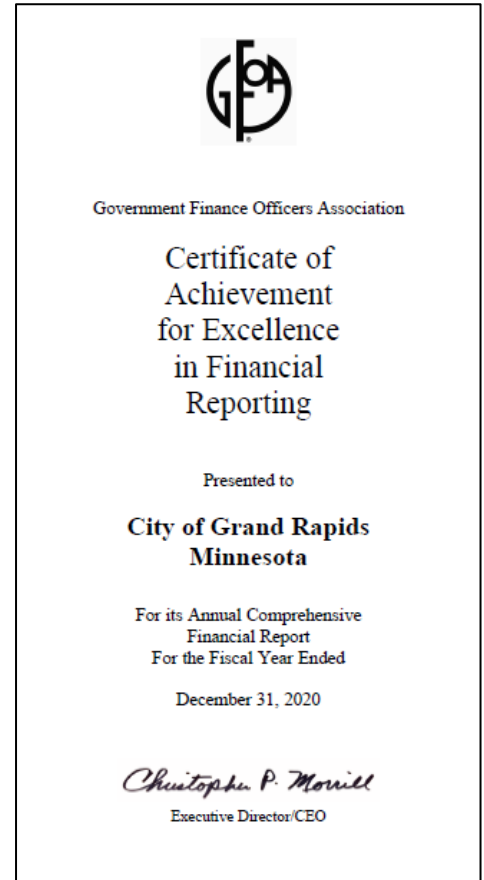
**NATIONAL RECOGNITION FOR  
EXCELLENCE IN FINANCIAL REPORTING**

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<br/>Transfers<br/>(Net)</u> | <u>Increase<br/>(Decrease)<br/>in Fund<br/>Balance</u> | <u>Fund<br/>Balance<br/>12/31/2021</u> | <u>Cash<br/>Balance<br/>12/31/2021</u> |
|------------------------------|---------------------|---------------------|--|--|--|--|
| <b>General Fund</b>          | \$10,718,000        | \$9,821,000         | (\$684,000)                              | \$213,000  | \$7,555,000                            | \$4,436,000                            |
| <b>Special Revenue Funds</b> | 2,295,000           | 2,317,000           | 191,000                                  | 169,000  | 1,058,000                              | 1,147,000                              |
| <b>Debt Service Funds</b>    | 2,696,000           | 3,293,000           | 21,000                                   | (576,000)  | 6,077,000                              | 6,168,000                              |
| <b>Capital Project Funds</b> | 11,641,000          | 12,570,000          | 472,000                                  | (457,000)  | 568,000                                | 3,604,000                              |
| <b>Enterprise Funds</b>      | 1,778,000           | 1,347,000           | -  | 431,000  | 3,412,000                              | 742,000                                |
| <b>Total</b>                 | <u>\$29,128,000</u> | <u>\$29,348,000</u> | <u>\$ -</u>                              | <u>(\$220,000)</u>                                     | <u>\$18,670,000</u>                    | <u>\$16,097,000</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 - 2021 |  |                           |                             |                           |   |                                       |
|------------------------------------|--|---------------------------|-----------------------------|---------------------------|---|---------------------------------------|
|                                    | Fund   | Revenue and Other Sources | Expenditures and Other Uses | Interfund Transfers (Net) | Increase (Decrease) in Fund Balance/ Net Position | Fund Balance/ Net Position 12/31/2021 |
| 1                                  | <b>General</b>                                 | \$10,718,078              | \$9,821,468                 | (\$683,771)               | \$212,839   | \$7,554,548                           |
|                                    | <b>Special Revenue Funds:</b>                  |                           |                             |                           |   |                                       |
| 2                                  | Public Library                                 | 896,565                   | 856,949                     | -                         | 39,616  | 656,528                               |
| 3                                  | Central School                                 | 57,734                    | 112,665                     | 50,716                    | (4,215)   | 72,459                                |
| 4                                  | Airport Operations                             | 249,900                   | 248,103                     | 20,000                    | 21,797  | 150,623                               |
| 5                                  | IRA Civic Center                               | 701,003                   | 614,736                     | -                         | 86,267  | (47,414)                              |
| 6                                  | Haz-Mat  | 65,057                    | 65,057                      | -                         | -   | 1,009                                 |
| 7                                  | Police Forfeiture                              | 15,025                    | 13,043                      | -                         | 1,982   | 78,202                                |
| 8                                  | Cemetery                                       | 284,309                   | 341,635                     | 82,585                    | 25,259  | 135,656                               |
| 9                                  | Domestic Animal Control Facility               | 25,792                    | 64,567                      | 37,778                    | (997)   | 10,507                                |
|                                    | <b>Debt Service Funds:</b>                     |                           |                             |                           |   |                                       |
| 12                                 | Improvement Bonds                              | 1,444,236                 | 1,814,004                   | (129,011)                 | (498,779)   | 3,634,410                             |
| 13                                 | Street Reconstruction Bonds of 2013B and 2020A | 293,610                   | 370,342                     | 150,000                   | 73,268  | 1,047,024                             |
| 14                                 | G.O. State-Aid Street Bonds of 2007B and 2012B | 402,918                   | 403,821                     | -                         | (903)   | 14,921                                |
| 15                                 | Refunding Bonds of 2017B                       | 268,598                   | 474,100                     | -                         | (205,502)   | 659,672                               |
| 16                                 | Tax Increment 1-6 Old Hospital Housing         | 57,182                    | 53,369                      | -                         | 3,813   | 93,730                                |
| 17                                 | Tax Increment 1-6 Old Hospital Housing Paygo   | 31,450                    | 28,742                      | -                         | 2,708   | 18,936                                |
| 18                                 | Tax Increment 1-4 Oakwood Terrace              | 33,101                    | 184                         | -                         | 32,917  | 503,809                               |
| 19                                 | Tax Increment 1-7 Block 37 Redevelopment       | 17,419                    | 15,807                      | -                         | 1,612   | 18,531                                |
| 20                                 | Tax Increment 1-8 Lakewood Heights             | 35,682                    | 32,165                      | -                         | 3,517   | 28,258                                |
| 21                                 | Tax Increment 1-10 River Hills                 | 62,651                    | 56,477                      | -                         | 6,174   | 27,165                                |
| 22                                 | Tax Increment 1-11 Sawmill Inn Redevelopment   | 4,887                     | 92                          | -                         | 4,795   | 4,795                                 |
| 23                                 | Tax Abatement - 1st Ave Condo                  | 44,299                    | 44,049                      | -                         | 250   | 25,645                                |
|                                    | <b>Capital Project Funds:</b>                  |                           |                             |                           |   |                                       |
| 24                                 | General Capital Improvement Projects           | 410,810                   | 399,826                     | 159,686                   | 170,670   | 280,136                               |
| 25                                 | Municipal State Aid                            | 71,961                    | 1,282                       | -                         | 70,679  | 446,729                               |
| 26                                 | GR/Cohasset Industrial park                    | -                         | 129,591                     | -                         | (129,591)   | (129,591)                             |
| 27                                 | Park Acquisition and Development               | 24,247                    | 7,464                       | -                         | 16,783  | 94,653                                |
| 28                                 | Arts and Culture Capital Project               | 349                       | -                           | 4,167                     | 4,516   | 71,771                                |
| 29                                 | Capital Equipment Replacement                  | 255,242                   | 436,326                     | 198,037                   | 16,953  | (556,342)                             |
| 30                                 | Infrastructure Bonds                           | 7,189,906                 | 6,817,103                   | (222,505)                 | 150,298   | 953,581                               |
| 31                                 | Airport Capital Fund                           | 3,636,309                 | 3,669,938                   | -                         | (33,629)  | 102,160                               |
| 32                                 | 7th Avenue Bridge Rehabilitation               | -                         | -                           | -                         | -   | -                                     |
| 33                                 | IRA Civic Center Project                       | 28,123                    | -                           | -                         | 28,123  | (24,824)                              |
| 34                                 | Civic Center Capital Improvements              | -                         | 1,081,716                   | -                         | (1,081,716)                                       | (1,263,858)                           |
| 35                                 | Permanent Improvement Revolving                | 24,532                    | 26,981                      | 332,318                   | 329,869   | 593,930                               |
|                                    | <b>Enterprise Funds:</b>                       |                           |                             |                           |   |                                       |
| 36                                 | Golf Course                                    | 899,420                   | 722,348                     | -                         | 177,072   | 2,668,633                             |
| 37                                 | Storm Water                                    | 878,825                   | 624,495                     | -                         | 254,330   | 743,376                               |
|                                    | <b>Total</b>                                   | <b>\$29,129,220</b>       | <b>\$29,348,445</b>         | <b>\$0</b>                | <b>(\$219,225)</b>                                | <b>\$18,669,368</b>                   |

