

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 19, 2024

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for purposes of Minnesota income taxation, and is not a specific preference item for purposes of the federal alternative minimum tax applicable to individuals or the Minnesota alternative minimum tax applicable to individuals, trusts and estates. For a more detailed description of such opinions of Bond Counsel, see "Tax Exemption" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Rating Application Made: S&P Global Ratings

CITY OF GRAND MARAIS, MINNESOTA (Cook County)

\$6,155,000* GENERAL OBLIGATION BONDS, SERIES 2024A

PROPOSAL OPENING: January 31, 2024, 10:00 A.M., C.T. **CONSIDERATION:** January 31, 2024, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$6,155,000* General Obligation Bonds, Series 2024A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, as amended, and Sections 469.1814 and 475.521, as amended, by the City of Grand Marais, Minnesota (the "City"), to finance the construction of a municipal liquor store and City Hall in the City. The Bonds are general obligations of the City, for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Kutak Rock LLP, Minneapolis, Minnesota.

DATE OF BONDS: February 15, 2024

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$160,000	2033	\$205,000	2040	\$395,000
2027	165,000	2034	315,000	2041	410,000
2028	175,000	2035	330,000	2042	425,000
2029	180,000	2036	335,000	2043	445,000
2030	185,000	2037	350,000	2044	460,000
2031	195,000	2038	365,000	2045	480,000
2032	200,000	2039	380,000		

***MATURITY ADJUSTMENTS:** The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2025 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2035 and thereafter are subject to call for prior optional redemption on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: \$6,081,140.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$123,100 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Kutak Rock LLP.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete.

Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1	TAX LEVIES, COLLECTIONS AND RATES	22
THE BONDS	1	TAX LEVIES AND COLLECTIONS	22
GENERAL	1	TAX CAPACITY RATES	22
OPTIONAL REDEMPTION	2	THE ISSUER	23
AUTHORITY; PURPOSE	2	CITY GOVERNMENT	23
ESTIMATED SOURCES AND USES	3	EMPLOYEES; PENSIONS; UNIONS	23
SECURITY	4	POST EMPLOYMENT BENEFITS	23
RATING	4	LITIGATION	23
CONTINUING DISCLOSURE	5	MUNICIPAL BANKRUPTCY	23
LEGAL MATTERS	5	FUNDS ON HAND	24
TAX EXEMPTION	5	ENTERPRISE FUNDS	25
QUALIFIED TAX-EXEMPT OBLIGATIONS	8	SUMMARY GENERAL FUND INFORMATION	26
MUNICIPAL ADVISOR	8	GENERAL INFORMATION	27
MUNICIPAL ADVISOR AFFILIATED COMPANIES	8	LOCATION	27
INDEPENDENT AUDITORS	8	LARGER EMPLOYERS	27
RISK FACTORS	8	BUILDING PERMITS	28
VALUATIONS	11	U.S. CENSUS DATA	29
OVERVIEW	11	EMPLOYMENT/UNEMPLOYMENT DATA	29
CURRENT PROPERTY VALUATIONS	12	FINANCIAL STATEMENTS	A-1
2022/23 NET TAX CAPACITY BY CLASSIFICATION	12	FORM OF LEGAL OPINION	B-1
TREND OF VALUATIONS	13	BOOK-ENTRY-ONLY SYSTEM	C-1
LARGEST TAXPAYERS	13	FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
DEBT	14	TERMS OF PROPOSAL	E-1
DIRECT DEBT	14	PROPOSAL FORM	
DEBT PAYMENT HISTORY	14		
FUTURE FINANCING	14		
DEBT LIMIT	15		
SCHEDULES OF BONDED INDEBTEDNESS	16		
OVERLAPPING DEBT	20		
DEBT RATIOS	21		

CITY OF GRAND MARAIS CITY COUNCIL

		<u>Term Expires</u>
Tracy Benson	Mayor	January 2025
Aaron Carlson	Council Member	January 2027
Michael Garry	Council Member	January 2025
Ben Peters	Council Member	January 2027
Craig Schulte	Council Member	January 2025

ADMINISTRATION

Mike Roth, City Administrator
Kim Dunsmoor, Finance Director

PROFESSIONAL SERVICES

Flaherty & Hood, P.A., City Attorney, St. Paul, Minnesota

Kutak Rock LLP, Bond Counsel, Minneapolis, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other office located in Waukesha, Wisconsin)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Grand Marais, Minnesota (the "City") and the issuance of its \$6,155,000* General Obligation Bonds, Series 2024A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on January 31, 2024.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of February 15, 2024. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, as amended, and Sections 469.1814 and 475.521, as amended, by the City, to finance the construction of a municipal liquor store (the "Tax Abatement Portion") and City Hall (the "Capital Improvement Plan (CIP) Portion") in the City.

For the Tax Abatement Portion of the Bonds, per Minnesota Statutes, Chapter 469, in any year, the total amount of property taxes abated by a political subdivision under this section may not exceed (i) ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (ii) \$200,000, whichever is greater.

For the CIP Portion of the Bonds, per Minnesota Statutes, Section 475.521, adopted by the 2003 Minnesota State Legislature and amended in 2005, allows cities and towns to plan for and finance the acquisition and betterment of public lands, buildings, and certain other improvements within the municipality, including financing the construction of city halls, town halls, libraries, public safety, and public works facilities. Annual principal and interest payments on general obligation capital improvement bonds and all outstanding bonds issued under Section 475.521 are limited to 0.16% of the City's estimated market value of property in the City. The estimated market value of the property in the City for taxes collectible in 2023 is \$257,789,500. This results in a maximum annual debt service allowable of \$412,463 for capital improvement bonds outstanding at any time. The City has adopted and published the necessary resolution and has not received a petition asking for a reverse referendum.

ESTIMATED SOURCES AND USES*

Sources	Tax Abatement Portion	CIP Portion	Total Bond Issue
Par Amount of Bonds	\$2,360,000	\$3,795,000	\$6,155,000
Planned Issuer Equity Contribution	<u>1,000,000</u>	<u>1,500,000</u>	<u>2,500,000</u>
Total Sources	\$3,360,000	\$5,295,000	\$8,655,000
Uses			
Total Underwriter's Discount (1.200%)	\$28,320	\$45,540	\$73,860
Costs of Issuance	30,483	49,017	79,500
Deposit to Construction Fund	3,300,000	5,200,000	8,500,000
Rounding Amount	<u>1,197</u>	<u>443</u>	<u>1,640</u>
Total Uses	\$3,360,000	\$5,295,000	\$8,655,000

Breakdown of Principal Payments*:

Payment Date	Tax Abatement Portion	CIP Portion	Total Bond Issue
2/01/2026	\$80,000	\$80,000	\$160,000
2/01/2027	85,000	80,000	165,000
2/01/2028	90,000	85,000	175,000
2/01/2029	90,000	90,000	180,000
2/01/2030	95,000	90,000	185,000
2/01/2031	100,000	95,000	195,000
2/01/2032	100,000	100,000	200,000
2/01/2033	105,000	100,000	205,000
2/01/2034	110,000	205,000	315,000
2/01/2035	115,000	215,000	330,000
2/01/2036	115,000	220,000	335,000
2/01/2037	120,000	230,000	350,000
2/01/2038	125,000	240,000	365,000
2/01/2039	130,000	250,000	380,000
2/01/2040	135,000	260,000	395,000
2/01/2041	140,000	270,000	410,000
2/01/2042	145,000	280,000	425,000
2/01/2043	155,000	290,000	445,000
2/01/2044	160,000	300,000	460,000
2/01/2045	<u>165,000</u>	<u>315,000</u>	<u>480,000</u>
Total	\$2,360,000	\$3,795,000	\$6,155,000

*Preliminary, subject to change.