**Property Taxes**

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

|   | 2018               | 2019               | 2020               | 2021               |
|---|--------------------|--------------------|--------------------|--------------------|
| Property tax levy                                     | <u>\$7,408,178</u> | <u>\$7,689,023</u> | <u>\$7,793,670</u> | <u>\$8,079,328</u> |
| Receipts:   |                    |                    |                    |                    |
| Current year levy                                     | 7,249,845          | 7,545,606          | 7,735,738          | 7,864,173          |
| Delinquent (prior years levies)                       | <u>33,345</u>      | <u>54,274</u>      | <u>32,894</u>      | <u>99,195</u>      |
| Total receipts  | <u>7,283,190</u>   | <u>7,599,880</u>   | <u>7,768,632</u>   | <u>7,963,368</u>   |
| Collection rates:                                     |                    |                    |                    |                    |
| Collections of current year levy as a percent of levy | <u>97.86%</u>      | <u>98.13%</u>      | <u>99.26%</u>      | <u>97.34%</u>      |
| Total receipts as percent of current year levy        | <u>98.31%</u>      | <u>98.84%</u>      | <u>99.68%</u>      | <u>98.56%</u>      |

**Special Assessments**

Special assessment collections have been as follows:

|   | <u>2018</u>      | <u>2019</u>      | <u>2020</u>      | <u>2021</u>      |
|---|------------------|------------------|------------------|------------------|
| Current portion due                             | <u>\$453,813</u> | <u>\$414,361</u> | <u>\$370,472</u> | <u>\$306,057</u> |
| Receipts:                                       |                  |                  |                  |                  |
| Current   | 447,143          | 404,464          | 336,097          | 270,910          |
| Delinquent                                      | <u>5,347</u>     | <u>14,160</u>    | <u>5,476</u>     | <u>10,980</u>    |
| Total receipts                                  | <u>452,490</u>   | <u>418,624</u>   | <u>341,573</u>   | <u>281,890</u>   |
| Collection rates:                               |                  |                  |                  |                  |
| Collection of amounts due                       | <u>98.5%</u>     | <u>97.6%</u>     | <u>90.7%</u>     | <u>88.5%</u>     |
| Total collections as a percent<br>of amount due | <u>99.7%</u>     | <u>101.0%</u>    | <u>92.2%</u>     | <u>92.1%</u>     |

The reduction in collection rate for 2021 relates to an assessment in the General Fund for blight. The City collected 27% of the General Fund assessment levied for collection in 2021. We recommend the City continue to monitor the special assessment collection rate and consider the impact on the funding of debt service payments.