SECURITY

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount.

The City anticipates that the debt service for the Tax Abatement Portion of the Bonds will be paid from a combination of abating the City's portion of taxes from specific parcels up to an amount of the aggregate sum of abatements equal to the principal amount of the Tax Abatement Portion of the Bonds and from ad valorem property taxes. In accordance with Minnesota Statutes, receipt of tax abatement revenues and ad valorem property taxes will be sufficient to provide not less than 105% of principal and interest on the Tax Abatement Portion of the Bonds.

The City anticipates that the debt service for the CIP Portion of the Bonds will be paid from ad valorem tax. The City will levy each year an amount not less than 105% of the debt service requirements on the CIP Portion of the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the City is required to levy an additional ad valorem tax upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy additional taxes for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

Although the tax abatements and property taxes are pledged to the payment of debt service on the Bonds, each year, the City intends to cancel the abatements and property taxes for the Bonds to the extent the City has sufficient municipal liquor store revenues on hand to meet its debt service obligations on the Bonds as they come due.

RATING

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "AA" by S&P Global Ratings ("S&P").

The City has requested an underlying rating on the Bonds from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating, if any, reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.

LEGAL MATTERS

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kutak Rock LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

General Matters. In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds (including any original issue discount properly allocable to the owner of a Bond) is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. The opinion described above assumes the accuracy of certain representations and compliance by the City with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend on such owners' particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences.

Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations, foreign corporations operating branches in the United States of America, and certain corporations subject to the alternative minimum tax imposed on corporations, property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Bond Counsel is also of the opinion that, under existing State of Minnesota statutes, interest on the Bonds is exempt from State of Minnesota income tax. Bond Counsel has expressed no opinion regarding other tax consequences arising with respect to the Bonds under the laws of the State of Minnesota or any other state or jurisdiction.

A copy of the form of opinion of Bond Counsel is attached hereto as Appendix B.

Original Issue Discount. The Bonds that have an original yield above their respective interest rates, as shown on the cover of this Official Statement (collectively, the "Discount Bonds"), are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity (excluding "qualified stated interest" within the meaning of Section 1.1273-1 of the Regulations) constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount that is treated as having accrued with respect to a Discount Bond is added to the cost basis of the owner of the bond in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received on disposition of such Discount Bond that are attributable to accrued or otherwise recognized original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less (b) the amount of any interest payable for such Discount Bond during the accrual period. The tax basis for purposes of the preceding sentence is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond. Subsequent purchasers of Discount Bonds that purchase such bonds for a price that is higher or lower than the "adjusted issue price" of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

Original Issue Premium. The Bonds that have an original yield below their respective interest rates, as shown on the cover of this Official Statement (collectively, the "Premium Bonds"), are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, generally by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period, and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Bank Qualified. The City has represented that it does not reasonably anticipate issuing greater than \$10,000,000 of tax-exempt obligations in calendar year 2024 (excluding certain private activity and refunding bonds) and that it has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. Accordingly, assuming the accuracy of such representations, in the case of certain banks, thrift institutions or other financial institutions owning the Bonds, a deduction is allowed for 80 percent of that portion of such institutions' interest expense allocable to interest on such bonds. Bond Counsel has expressed no opinion with respect to any deduction for federal tax law purposes of interest on indebtedness incurred or continued by an owner of the Bonds or a related person to purchase or carry such bonds.

Backup Withholding

An owner of a Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Bonds if such owner fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "TAX MATTERS" or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based on existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds are advised to consult their own tax advisors prior to any purchase of the Bonds as to the impact of the Code upon their acquisition, holding or disposition of the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds shall be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2022 have been audited by Walker, Giroux & Hahne, LLC, Virginia, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (tax abatement revenues) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Taconite Tax Loss: The City, in common with other Iron Range Communities, receives grants and aids which are derived from special taconite taxes and which may be reduced in the event of production curtailment. Also, homeowners now receive substantial homestead credits from taxes derived from taconite sources which may be reduced with a cut in production. Reduction of grants, state aids and credits could increase the City's need for other local taxes.

Iron Mining Economy: The City is located on Minnesota's Iron Range, with an economy directly related to the mining industry, including processing and shipping of iron ore (pellets) for the nation's steel industry and for foreign shipments. Beginning in 1981, economic downturns reduced demand for steel and for taconite pellets, and some taconite plants curtailed operations and employment.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Levy Limits: The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers and Associates.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2020/21	2021/22	2022/23
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,880,000 - 0.50% ² Over \$1,880,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% ² Over \$1,890,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2022/23 Economic Market Value	<u>\$300,681,800¹</u>
2022/23 Assessor's Estimated Market Value	
Real Estate	\$257,728,000
Personal Property	<u>61,500</u>
Total Valuation	<u>\$257,789,500</u>
2022/23 Net Tax Capacity	
Real Estate	\$2,970,149
Personal Property	<u>1,032</u>
Net Tax Capacity	\$2,971,181
Less: Fiscal Disparities Contribution ²	<u>(194,726)</u>
Taxable Net Tax Capacity	\$2,776,455
Plus: Fiscal Disparities Distribution ²	<u>44,750</u>
Adjusted Taxable Net Tax Capacity	<u>\$2,821,205</u>

2022/23 NET TAX CAPACITY BY CLASSIFICATION

	2022/23 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$1,137,811	38.29%
Agricultural	916	0.03%
Commercial/industrial	793,538	26.71%
Non-homestead residential	699,448	23.54%
Commercial & residential seasonal/rec.	338,436	11.39%
Personal property	<u>1,032</u>	<u>0.03%</u>
Total	<u>\$2,971,181</u>	<u>100.00%</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City is about 85.73% of the actual selling prices of property most recently sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$300,681,800.

² Each community in the taconite credit area contributes 40% of its new industrial and commercial valuation to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes losing net tax capacity for tax purposes. Taxes are spread on the basis of taxable net tax capacity.

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity ¹	Adjusted Taxable Net Tax Capacity ²	Percent Increase/Decrease in Estimated Market Value
2018/19	\$184,148,040	\$174,266,187	\$2,087,468	\$1,916,085	-0.30%
2019/20	203,731,900	194,661,043	2,336,968	2,164,064	10.63%
2020/21	203,173,900	193,943,817	2,335,432	2,156,514	-0.27%
2021/22	204,941,700	195,850,357	2,314,750	2,109,196	0.87%
2022/23	257,789,500	250,654,955	2,971,181	2,821,205	25.79%

LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Holland Motel, Inc.	Hotel/Motel	\$71,799	2.42%
Spruceglen, Inc.	Hotel/Motel	45,464	1.53%
Individual	Retail/Commercial	40,498	1.36%
HRA Investors, LLC	Personal	30,609	1.03%
Fireweed Brewing Co.	Commercial	28,470	0.96%
Three Families Brewing	Retail/Commercial	25,854	0.87%
Grand Marais State Bank	Banking/Finance	25,056	0.84%
Individual	Personal	24,309	0.82%
Grand Marais Hotel Co.	Hotel/Motel	20,640	0.69%
S&J Holdings, LLC	Personal	<u>20,442</u>	<u>0.69%</u>
Total		\$333,141	11.21%

City's Total 2022/23 Net Tax Capacity \$2,971,181

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Cook County.

¹ Net Tax Capacity is before fiscal disparities adjustments.

² Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total G.O. debt secured by special assessments and taxes	\$1,600,000
Total G.O. debt secured by tax abatement revenues (includes the Tax Abatement Portion of the Bonds)*	2,360,000
Total G.O. debt secured by taxes (includes the CIP Portion of the Bonds)*	5,115,000
Total G.O. debt secured by utility revenues	3,042,000
Total General Obligation Debt*	<u>\$12,117,000</u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City has no plans for additional financing in the next 12 months.

¹ Outstanding debt is as of the dated date of the Bonds.

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience); (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4 (includes the CIP Portion of the Bonds); (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay judgments against the City; and other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance (includes the Tax Abatement of the Bonds).

2022/23 Assessor's Estimated Market Value	\$257,789,500
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$7,733,685
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>0</u>
Unused Debt Limit	<u><u>\$7,733,685</u></u>

City of Grand Marais, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Special Assessments and Taxes
(As of 02/15/2024)

Improvement Refunding Bonds Series 2019A			Refunding Bonds 1) Series 2021A							
Dated	12/30/2019		11/18/2021							
Amount	\$1,110,000		\$1,325,000							
Maturity	02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	0	7,400	0	4,730	0	12,130	12,130	1,600,000	.00%	2024
2025	100,000	13,800	240,000	8,140	340,000	21,940	361,940	1,260,000	21.25%	2025
2026	100,000	11,800	185,000	5,803	285,000	17,603	302,603	975,000	39.06%	2026
2027	100,000	9,800	185,000	3,768	285,000	13,568	298,568	690,000	56.88%	2027
2028	105,000	7,750	125,000	2,063	230,000	9,813	239,813	460,000	71.25%	2028
2029	110,000	5,600	125,000	688	235,000	6,288	241,288	225,000	85.94%	2029
2030	110,000	3,400			110,000	3,400	113,400	115,000	92.81%	2030
2031	115,000	1,150			115,000	1,150	116,150	0	100.00%	2031
	740,000	60,700	860,000	25,190	1,600,000	85,890	1,685,890			

1) This represents the \$1,325,000 Improvement Refunding Portion of the \$1,530,000 General Obligation Refunding Bonds, Series 2021A.

City of Grand Marais, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Tax Abatement Revenues
(As of 02/15/2024)

Tax Abatement Bonds 1) Series 2024A								
Dated Amount	02/15/2024 \$2,360,000*							
Maturity	02/01							
Calendar Year Ending	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2025	0	132,808	0	132,808	132,808	2,360,000	.00%	2025
2026	80,000	89,435	80,000	89,435	169,435	2,280,000	3.39%	2026
2027	85,000	86,445	85,000	86,445	171,445	2,195,000	6.99%	2027
2028	90,000	83,318	90,000	83,318	173,318	2,105,000	10.81%	2028
2029	90,000	80,145	90,000	80,145	170,145	2,015,000	14.62%	2029
2030	95,000	76,908	95,000	76,908	171,908	1,920,000	18.64%	2030
2031	100,000	73,495	100,000	73,495	173,495	1,820,000	22.88%	2031
2032	100,000	69,995	100,000	69,995	169,995	1,720,000	27.12%	2032
2033	105,000	66,381	105,000	66,381	171,381	1,615,000	31.57%	2033
2034	110,000	62,538	110,000	62,538	172,538	1,505,000	36.23%	2034
2035	115,000	58,430	115,000	58,430	173,430	1,390,000	41.10%	2035
2036	115,000	54,118	115,000	54,118	169,118	1,275,000	45.97%	2036
2037	120,000	49,593	120,000	49,593	169,593	1,155,000	51.06%	2037
2038	125,000	44,784	125,000	44,784	169,784	1,030,000	56.36%	2038
2039	130,000	39,748	130,000	39,748	169,748	900,000	61.86%	2039
2040	135,000	34,480	135,000	34,480	169,480	765,000	67.58%	2040
2041	140,000	28,945	140,000	28,945	168,945	625,000	73.52%	2041
2042	145,000	23,138	145,000	23,138	168,138	480,000	79.66%	2042
2043	155,000	16,949	155,000	16,949	171,949	325,000	86.23%	2043
2044	160,000	10,373	160,000	10,373	170,373	165,000	93.01%	2044
2045	165,000	3,506	165,000	3,506	168,506	0	100.00%	2045
	2,360,000	1,185,528	2,360,000	1,185,528	3,545,528			

* Preliminary, subject to change.

1) This represents the \$2,360,000 Tax Abatement Portion of the \$6,155,000 General Obligation Bonds, Series 2024A.

City of Grand Marais, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 02/15/2024)

	Capital Improvement Plan Bonds 1) Series 2017A		Capital Improvement Plan Bonds 2) Series 2024A							
	Dated Amount									
	06/28/2017 \$2,030,000		02/15/2024 \$3,795,000*							
Maturity	02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	0	18,919	0	0	0	18,919	18,919	5,115,000	.00%	2024
2025	130,000	35,888	0	216,756	130,000	252,643	382,643	4,985,000	2.54%	2025
2026	135,000	31,913	80,000	146,890	215,000	178,803	393,803	4,770,000	6.74%	2026
2027	140,000	28,138	80,000	143,990	220,000	172,128	392,128	4,550,000	11.05%	2027
2028	140,000	24,638	85,000	141,041	225,000	165,679	390,679	4,325,000	15.44%	2028
2029	145,000	20,894	90,000	137,958	235,000	158,851	393,851	4,090,000	20.04%	2029
2030	150,000	16,650	90,000	134,808	240,000	151,458	391,458	3,850,000	24.73%	2030
2031	155,000	12,075	95,000	131,570	250,000	143,645	393,645	3,600,000	29.62%	2031
2032	160,000	7,350	100,000	128,158	260,000	135,508	395,508	3,340,000	34.70%	2032
2033	165,000	2,475	100,000	124,633	265,000	127,108	392,108	3,075,000	39.88%	2033
2034			205,000	119,168	205,000	119,168	324,168	2,870,000	43.89%	2034
2035			215,000	111,500	215,000	111,500	326,500	2,655,000	48.09%	2035
2036			220,000	103,343	220,000	103,343	323,343	2,435,000	52.39%	2036
2037			230,000	94,678	230,000	94,678	324,678	2,205,000	56.89%	2037
2038			240,000	85,453	240,000	85,453	325,453	1,965,000	61.58%	2038
2039			250,000	75,775	250,000	75,775	325,775	1,715,000	66.47%	2039
2040			260,000	65,638	260,000	65,638	325,638	1,455,000	71.55%	2040
2041			270,000	54,970	270,000	54,970	324,970	1,185,000	76.83%	2041
2042			280,000	43,763	280,000	43,763	323,763	905,000	82.31%	2042
2043			290,000	32,005	290,000	32,005	322,005	615,000	87.98%	2043
2044			300,000	19,688	300,000	19,688	319,688	315,000	93.84%	2044
2045			315,000	6,694	315,000	6,694	321,694	0	100.00%	2045
	1,320,000	198,938	3,795,000	2,118,473	5,115,000	2,317,411	7,432,411			

* Preliminary, subject to change.

- 1) This represents the \$2,030,000 Capital Improvement Plan Portion of the \$3,575,000 General Obligation Bonds, Series 2017A. This issue is not subject to the debt limit.
- 2) This represents the \$3,795,000 Capital Improvement Plan Portion of the \$6,155,000 General Obligation Bonds, Series 2024A. This issue is not subject to the debt limit.