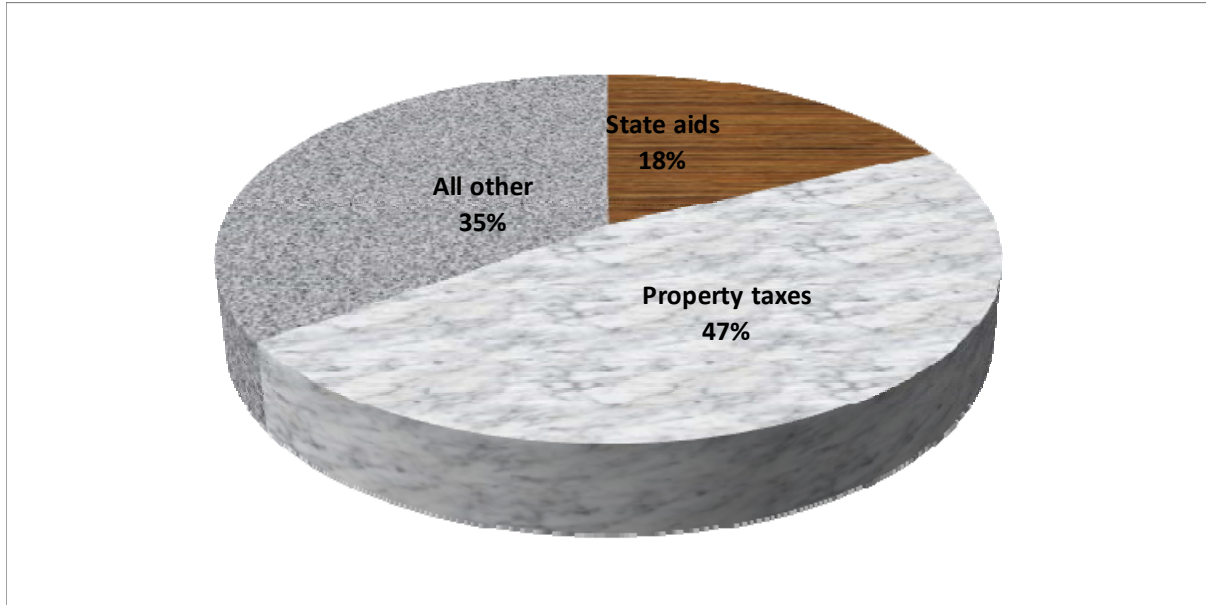
**GENERAL FUND**

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<br>(LGA, MVHC and<br>Supplemental Aid) |         | All Other Revenue <sup>(1)</sup> |         | Total Revenue |         |
|                                | Amount         | Percent | Amount  | Percent | Amount                           | Percent | Amount        | Percent |
| 2012                           | \$3,666,921    | 46%     | \$1,220,693   | 16%     | \$2,838,309                      | 38%     | \$7,725,923   | 100%    |
| 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%    |

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

A chart of 2021 General Fund revenue sources is as follows:





The fund balance of the General Fund increased by \$213,000 in 2021 as follows:

|                                    | Final<br>Budget | Actual           | Favorable<br>(Unfavorable)<br>Variance |
|------------------------------------|-----------------|------------------|--|
| Revenues                           | \$10,057,000    | \$10,665,000     | \$608,000                              |
| Expenditures                       | 9,349,000       | 9,821,000        | (472,000)                              |
| Revenues over (under) expenditures | 708,000         | 844,000          | 136,000                                |
| Other sources (uses):              |                 |                  |  |
| Sale of capital assets             | -               | 11,000           | 11,000                                 |
| Insurance recoveries               | -               | 42,000           | 42,000                                 |
| Transfers in                       | 0               | 93,000           | 93,000                                 |
| Transfers out                      | (708,000)       | (777,000)        | (69,000)                               |
| Total other sources (uses)         | (708,000)       | (631,000)        | 77,000                                 |
| Net change in fund balance         | <u>\$0</u>      | <u>\$213,000</u> | <u>\$213,000</u>                       |

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 \$428,000. The City received \$230,000 of IRRRB grant proceeds and \$172,000 in FEMA funding due to the July storm.

**Licenses and permits** – had a favorable variance of \$84,000. For 2021, building activity included two large permits for a new bank and a hotel.

Expenditures:

**City-wide** – had an unfavorable budget variance of 263,000. The city made a \$230,000 payment to the PUC for an IRRRB grant for the solar garden infostructure.

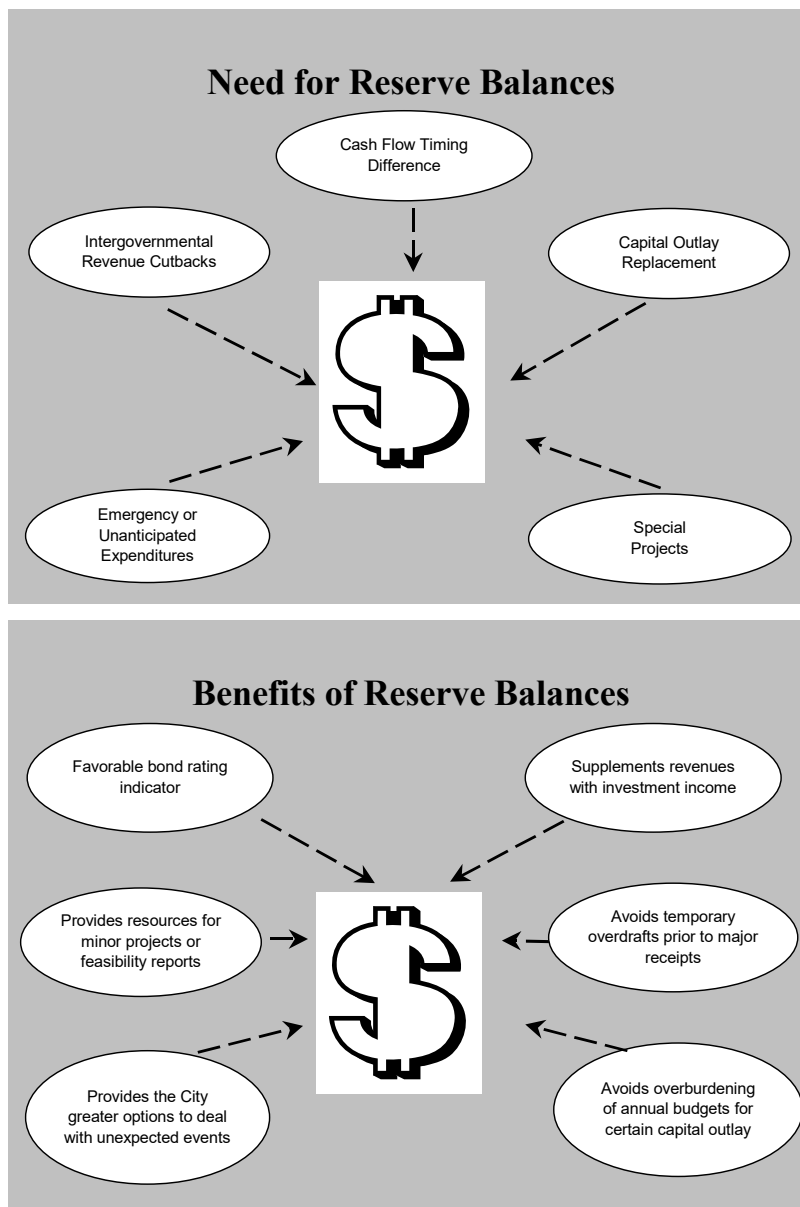
The City's General Fund balance has been as follows for the past ten years:

| <b>General Fund Balance</b> |                             |  |
|-----------------------------|-----------------------------|--|
| <u>Year</u>                 | <u>Amount<sup>(1)</sup></u> | <u>Increase<br/>(Decrease)<sup>(1)</sup></u> |
| 2012                        | \$5,516,000                 | \$495,000                                    |
| 2013                        | 5,497,000                   | (19,000)                                     |
| 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                                      |

<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, 2021, the unassigned fund balance of the General Fund available for reserves was \$4,812,207, compared to its targeted balance of \$6,240,669. 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.

*General Fund*

At December 31, 2021, the fund balance of the General Fund was as follows:

| Fund Balance Constraint                       | 2021                |                        | Balance<br>12/31/2021 | Targeted<br>Balance | Difference           |
|---|---------------------|------------------------|-----------------------|---------------------|----------------------|
|   | Balance<br>12/31/20 | Increase<br>(Decrease) |                       |                     |                      |
| 1 <b>Nonspendable:</b>                        |                     |                        |                       |                     |                      |
| 2 Interfund loan                              | \$1,320,035         | \$159,935              | \$1,479,970           | \$1,479,970         | \$ -                 |
| 3 Prepaid items                               | 151,041             | 21,982                 | 173,023               | 173,023             | -                    |
| 4 <b>Restricted:</b>                          |                     |                        |                       |                     |                      |
| 5 Cash - Superior USA                         | 15,755              | 357                    | 16,112                | 16,112              | -                    |
| 6 Donor restrictions                          | 20,195              | 3,209                  | 23,404                | 23,404              | -                    |
| 7 <b>Committed:</b>                           |                     |                        |                       |                     |                      |
| 8 Revenue stabilization                       | 925,572             | 124,260                | 1,049,832             | 1,049,832           | -                    |
| 9 <b>Unassigned (Available for Reserves):</b> |                     |                        |                       |                     |                      |
| 10 Cash flow                                  | 3,903,332           | 51,095                 | 3,954,427             | 3,954,427           | -                    |
| 11 Compensated absences                       | 473,923             | 9,884                  | 483,807               | 483,807             | -                    |
| 12 Emergency / unanticipated                  | 531,856             | (157,883)              | 373,973               | 1,104,966           | (730,993)            |
| 13 Economic development                       | -                   | -                      | -                     | 697,469             | (697,469)            |
| 14 Unassigned                                 | -                   | -                      | -                     | -                   | -                    |
| 15 Total                                      | <u>\$7,341,709</u>  | <u>\$212,839</u>       | <u>\$7,554,548</u>    | <u>\$8,983,010</u>  | <u>(\$1,428,462)</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 2021:

| Fund                             | Revenue     | Expenditures | Interfund Transfers | Change in Fund Balance | Fund Balance 12/31/2021 | Comments  |
|----------------------------------|-------------|--------------|---------------------|------------------------|-------------------------|---|
| Public Library                   | \$896,565   | \$856,949    | \$ -                | \$39,616               | \$656,528               | This fund had a balanced budget for 2021. Revenues exceeded budget by \$15,000. Expenditures were less than budget by \$25,000.   |
| Central School                   | 57,734      | 112,665      | 50,716              | (4,215)                | 72,459                  | This fund had a balanced budget for 2021. Revenues were less than budget by \$21,000. Expenditures were less than budget by \$4,000. Receives transfer from General Fund, for 2021 the transfer was \$5,000 more than budgeted. |
| Airport Operations               | 249,900     | 248,103      | 20,000              | 21,797                 | 150,623                 | This fund had a balanced budget for 2021. Revenue exceeded budget by \$32,000. Expenditures exceed budget by \$16,000.  |
| IRA Civic Center                 | 701,003     | 614,736      | -                   | 86,267                 | (47,414)                | The City budgeted an increase in fund balance of \$72,000. Revenues were less than budget by \$15,000 and expenditures were more than budget by \$14,000.   |
| Haz-Mat                          | 65,057      | 65,057       | -                   | -                      | 1,009                   | Balanced budget for 2021.   |
| Police Forfeiture                | 15,025      | 13,043       | -                   | 1,982                  | 78,202                  | The city budgeted a decrease in fund balance of \$17,000. However, revenues exceeded budget by \$6,000 and expenditures were less than budget by \$12,000.  |
| Cemetery                         | 284,309     | 341,635      | 82,585              | 25,259                 | 135,656                 | Balanced budget for 2021. Revenues exceeded budget by \$34,000  |
| Domestic Animal Control Facility | 25,792      | 64,567       | 37,778              | (997)                  | 10,507                  | Balanced budget for 2021. Receives budgeted transfer from General Fund.   |
| Totals                           | \$2,295,385 | \$2,316,755  | \$191,079           | \$169,709              | \$1,057,570             |   |

**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, 2021 is as follows:

| Fund Balance Constraint              | December 31, 2021 |                |            |
|--------------------------------------|-------------------|----------------|------------|
|                                      | Targeted Balance  | Actual Balance | Difference |
| Nonspendable:                        |                   |                |            |
| Prepaid items                        | \$12,304          | \$12,304       | \$ -       |
| Committed:                           |                   |                |            |
| Cash flow                            | 443,666           | 443,666        | -          |
| Compensated absences                 | 46,367            | 46,367         | -          |
| Emergency/unanticipated expenditures | 64,625            | 64,625         | -          |
| Major equipment replacement          | 73,857            | 89,566         | (15,709)   |
| Total committed                      | 628,515           | 644,224        | (15,709)   |
| Total fund balance                   | \$640,819         | \$656,528      | (\$15,709) |

As shown above, the actual fund balance is \$15,709 greater than the targeted fund balance at December 31, 2021.

**IRA Civic Center**

A summary of activity of this Fund is as follows:

|                                      | <u>2018</u>        | <u>2019</u>        | <u>2020</u>        | <u>2021</u>       | <u>2022 Budget</u> |
|--------------------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| Revenue                              | \$721,359          | \$741,158          | \$558,291          | \$659,759         | \$640,000          |
| Expenditures:                        |                    |                    |                    |                   |                    |
| Operating                            | 728,528            | 752,645            | 515,776            | 614,736           | 542,677            |
| Capital outlay                       | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>          | <u>-</u>           |
| Revenues over (under) expenditures   | (7,169)            | (11,487)           | 42,515             | 45,023            | 97,323             |
| Other sources:                       |                    |                    |                    |                   |                    |
| Insurance recoveries                 | 5,493              | -                  | -                  | 41,244            | -                  |
| Sale of capital assets               | -                  | -                  | -                  | -                 | -                  |
| Transfers from other funds           | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>          | <u>-</u>           |
| Net change in fund balance           | (1,676)            | (11,487)           | 42,515             | 86,267            | 97,323             |
| Fund balance (deficit) - January 1   | <u>(163,033)</u>   | <u>(164,709)</u>   | <u>(176,196)</u>   | <u>(133,681)</u>  | <u>(47,414)</u>    |
| Fund balance (deficit) - December 31 | <u>(\$164,709)</u> | <u>(\$176,196)</u> | <u>(\$133,681)</u> | <u>(\$47,414)</u> | <u>\$49,909</u>    |

The Fund deficit of (\$47,414) at December 31, 2021 is partially financed by an interfund loan of \$52,074 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