City of Grand Marais, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 02/15/2024)

	Water Revenue Loan Series 2004 (MPFA)		Water Note Series 2008		Utility Revenue Bonds 1) Series 2017A		Refunding Bonds 2) Series 2021A		Utility Revenue Bonds Series 2023A							
Dated Amount	08/11/2004 \$812,229		01/24/2008 \$650,000		06/28/2017 \$1,545,000		11/18/2021 \$205,000		08/02/2023 \$1,715,000							
Maturity	02/20		06/01 & 12/01		02/01		02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	52,000	658	30,000	4,261	0	14,400	0	825	0	72,698	82,000	92,841	174,841	2,960,000	2.70%	2024
2025			30,000	3,847	100,000	27,300	30,000	1,485	50,000	71,900	210,000	104,532	314,532	2,750,000	9.60%	2025
2026			30,000	2,513	105,000	24,225	30,000	1,155	90,000	69,100	255,000	96,993	351,993	2,495,000	17.98%	2026
2027			30,000	1,179	105,000	21,338	30,000	825	90,000	65,500	255,000	88,842	343,842	2,240,000	26.36%	2027
2028					110,000	18,650	30,000	495	100,000	61,700	240,000	80,845	320,845	2,000,000	34.25%	2028
2029					110,000	15,763	30,000	165	100,000	57,200	240,000	73,128	313,128	1,760,000	42.14%	2029
2030					115,000	12,525			105,000	52,075	220,000	64,600	284,600	1,540,000	49.38%	2030
2031					115,000	9,075			110,000	46,700	225,000	55,775	280,775	1,315,000	56.77%	2031
2032					120,000	5,550			115,000	41,075	235,000	46,625	281,625	1,080,000	64.50%	2032
2033					125,000	1,875			120,000	35,800	245,000	37,675	282,675	835,000	72.55%	2033
2034									125,000	30,900	125,000	30,900	155,900	710,000	76.66%	2034
2035									130,000	25,800	130,000	25,800	155,800	580,000	80.93%	2035
2036									135,000	20,500	135,000	20,500	155,500	445,000	85.37%	2036
2037									140,000	15,000	140,000	15,000	155,000	305,000	89.97%	2037
2038									150,000	9,200	150,000	9,200	159,200	155,000	94.90%	2038
2039									155,000	3,100	155,000	3,100	158,100	0	100.00%	2039
	52,000	658	120,000	11,801	1,005,000	150,700	150,000	4,950	1,715,000	678,248	3,042,000	846,356	3,888,356			

1) This represents the \$1,545,000 Utility Revenue Portion of the \$3,575,000 General Obligation Bonds, Series 2017A.

2) This represents the \$205,000 Utility Revenue Refunding Portion of the \$1,530,000 General Obligation Refunding Bonds, Series 2021A.

OVERLAPPING DEBT¹

Taxing District	2022/23 Adjusted Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
Cook County	\$24,288,160	11.6156%	\$10,670,000 ³	\$1,239,385
I.S.D. No. 166 (Cook County Public Schools)	24,288,160	11.6156%	6,070,000	<u>705,067</u>
City's Share of Total Overlapping Debt				<u><u>\$1,944,451</u></u>

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Minnesota School Districts may qualify for aid from the State of Minnesota through the Debt Service Equalization Formula, School Building Bond Agricultural Credit and Long Term Facilities Maintenance Revenue programs. While some of the districts listed may receive these aids, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aids for the purposes of the Bonds.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$300,681,800	Debt/ Per Capita 1,344¹
Direct G.O. Debt Secured By:			
Special Assessments & Taxes	\$1,600,000		
Taxes Abatement Revenues*	2,360,000		
Taxes*	5,115,000		
Utility Revenues	3,042,000		
Total General Obligation Debt*	\$12,117,000		
Less: G.O. Debt Paid Entirely from Revenues ²	(3,042,000)		
Tax Supported General Obligation Debt*	\$9,075,000	3.02%	\$6,752.23
City's Share of Total Overlapping Debt	\$1,944,451	0.65%	\$1,446.76
Total*	\$11,019,451	3.66%	\$8,199.00

*Preliminary, subject to change.

¹ Estimated 2022 population.

² Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX LEVIES, COLLECTIONS AND RATES

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date	% Collected
2018/19	\$908,321	\$871,614	\$902,402	99.35%
2019/20	922,729	901,831	920,705	99.78%
2020/21	941,274	926,605	936,682	99.51%
2021/22	968,296	937,595	937,595	96.83%
2022/23	997,235	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.² Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES³

	2018/19	2019/20	2020/21	2021/22	2022/23
Cook County	57.524%	56.618%	56.555%	57.708%	45.277%
City of Grand Marais	50.101%	44.832%	45.974%	48.375%	36.928%
I.S.D. No. 166 (Cook County Public Schools)	6.039%	5.503%	4.938%	4.947%	3.504%
Town of Lutsen ⁴	5.432%	5.062%	4.479%	3.886%	2.896%

Referendum Market Value Rates:

I.S.D. No. 166 (Cook County Public Schools)	0.13026%	0.09919%	0.09857%	0.08766%	0.05321%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Cook County.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Second half tax payments on agricultural property are due on November 15th of each year.

³ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

⁴ Representative town rate.

THE ISSUER

CITY GOVERNMENT

The City was organized as a municipality in 1903. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator and Finance Director are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 24 full-time, eight (8) part-time, and 22 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Unit

Bargaining Unit	Expiration Date of Current Contract
AFSCME	December 31, 2025

POST EMPLOYMENT BENEFITS

The City does not pay directly for retirees' post-employment benefits. The City has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the City is required to allow retirees to be covered by the City's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, Section 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (as of December 31, 2023)

Fund	Total Cash and Investments
General	\$6,540,082
Special Revenue	801,184
Debt Service	970,547
Enterprise Funds	<u>4,006,470</u>
Total Funds on Hand	<u><u>\$12,318,283</u></u>

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	2020 Audited	2021 Audited	2022 Audited
Liquor Store			
Total Operating Revenues	\$2,123,342	\$2,408,503	\$2,355,091
Less: Operating Expenses	<u>(1,919,778)</u>	<u>(2,101,566)</u>	<u>(2,124,277)</u>
Operating Income	\$203,564	\$306,937	\$230,814
Plus: Depreciation	<u>3,573</u>	<u>3,573</u>	<u>3,573</u>
Revenues Available for Debt Service	<u><u>\$207,137</u></u>	<u><u>\$310,510</u></u>	<u><u>\$234,387</u></u>
Electric			
Total Operating Revenues	\$2,847,675	\$2,966,371	\$3,003,894
Less: Operating Expenses	<u>(2,425,709)</u>	<u>(2,460,863)</u>	<u>(2,692,077)</u>
Operating Income	\$421,966	\$505,508	\$311,817
Plus: Depreciation	<u>238,869</u>	<u>239,487</u>	<u>240,646</u>
Revenues Available for Debt Service	<u><u>\$660,835</u></u>	<u><u>\$744,995</u></u>	<u><u>\$552,463</u></u>
Water			
Total Operating Revenues	\$400,165	\$413,329	\$399,798
Less: Operating Expenses	<u>(355,340)</u>	<u>(380,693)</u>	<u>(396,372)</u>
Operating Income	\$44,825	\$32,636	\$3,426
Plus: Depreciation	<u>165,127</u>	<u>165,226</u>	<u>186,264</u>
Revenues Available for Debt Service	<u><u>\$209,952</u></u>	<u><u>\$197,862</u></u>	<u><u>\$189,690</u></u>
Sewer			
Total Operating Revenues	\$639,701	\$686,677	\$741,660
Less: Operating Expenses	<u>(587,406)</u>	<u>(630,117)</u>	<u>(691,449)</u>
Operating Income	\$52,295	\$56,560	\$50,211
Plus: Depreciation	<u>149,617</u>	<u>148,785</u>	<u>144,476</u>
Revenues Available for Debt Service	<u><u>\$201,912</u></u>	<u><u>\$205,345</u></u>	<u><u>\$194,687</u></u>

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2022 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2020 Audited	2021 Audited	2022 Audited	2023 Adopted Budget ¹	2024 Adopted Budget ²
Revenues					
Property taxes	\$654,263	\$668,844	\$688,808	\$748,996	\$782,415
Special assessments	998	998	998	998	998
Licenses and permits	80,078	78,702	86,149	83,258	84,258
Intergovernmental	73,637	168,001	137,392	68,312	84,214
Charges for services	1,604,138	1,860,153	1,858,015	1,864,022	1,901,822
Fines	628	580	267	0	200
Gifts and contributions	21,143	29,838	3,100	0	0
Investment earnings	10,599	2,257	7,779	5,000	20,000
Miscellaneous	2,506	1,782	1,238	360	1,000
Total Revenues	<u>\$2,447,990</u>	<u>\$2,811,155</u>	<u>\$2,783,746</u>	<u>\$2,770,946</u>	<u>\$2,874,907</u>
Expenditures					
Current:					
General government	\$435,077	\$433,550	\$438,063	\$503,467	\$518,619
Public safety	241,761	272,273	244,865	264,675	265,880
Streets	404,042	464,836	551,104	456,467	459,634
Culture and recreation	964,367	1,032,228	1,191,246	1,374,756	1,415,369
Total Expenditures	<u>\$2,045,247</u>	<u>\$2,202,887</u>	<u>\$2,425,278</u>	<u>\$2,599,365</u>	<u>\$2,659,502</u>
Excess of revenues over (under) expenditures	\$402,743	\$608,268	\$358,468	\$171,581	\$215,405
Other Financing Sources (Uses)					
Operating transfers in	\$232,295	\$233,797	\$244,447	\$235,000	\$235,000
Operating transfers out	(191,978)	(201,030)	(282,963)	(231,581)	(232,825)
Total Other Financing Sources (Uses)	<u>\$40,317</u>	<u>\$32,767</u>	<u>(\$38,516)</u>	<u>\$3,419</u>	<u>\$2,175</u>
Net changes in Fund Balances	\$443,060	\$641,035	\$319,952	\$175,000	\$217,580
General Fund Balance January 1	\$5,101,980	\$5,545,040	\$6,186,075		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	<u>0</u>	<u>0</u>	<u>0</u>		
General Fund Balance December 31	\$5,545,040	\$6,186,075	\$6,506,027		
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$304,604	\$164,143	\$169,248		
Assigned	1,998,201	2,151,969	2,118,074		
Unassigned	3,242,235	3,869,963	4,218,705		
Total	<u>\$5,545,040</u>	<u>\$6,186,075</u>	<u>\$6,506,027</u>		

¹ The 2023 budget was adopted on December 28, 2022.

² The 2024 budget was adopted on December 27, 2023.

GENERAL INFORMATION

LOCATION

The City, with a 2020 U.S. Census population of 1,337 and a 2022 population estimate of 1,344, and comprising an area of 2.93 square miles, is located in northern Minnesota on the north shore of Lake Superior, approximately 110 miles northeast of Duluth, Minnesota. The City is the county seat of Cook County, Minnesota.

LARGER EMPLOYERS¹

Larger employers in the City and surrounding area include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Cook County North Shore Hospital	Hospital and nursing home	145
I.S.D. No. 166 (Cook County Public Schools)	Elementary and secondary education	140
Cook County	County government and services	138
U.S. Forest Service	Government forestry service	65
The City	Municipal government and services	54
Cook County Whole Foods Co-Op	Grocers - retail	40
Great Expectations	Private school	40
Gene's Foods	Grocers - retail	40
Hedstrom Lumber	Lumber - retail	35
North House Folk School	Private school	19

Source: Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

BUILDING PERMITS (as of December 20, 2023)

	2019	2020	2021	2022	2023
<u>New Single Family Homes</u>					
No. of building permits	3	2	7	5	7
Valuation	\$400,000	\$220,000	\$1,477,000	\$1,263,603	\$2,205,385
<u>New Multiple Family Buildings</u>					
No. of building permits	1	0	0	0	0
Valuation	\$240,000	\$0	\$0	\$0	\$0
<u>New Commercial/Industrial</u>					
No. of building permits	2	0	1	3	8
Valuation	\$176,000	\$0	\$300,000	\$122,000	\$6,003,700
<u>All Building Permits</u>					
<i>(including additions and remodelings)</i>					
No. of building permits	20	13	31	27	37
Valuation	\$996,804	\$576,700	\$2,157,116	\$2,367,054	\$11,871,394

Source: The City.

U.S. CENSUS DATA

Population Trend: The City

2010 U.S. Census population	1,351
2020 U.S. Census population	1,337
Percent of Change 2010 - 2020	-1.04%

2022 State Demographer Population Estimate	1,344
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Income and Age Statistics

	The City	Cook County	State of Minnesota	United States
2022 per capita income	\$31,835	\$39,205	\$44,947	\$41,261
2022 median household income	\$58,851	\$65,045	\$84,313	\$75,149
2022 median family income	\$66,765	\$79,732	\$107,072	\$92,646
2022 median gross rent	\$773	\$792	\$1,178	\$1,268
2022 median value owner occupied units	\$199,700	\$261,600	\$286,800	\$281,900
2022 median age	45.8 yrs.	52.4 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
City % of 2022 per capita income	70.83%	77.16%
City % of 2022 median family income	62.36%	72.06%

Housing Statistics

	<u>The City</u>		
	2020	2022	Percent of Change
All Housing Units	678	686	1.18%

Source: 2010 and 2020 Census of Population and Housing, and 2022 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov>), and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>	<u>Average Unemployment</u>	
	Cook County	Cook County	State of Minnesota
2019	2,997	4.3%	3.3%
2020	2,765	8.4%	6.3%
2021	2,812	4.8%	3.8%
2022	2,749	3.5%	2.7%
2023, November	2,663	3.1%	1.9%

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

CITY OF GRAND MARAIS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

CITY OF GRAND MARAIS, MINNESOTA

TABLE OF CONTENTS
December 31, 2022

	<u>Page</u>
ORGANIZATION	1
FINANCIAL SECTION	
Independent Auditor's Report.....	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental	
Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures	
and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues,	
Expenditures and Changes in Fund Balances of	
Governmental Funds to the Statement of Activities	19
Proprietary Funds	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes	
in Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	24
Required Supplementary Information	
Schedule of Revenues, Expenditures	
and Changes in Fund Balance - Budget and Actual	
General Fund	56
Schedules of City's Proportionate Share of Net Pension Liability	
and City's Contributions for Defined Benefit Pension Plan	57
Schedule of Changes in Net Pension Liability/Asset	59
Schedule of City Contributions	61
Notes to Required Supplementary Information	63
Supplementary Information	
Nonmajor Governmental Funds	
Combining Balance Sheet	67
Combining Statement of Revenues, Expenditures	
and Changes in Fund Balances	68

CITY OF GRAND MARAIS, MINNESOTA

TABLE OF CONTENTS (CONTINUED)
December 31, 2022

	<u>Page</u>
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balance.....	69
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	72
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	75
SCHEDULE OF FINDINGS AND RESPONSES.....	76
REPRESENTATION OF THE CITY OF GRAND MARAIS, MINNESOTA – CORRECTIVE ACTION PLAN	78
MANAGEMENT LETTER.....	79

CITY OF GRAND MARAIS, MINNESOTA

**ORGANIZATION
December 31, 2022**

CITY COUNCIL

Mayor	Jay DeCoux
Councilmember	Tracy Benson
Councilmember	Michael Garry
Councilmember	Anton Moody
Councilmember	Craig Schulte

ADMINISTRATION

City Administrator	Michael J. Roth
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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 960 • 225 1st Street North, Suite 2400, Virginia, Minnesota 55792
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Grand Marais, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Grand Marais, Minnesota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the

preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grand Marais, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Grand Marais, Minnesota's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the City of Grand Marais, Minnesota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of City's proportionate share of net pension liability and City's contributions for defined benefit pension plan, schedule of changes in net pension liability/asset, and schedule of City contributions be presented to supplement the basic financial statements. Such information is the

responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Marais, Minnesota's basic financial statements. The combining nonmajor and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining nonmajor and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023 on our consideration of the City of Grand Marais, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Grand Marais, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grand Marais, Minnesota's internal control over financial reporting and compliance.