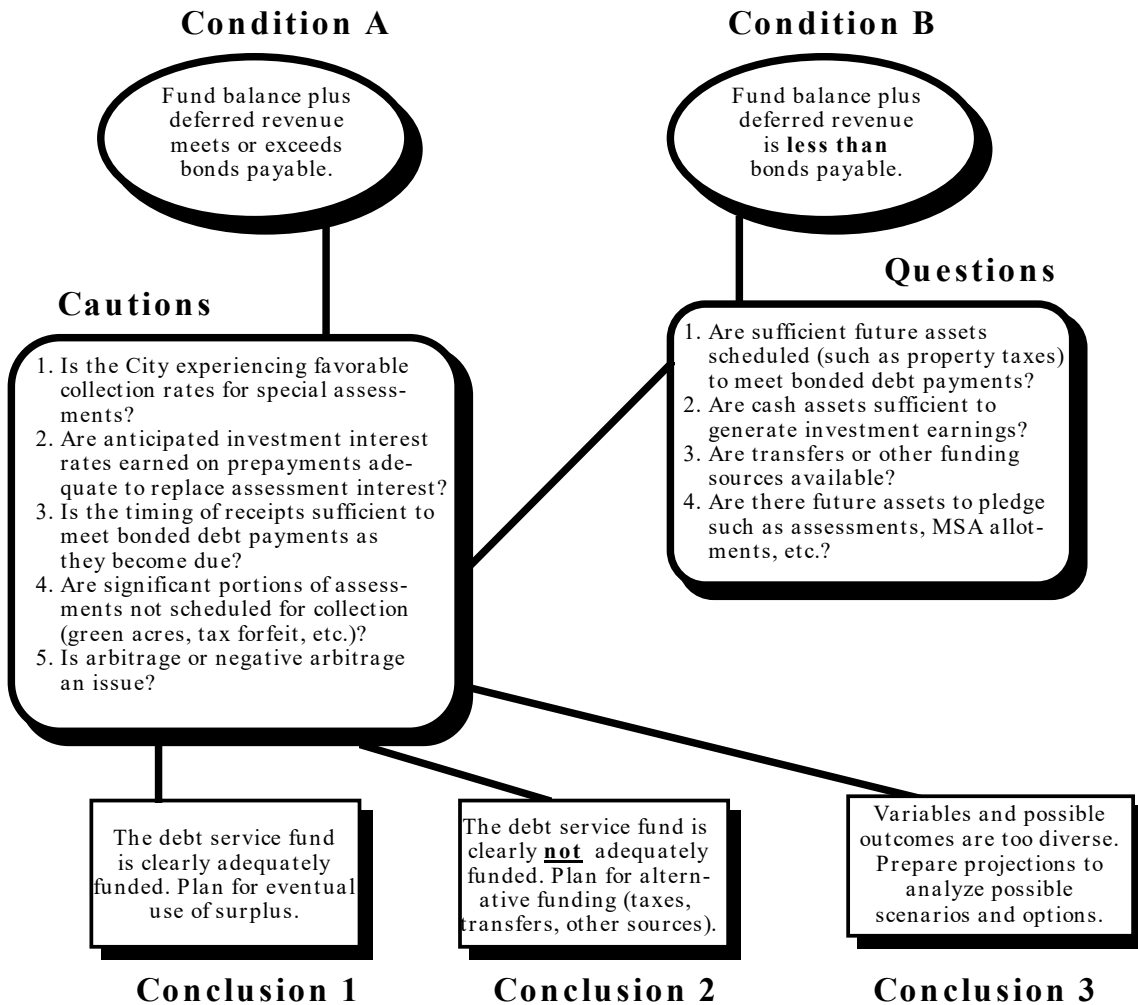
### Debt Service Funds

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                            | 12/31/2021       |                  |                  | Outstanding Debt  | Scheduled Ad-valorem Property Taxes | Final Maturity Date |
|---|------------------|------------------|------------------|-------------------|-------------------------------------|---------------------|
|   | Fund Balance     | Deferred Revenue | Total            |                   |                                     |                     |
| Special Assessment Debt:                    |                  |                  |                  |                   |                                     |                     |
| 1 Improvement Bonds of 2007B <sup>(2)</sup> | 12,382           | -                | 12,382           | 75,000            | -                                   | 4/1/2022            |
| 2 Improvement Bonds of 2009C <sup>(1)</sup> | 640,377          | 139,746          | 780,123          | 1,405,000         | 910,429                             | 2/1/2025            |
| 3 Improvement Bonds of 2010A                | 133,365          | 23,012           | 156,377          | 310,000           | 222,543                             | 2/1/2026            |
| 4 Improvement Bonds of 2011B                | 268,796          | 106,191          | 374,987          | 440,000           | 285,902                             | 2/1/2027            |
| 5 Improvement Bonds of 2012A                | 702,192          | 139,164          | 841,356          | 1,110,000         | 759,727                             | 2/1/2028            |
| 6 Improvement Bonds of 2012B <sup>(2)</sup> | 2,539            | -                | 2,539            | 1,785,000         | -                                   | 10/1/2027           |
| 7 Improvement Bonds of 2013B                | 869,516          | 165,429          | 1,034,945        | 2,360,000         | 756,830                             | 2/1/2029            |
| 8 Improvement Bonds of 2014A                | 364,315          | 67,276           | 431,591          | 1,630,000         | 1,525,650                           | 2/1/2030            |
| 9 Improvement Bonds of 2016A                | 315,163          | 123,572          | 438,735          | 1,660,000         | 1,509,577                           | 2/1/3032            |
| 10 Improvement Bonds of 2021B               | 82,586           | 15,558           | 98,144           | 6,255,000         | 8,123,170                           | 2/1/2042            |
| 11 Refunding Bonds of 2017B                 | 659,672          | 187,845          | 847,517          | 895,000           | 255,255                             | 2/1/2034            |
| 12 Street Reconstruction Bonds of 2017A     | 406,723          | 135,813          | 542,536          | 1,795,000         | 1,860,358                           | 2/1/2033            |
| 13 Street Reconstruction Bonds of 2018A     | 341,972          | 127,336          | 469,308          | 1,755,000         | 1,704,176                           | 2/1/2034            |
| 14 G. O. Abatement Bonds of 2019A           | 378,921          | 770,513          | 1,149,434        | 1,515,000         | 1,748,198                           | 2/1/2035            |
| 15 Street Reconstruction Bonds of 2020A     | 177,508          | 140,498          | 318,006          | 2,275,000         | 2,319,914                           | 2/1/2036            |
| 16 Supplemental levy <sup>(3)</sup>         | -                | -                | -                | -                 | (660,000)                           |                     |
| 17 Total special assessment debt            | <u>5,356,027</u> | <u>2,141,953</u> | <u>7,497,980</u> | <u>25,265,000</u> | <u>21,321,729</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 1-13     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, 2021 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, 2021.