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 20, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

The City of Grand Marais, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2022. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Grand Marais, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$14,078,910 of which \$5,808,749 is net investment in capital assets.
- Business-type activities have total net position of \$17,110,908. Net investment in capital assets represents \$12,332,233 of the total.
- The City of Grand Marais's net position increased by \$1,340,951 for the year ended December 31, 2022. An increase of \$832,816 was reported in the governmental activities' net position and an increase of \$508,135 was reported in the business-type activities' net position.
- The net cost of governmental activities was \$572,994 for the current year. The net cost was funded by general revenues totaling \$1,098,201.
- Governmental funds' fund balances decreased by \$1,258,559.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

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

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

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

Fund Financial Statements

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

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

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Grand Marais, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$31,189,818, an increase of \$1,340,951 from the prior year.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 9,202,479	\$ 10,592,040	\$ 6,108,852	\$ 5,965,051	\$ 15,311,331	\$ 16,557,091
Capital assets	9,721,627	9,622,030	14,586,190	14,773,353	24,307,817	24,395,383
Total assets	<u>18,924,106</u>	<u>20,214,070</u>	<u>20,695,042</u>	<u>20,738,404</u>	<u>39,619,148</u>	<u>40,952,474</u>
Deferred outflows of resources	341,455	347,494	248,190	307,312	589,645	654,806
Long-term liabilities	4,752,402	6,452,778	3,004,365	3,352,837	7,756,767	9,805,615
Other liabilities	398,424	378,664	817,512	729,231	1,215,936	1,107,915
Total liabilities	<u>5,150,826</u>	<u>6,831,462</u>	<u>3,821,877</u>	<u>4,082,068</u>	<u>8,972,703</u>	<u>10,913,530</u>
Deferred inflows of resources	35,825	484,008	10,447	360,875	46,272	844,883
Net position						
Net investment in capital assets	5,808,749	4,931,077	12,332,233	12,034,562	18,140,982	16,965,639
Restricted	1,893,521	3,399,300	344,661	363,659	2,238,182	3,762,959
Unrestricted	<u>6,376,640</u>	<u>4,915,717</u>	<u>4,434,014</u>	<u>4,204,552</u>	<u>10,810,654</u>	<u>9,120,269</u>
Total net position	<u>\$ 14,078,910</u>	<u>\$ 13,246,094</u>	<u>\$ 17,110,908</u>	<u>\$ 16,602,773</u>	<u>\$ 31,189,818</u>	<u>\$ 29,848,867</u>

Net position of the City's governmental activities increased by 6.3 percent (\$14,078,910 compared to \$13,246,094) in 2022. Unrestricted net position—the part of net position that can

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased from a \$4,915,717 surplus at December 31, 2021 to a \$6,376,640 surplus at the end of this year.

Net position of the City's business-type activities increased by 3.1 percent (\$17,110,908 compared to \$16,602,773) in 2022.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 1,953,690	\$ 1,950,350	\$ 6,500,443	\$ 6,474,880	\$ 8,454,133	\$ 8,425,230
Operating grants and contributions	444,284	344,122	3,264	950	447,548	345,072
Capital grants and contributions	29,755	107,223	258,124	70,189	287,879	177,412
General revenues:						
Property taxes	983,862	951,687	33,479	34,412	1,017,341	986,099
Grants and contributions not restricted to specific programs	63,812	63,812	-	-	63,812	63,812
Other general revenues	50,527	18,946	24,829	19,189	75,356	38,135
Total revenues	<u>3,525,930</u>	<u>3,436,140</u>	<u>6,820,139</u>	<u>6,599,620</u>	<u>10,346,069</u>	<u>10,035,760</u>
Program expenses:						
General government	445,237	431,467	-	-	445,237	431,467
Public safety	336,045	268,646	-	-	336,045	268,646
Streets	511,201	481,035	-	-	511,201	481,035
Culture and recreation	1,633,649	1,499,258	-	-	1,633,649	1,499,258
Interest	74,591	144,984	-	-	74,591	144,984
Liquor store	-	-	2,124,277	2,101,566	2,124,277	2,101,566
Electric	-	-	2,745,086	2,507,856	2,745,086	2,507,856
Water	-	-	406,891	393,782	406,891	393,782
Sewer	-	-	728,141	674,284	728,141	674,284
Total program expenses	<u>3,000,723</u>	<u>2,825,390</u>	<u>6,004,395</u>	<u>5,677,488</u>	<u>9,005,118</u>	<u>8,502,878</u>
Excess before transfers	525,207	610,750	815,744	922,132	1,340,951	1,532,882
Transfers	<u>307,609</u>	<u>398,003</u>	<u>(307,609)</u>	<u>(398,003)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	832,816	1,008,753	508,135	524,129	1,340,951	1,532,882
Net position, January 1	<u>13,246,094</u>	<u>12,237,341</u>	<u>16,602,773</u>	<u>16,078,644</u>	<u>29,848,867</u>	<u>28,315,985</u>
Net position, December 31	<u>\$ 14,078,910</u>	<u>\$ 13,246,094</u>	<u>\$ 17,110,908</u>	<u>\$ 16,602,773</u>	<u>\$ 31,189,818</u>	<u>\$ 29,848,867</u>

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Governmental Activities

The most significant revenues of the governmental activities are fees, fines, charges, and other, comprised mostly of culture and recreation fees, totaling 55% of revenues. Capital grants and contributions, 1% of revenues, include the grants for major projects. Operating grants and contributions, 13% of revenues, are used for operating expenses. Unrestricted grants and contributions, 2% of revenues, are used to finance the general activities. Property taxes levied for general purposes amount to \$700,343, or 20% of revenues, an increase of \$44,353 over the prior year.

Culture and recreation expenses are the most significant (54%), followed by streets (17%), general government (15%), public safety (11%), and interest on long-term debt (3%).

Business-Type Activities

Revenues of the City's business-type activities were \$6,820,139 and expenses were \$6,004,395 (see Table 2). There was an increase in net position of \$508,135 during the year ended December 31, 2022. Factors driving these results include:

- Operations produced income of \$596,268 during the year ended December 31, 2022.
- All segments recorded operating income.
- Capital grants among all segments amounted to \$256,995
- Net transfers out to other funds totaled \$307,609.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

At December 31, 2022, the City's governmental funds reported total ending fund balances of \$8,264,014, a decrease of \$1,258,558 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 17.8%, or \$1,467,810 of the total ending fund balance. The nonspendable fund balance of \$195,344 is also not available for general operations. The committed fund balance of \$56,098 represents revenues collected to fund the operation of a local TV channel. The City assigned \$2,326,057 to specific purposes.

At the end of the year, the general fund reported a fund balance of \$6,506,027, increasing \$319,952 from the prior year. General fund revenues decreased by \$27,409 and expenditures

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

increased by \$222,391 from the prior year. During the current year, the general fund reported transfers in of \$244,447 and transfers out of \$282,963.

The debt service fund recorded a decrease in fund balance of \$1,517,943 primarily due to paying off the 2013A GO Refunding Bonds in 2022, which were refunded in 2021.

In the other governmental funds, revenues increased by \$44,416 and expenditures increased by \$166,566. The capital project fund has a new project in the beginning phase of implementation for 5th Ave W Improvements. The other nonmajor governmental funds changes in fund balances were insignificant.

Proprietary Funds

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

The liquor store enterprise fund accounts for the operations of the City owned liquor store. In 2022, operating revenues decreased by \$53,412 and operating expenses increased by \$22,711 from the prior year. The liquor store operations produced an operating income of \$230,814 in 2022. A transfer out of \$200,004 was made during 2022 to the general fund, as in prior years. Net position increased by \$36,639.

The electric enterprise fund accounts for the electric operations of the City. In 2022, operating revenues and expenses increased by \$37,523 and \$231,214, respectively, from the prior year. The electric operations produced an operating income of \$311,817 in 2022. Interest expense charged to the electric distribution was \$43,647. A transfer of \$34,981 was made to the general fund, \$55,419 was made to the sewer enterprise fund, and \$56,097 was made to the debt service fund during 2022. Net position increased by \$128,355.

The water enterprise fund accounts for the water operations of the City. In 2022, operating revenues decreased by \$13,531 and operating expenses increased by \$15,679 from the prior year. The water operations produced an operating income of \$3,426 in 2022. Interest expense charged to the water operations was \$10,519. A \$68,460 transfer in was reported from the general fund. The fund reported a transfer out of \$4,731 to the general fund, \$35,216 was made to the sewer enterprise fund, \$15,036 to the capital project fund, and \$45,315 was made to the debt service fund during 2022. Net position increased by \$105,865.

The sewer enterprise fund accounts for the sewer operations of the City. In 2022, operating revenues and expenses increased by \$54,983 and \$61,332, respectively, from the prior year. The sewer operations produced operating income of \$50,211 in 2022. Interest expense charged to the sewer operations was \$36,692. The fund reported a transfer in from the electric enterprise fund of \$55,419 and from the water enterprise fund of \$35,216. A transfer out of \$30,210 was made to the debt service fund, \$15,036 to the capital project fund, and \$4,731 was made to the general fund during 2022. Net position increased by \$237,276.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual charges to appropriations (expenditures) were \$117,708 below the final budget amounts. Resources available for appropriation were \$225,756 above the final budgeted amounts. The most significant positive variance in revenues was charges for services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2022 was \$24,307,817 (net of accumulated depreciation). The investment in capital assets include land, construction in progress, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$87,566 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 1,052,129	\$ 1,052,129	\$ 32,000	\$ 32,000	\$ 1,084,129	\$ 1,084,129
Construction in progress	245,629	219,639	1,850,933	1,838,118	2,096,562	2,057,757
Buildings	3,216,231	3,212,415	4,939,719	5,174,463	8,155,950	8,386,878
Improvements	484,808	506,642	-	-	484,808	506,642
Infrastructure	3,889,693	3,982,835	7,262,538	7,311,017	11,152,231	11,293,852
Machinery and equipment	563,338	361,396	457,535	364,137	1,020,873	725,533
Licensed vehicles	269,799	286,974	43,465	53,618	313,264	340,592
Total	<u>\$ 9,721,627</u>	<u>\$ 9,622,030</u>	<u>\$ 14,586,190</u>	<u>\$ 14,773,353</u>	<u>\$ 24,307,817</u>	<u>\$ 24,395,383</u>

This year's major additions were:

- Water line Lupin/Hwy 61
- Street department equipment
- Water plant improvements

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

Debt

At year-end, the City had \$6,033,000 in long-term debt outstanding versus \$8,797,000 last year—as shown in Table 4.

CITY OF GRAND MARAIS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Totals	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
General obligation bonds (backed by the City)	\$ 3,825,000	\$ 5,895,000	\$ 1,400,000	\$ 1,710,000	\$ 5,225,000	\$ 7,605,000
Electric system revenue bonds	-	-	555,000	860,000	555,000	860,000
General obligation notes	-	-	103,000	152,000	103,000	152,000
Water revenue note	-	-	150,000	180,000	150,000	180,000
Total	<u>\$ 3,825,000</u>	<u>\$ 5,895,000</u>	<u>\$ 2,208,000</u>	<u>\$ 2,902,000</u>	<u>\$ 6,033,000</u>	<u>\$ 8,797,000</u>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. As of December 31, 2022, the City had no outstanding qualifying net debt that applied to this \$7,733,685 state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2023 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities.

- The property tax levy will be held to 2.76%.
- Utility rate increase: Water, Sewer, and Electric 3%
- The City's capital plan for 2023 includes:
 1. Meter Replacement Project – AMI continued
 2. 5th Ave W Utilities Replacement – a joint project with Cook County who is replacing the street, adding sidewalks and upgrading storm sewer
 3. Community Connection: – a platform with seating located between North House Folk School and the Grand Marais Recreation Area
 4. Stormwater Management Project along 8th Ave W in the Grand Marais Recreation Area. – a joint project with Cook County Soil and Water District
 5. Update the Stormwater Management Plan.
 6. Update the Parks Master Plan.
 7. Purchase Chevrolet 2500 HD for the Electric Department.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,280,365	\$ 3,636,237	\$ 11,916,602
Taxes receivable	207,701	3,060	210,761
Special assessments receivable - current	51,382	15,024	66,406
Special assessments receivable - long-term	373,140	-	373,140
Accounts receivable	1,065	391,886	392,951
Loans receivable	1,189	-	1,189
Inventories	33,324	725,797	759,121
Prepaid items	162,020	560,548	722,568
Temporarily restricted assets			
Cash and cash equivalents	-	776,300	776,300
Net pension asset	92,293	-	92,293
Capital assets not being depreciated			
Land	1,052,129	32,000	1,084,129
Construction in progress	245,629	1,650,933	2,096,562
Capital assets, net of accumulated depreciation			
Buildings	3,216,231	4,939,719	8,155,950
Improvements	484,808	-	484,808
Infrastructure	3,889,693	7,262,538	11,152,231
Machinery and equipment	563,338	457,535	1,020,873
Licensed vehicles	269,799	43,465	313,264
TOTAL ASSETS	18,924,106	20,695,042	39,619,148
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	341,455	242,265	583,720
Deferred amount on refunding	-	5,925	5,925
TOTAL DEFERRED OUTFLOWS OF RESOURCES	341,455	248,190	589,645
LIABILITIES			
Accounts payable	205,271	362,892	568,163
Salaries payable	85,579	83,156	168,735
Customer deposits	-	14,627	14,627
Unearned revenues	79,836	338,773	418,609
Accrued interest payable	27,738	18,064	45,802
Noncurrent liabilities			
Bonds and notes payable			
Due within one year	450,000	756,000	1,206,000
Due in more than one year	3,462,878	1,503,882	4,966,760
Net pension liability	839,524	744,483	1,584,007
TOTAL LIABILITIES	5,150,826	3,821,877	8,972,703
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	35,825	10,447	46,272
NET POSITION			
Net investment in capital assets	5,808,749	12,332,233	18,140,982
Restricted for			
Debt service	1,511,039	344,661	1,855,700
Library	233,484	-	233,484
Storefront renovation	148,998	-	148,998
Unrestricted	8,376,640	4,434,014	10,810,654
TOTAL NET POSITION	\$ 14,078,910	\$ 17,110,908	\$ 31,189,818