**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 \$220,933 at December 31, 2021.

**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 \$225,389 at December 31, 2021. 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 \$241,731 at December 31, 2021.

A Summary of the 2021 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 12/31/2021 | PAYGO Balance 12/31/2021 |
|--|---------------------------|-----------------------------|-------------------------------------|-------------------------|--------------------------|
| Tax Increment 1-6 Old Hospital Housing       | 57,000                    | 53,000                      | 4,000                               | 94,000                  | -                        |
| Tax Increment 1-6 Old Hospital Housing Paygo | 31,000                    | 29,000                      | 2,000                               | 19,000                  | 307,500                  |
| Tax Increment 1-4 Oakwood Terrace            | 33,000                    | -                           | 33,000                              | 504,000                 | -                        |
| Tax Increment 1-7 Block 37 Redevelopment     | 17,000                    | 16,000                      | 1,000                               | 19,000                  | 389,000                  |
| Tax Increment 1-8 Lakewood Heights           | 36,000                    | 32,000                      | 4,000                               | 28,000                  | 221,000                  |
| Tax Increment 1-10 River Hills               | 63,000                    | 56,000                      | -                                   | 6,000                   | 467,000                  |
| Tax Increment 1-11 Sawmill Inn Redevelopment | 5,000                     | -                           | -                                   | 5,000                   | -                        |
| Total  | 242,000                   | 186,000                     | 44,000                              | 675,000                 | 1,384,500                |

**CAPITAL PROJECT FUNDS**

The financial activity of the Capital Project Funds for 2021 was as follows:

| Fund                                 | Revenue            | Expenditures        | Bonds Issued       | Interfund Transfers | Change in Fund Balance | Fund Balance 12/31/2021 | Comments   |
|--------------------------------------|--------------------|---------------------|--------------------|---------------------|------------------------|-------------------------|--|
| General Capital Improvement Projects | \$410,810          | \$399,826           | \$ -               | \$159,686           | \$170,670              | \$280,136               | 2021 expenditures include Hwy 2 lighting project, and the ICC Student Center project (\$340,000) and North Homes expansion   |
| Municipal State Aid                  | 71,961             | 1,282               | -                  | -                   | 70,679                 | 446,729                 |  |
| GR/Cohasset Industrial park          | -                  | 129,591             | -                  | -                   | (129,591)              | (129,591)               |  |
| Park Acquisition and Development     | 24,247             | 7,464               | -                  | -                   | 16,783                 | 94,653                  |  |
| Arts and Culture Capital Project     | 349                | -                   | -                  | 4,167               | 4,516                  | 71,771                  |  |
| Capital Equipment Replacement        | 255,242            | 436,326             | -                  | 198,037             | 16,953                 | (556,342)               | 2021 expenditures include an ASV track loader (\$74,000), Mower (\$57,000), Ram dump truck (\$72,000) two ford explorers (\$101,000) and Jeep Grand Cherokee (\$38,000). |
| Airport Capital Fund                 | 3,636,309          | 3,669,938           | -                  | -                   | (33,629)               | 102,160                 | 2021 expenditures include preliminary costs for runway 16/34 reconstruction (\$3,653,000)  |
| IRA Civic Center Projects            | 28,123             | -                   | -                  | -                   | 28,123                 | (24,824)                |  |
| Civic Center Capital Improvements    | -                  | 1,081,716           | -                  | -                   | (1,081,716)            | (1,263,858)             | This fund accounts for the Civic Center renovation   |
| Permanent Improvement Revolving      | 24,532             | 26,981              | -                  | 332,318             | 329,869                | 593,930                 |  |
| 2019 Infrastructure - Bonded         | -                  | 1,960               | -                  | (135,913)           | (137,873)              | -                       | This fund accounted for the Golf Course Road utility extension and Cohasset Trail projects   |
| 2020 Infrastructure - Bonded         | 10,974             | 150,332             | -                  | -                   | (139,358)              | 104,334                 | 2021 expenditures were for the 2020 street improvement project   |
| 2021 Infrastructure - Bonded         | 466,044            | 6,577,227           | 6,625,304          | (86,592)            | 427,529                | 849,247                 | 2021 expenditures were for the new Fire Hall (\$4,415,000) and HWY 2 West Trail (\$1,342,000)  |
| 2022 Infrastructure - Bonded         | 87,584             | 87,584              | -                  | -                   | -                      | -                       | 2021 expenditures were funded by the federal ARPA monies   |
| <b>Totals</b>                        | <b>\$5,016,175</b> | <b>\$12,570,227</b> | <b>\$6,625,304</b> | <b>\$471,703</b>    | <b>(\$457,045)</b>     | <b>\$568,345</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>2018</u>       | <u>2019</u>       | <u>2020</u>     | <u>2021</u>      |
|------------------------------|-------------------|-------------------|-----------------|------------------|
| Operating revenue            | \$582,728         | \$589,751         | \$651,736       | \$776,841        |
| Operating expenses           | <u>621,106</u>    | <u>624,109</u>    | <u>635,929</u>  | <u>718,957</u>   |
| Operating income (loss)      | (38,378)          | (34,358)          | 15,807          | 57,884           |
| Other income (expense) - net | 27,295            | 5,190             | (735)           | 119,188          |
| Transfers in                 | -                 | -                 | -               | -                |
| Transfers out                | <u>(3,500)</u>    | <u>(3,500)</u>    | -               | -                |
| Change in net assets         | <u>(\$14,583)</u> | <u>(\$32,668)</u> | <u>\$15,072</u> | <u>\$177,072</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>2018</u>             | <u>2019</u>              | <u>2020</u>            | <u>2021</u>             |
|------------------------------|-------------------------|--------------------------|------------------------|-------------------------|
| Operating revenue            | \$699,897               | \$694,278                | \$743,663              | \$873,563               |
| Operating expenses           | <u>747,613</u>          | <u>740,480</u>           | <u>663,576</u>         | <u>624,495</u>          |
| Operating income             | (47,716)                | (46,202)                 | 80,087                 | 249,068                 |
| Other income (expense) - net | 7,526                   | 3,236                    | 4,123                  | 5,262                   |
| Transfers in (out)           | <u>33,000</u>           | <u>-</u>                 | <u>-</u>               | <u>-</u>                |
| Change in net assets         | <u><u>(\$7,190)</u></u> | <u><u>(\$42,966)</u></u> | <u><u>\$84,210</u></u> | <u><u>\$254,330</u></u> |

For 2018, revenue increased as a result a change in rates and storm water credits.

There was no change in rates from 2018 to 2019. Rates increased 13% and 6.25% for 2020 and 2021 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:

| Fund            | Revenue   | Expenditures | Change in Fund Balance | Fund Balance 12/31/2021 |
|-----------------|-----------|--------------|------------------------|-------------------------|
| General         | \$30,095  | \$14,879     | \$15,216               | \$18,096                |
| Capital Project | 707,772   | 759,160      | (51,388)               | 821,105                 |
| Total           | \$737,867 | \$774,039    | (\$36,172)             | \$839,201               |
|                 |           |              |                        |                         |

Capital Project expenditures for 2021 include the following:

|                             |                  |
|-----------------------------|------------------|
| Great River Acres           | \$28,371         |
| DEED - Owner Occupied Rehab | 163,590          |
| Block 5                     | 134,927          |
| Hangar                      | 31,427           |
| Loans issued                | 120,000          |
| Airport South Ind. Park     | 25,627           |
| Loan repayments             | 210,490          |
| All other                   | 44,728           |
|                             | <hr/>            |
| Total                       | <u>\$759,160</u> |

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

| Payee              | Purpose                               | Balance<br>12/31/20 | Additions        | Deletions        | Balance<br>12/31/21 |
|--------------------|---------------------------------------|---------------------|------------------|------------------|---------------------|
| Blandin Foundation | Block 20 & 21 soil remediation        | \$100,000           | \$ -             | \$ -             | \$100,000           |
| Blandin Foundation | Airport industrial park               | 262,500             | -                | 17,500           | 245,000             |
| Blandin Foundation | Commercial building improvement loans | 101,540             | -                | 27,910           | 73,630              |
| Blandin Foundation | VFW/Rose Bldgs                        | -                   | 140,000          | -                | 140,000             |
| IRRRB              | Airport Hangar                        | 284,578             | -                | 16,487           | 268,091             |
| IEDC               | Airport Hangar                        | 55,037              | -                | 8,952            | 46,085              |
| Blandin Foundation | EWCL                                  | 550,000             | -                | 123,838          | 426,162             |
| Blandin Foundation | EWCL                                  | 100,000             | -                | 15,803           | 84,197              |
|                    | Total                                 | <u>\$1,453,655</u>  | <u>\$140,000</u> | <u>\$210,490</u> | <u>\$1,383,165</u>  |

The EDA also has inventory of Land Held for resale in the amount of \$3,401,507. 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            |
| Manufacturing Hangar                    | 580,000            |
| Great River Acres                       | 657,883            |
| 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>\$3,401,507</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 |
|--|---------------------------------|
| <b>Statement No. 87</b> <i>Leases.</i>   | 2022                            |
| <b>Statement No. 91</b> <i>Conduit Debt Obligation</i>   | 2022                            |
| <b>Statement No. 92</b> <i>Omnibus 2020</i>  | 2022                            |
| <b>Statement No. 93</b> <i>Replacement of Interbank Offered Rates</i>  | 2022                            |
| <b>Statement No. 94</b> <i>Public-Private and Private-Private Partnerships and Availability Payment Arrangements</i> | 2023                            |
| <b>Statement No. 96</b> <i>Subscription-Based Information Technology Arrangements</i>                                | 2023                            |

**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, 2021. 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 August 11, 2020. 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 standards were required to be implemented by the City of Grand Rapids in 2021.

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 were management’s estimation of the factors relating to the Actuarial Accrued Liability related to OPEB, and the net pension liability and the pension related deferred inflows and outflows. We evaluated the key factors and assumptions used to develop these 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 8 – 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. There were no corrected misstatements identified during the audit.

**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.

**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 and is not intended to be, and should not be, used by anyone other than these specified parties.