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 445,237	\$ 158,488	\$ 74,940
Public safety	336,045	43,805	29,829
Streets	511,201	-	1,066
Culture and recreation	1,633,649	1,751,397	220,988
Interest and other charges on long-term debt	74,591	-	117,461
Total Governmental Activities	<u>3,000,723</u>	<u>1,953,690</u>	<u>444,284</u>
Business-type Activities			
Liquor Store	\$ 2,124,277	\$ 2,355,091	\$ 1,042
Electric	2,745,086	3,003,894	1,111
Water	406,891	399,798	347
Sewer	728,141	741,660	764
Total Business-type Activities	<u>6,004,395</u>	<u>6,500,443</u>	<u>3,264</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 9,005,118</u>	<u>\$ 8,454,133</u>	<u>\$ 447,548</u>
General Revenues			
Taxes			
Property taxes, levied for general purposes			
Property taxes, levied for specific purposes			
Franchise taxes			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Transfers			
Total General Revenues and Transfers			
CHANGE IN NET POSITION			
NET POSITION - JANUARY 1			
NET POSITION - DECEMBER 31			

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

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (211,809)	\$ -	\$ (211,809)
-	(262,411)	-	(262,411)
29,755	(480,380)	-	(480,380)
-	338,736	-	338,736
-	42,870	-	42,870
<u>29,755</u>	<u>(572,994)</u>	<u>-</u>	<u>(572,994)</u>
 \$ -	 -	 231,856	 231,856
6,995	-	266,914	266,914
93,224	-	86,478	86,478
157,905	-	172,188	172,188
<u>258,124</u>	<u>-</u>	<u>757,436</u>	<u>757,436</u>
\$ 287,879	(572,994)	757,436	184,442
	700,343	-	700,343
	283,519	33,479	316,998
	6,411	-	6,411
	63,812	-	63,812
	44,116	24,829	68,945
	307,609	(307,609)	-
	<u>1,405,810</u>	<u>(249,301)</u>	<u>1,156,509</u>
	832,816	508,135	1,340,951
	<u>13,246,094</u>	<u>16,602,773</u>	<u>29,848,867</u>
	\$ 14,078,910	\$ 17,110,908	\$ 31,189,818

CITY OF GRAND MARAIS, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 6,623,316	\$ 968,933	\$ 688,116	\$ 8,280,365
Taxes receivable	90,117	117,584	-	207,701
Special assessments receivable	-	424,522	-	424,522
Accounts receivable	1,065	-	-	1,065
Loans receivables	-	-	1,189	1,189
Inventories	33,324	-	-	33,324
Prepaid items	135,924	-	26,096	162,020
TOTAL ASSETS	<u>\$ 6,883,746</u>	<u>\$ 1,511,039</u>	<u>\$ 715,401</u>	<u>\$ 9,110,186</u>
LIABILITIES				
Accounts payable	\$ 174,096	\$ -	\$ 31,175	\$ 205,271
Salaries payable	74,012	-	11,567	85,579
Unearned revenue	79,836	-	-	79,836
TOTAL LIABILITIES	<u>327,944</u>	<u>-</u>	<u>42,742</u>	<u>370,686</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	49,775	-	-	49,775
Unavailable revenue - special assessments	-	424,522	-	424,522
Unavailable revenue - loans receivable	-	-	1,189	1,189
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>49,775</u>	<u>424,522</u>	<u>1,189</u>	<u>475,486</u>
FUND BALANCES				
Nonspendable	169,248	-	26,096	195,344
Restricted	-	1,086,517	381,293	1,467,810
Committed	-	-	56,098	56,098
Assigned	2,118,074	-	207,983	2,326,057
Unassigned	4,218,705	-	-	4,218,705
TOTAL FUND BALANCES	<u>6,506,027</u>	<u>1,086,517</u>	<u>671,470</u>	<u>8,264,014</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 6,883,746</u>	<u>\$ 1,511,039</u>	<u>\$ 715,401</u>	<u>\$ 9,110,186</u>

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

CITY OF GRAND MARAIS, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2022**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 8,264,014
 The City's net pension asset related to the Volunteer Firefighter Plan is not reported in the governmental funds.	 92,293
 Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	 9,721,627
 Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	 475,486
 Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	 (27,738)
 Long-term liabilities, including bonds payable, bond premium, and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.	 (4,752,402)
 Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore not reported in the governmental funds.	
Deferred outflows of resources related to pensions	341,455
Deferred inflows of resources related to pensions	(35,825)
 NET POSITION OF GOVERNMENTAL ACTIVITIES	 \$ 14,078,910

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

CITY OF GRAND MARAIS, MINNESOTA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property	\$ 688,808	\$ 283,519	\$ -	\$ 972,327
Franchise	-	-	6,411	6,411
Special assessments	998	127,880	-	128,878
Licenses and permits	86,149	-	-	86,149
Intergovernmental	137,392	117,461	190,523	445,376
Charges for services	1,858,015	-	9,044	1,867,059
Fines	267	-	213	480
Gifts and contributions	3,100	-	8,485	11,585
Investment earnings	7,779	70	3,190	11,039
Miscellaneous	1,238	-	21,809	23,047
TOTAL REVENUES	<u>2,783,746</u>	<u>528,930</u>	<u>239,675</u>	<u>3,552,351</u>
EXPENDITURES				
Current				
General government	438,063	-	-	438,063
Public safety	244,865	-	-	244,865
Streets	551,104	-	-	551,104
Culture and recreation	1,191,246	-	514,745	1,705,991
Debt service				
Principal	-	2,070,000	-	2,070,000
Interest and other charges	-	108,495	-	108,495
Capital outlay				
Streets	-	-	30,072	30,072
TOTAL EXPENDITURES	<u>2,425,278</u>	<u>2,178,495</u>	<u>544,817</u>	<u>5,148,590</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>358,468</u>	<u>(1,649,565)</u>	<u>(305,142)</u>	<u>(1,596,239)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	244,447	131,622	244,575	620,644
Transfers out	(282,963)	-	-	(282,963)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(38,516)</u>	<u>131,622</u>	<u>244,575</u>	<u>337,681</u>
NET CHANGE IN FUND BALANCES	319,952	(1,517,943)	(60,567)	(1,258,558)
FUND BALANCES - JANUARY 1	<u>6,186,075</u>	<u>2,604,460</u>	<u>732,037</u>	<u>9,522,572</u>
FUND BALANCES - DECEMBER 31	<u>\$ 6,506,027</u>	<u>\$ 1,086,517</u>	<u>\$ 671,470</u>	<u>\$ 8,264,014</u>

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

CITY OF GRAND MARAIS, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2022**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (1,258,558)**

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

Expenditures for capital assets	476,499	
Less current year depreciation	(340,704)	
Net book value of capital asset disposals	(6,126)	129,669

Capital assets were contributed to the

Electric enterprise fund	(15,036)	
Sewer enterprise fund	(15,036)	(30,072)

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

Change in unavailable revenue - delinquent property taxes	12,888	
Change in unavailable revenue - special assessments receivable	(100,466)	(87,578)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of premium	33,076	
Principal repaid	2,070,000	2,103,076

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

Change in accrued interest payable on long-term debt	23,662	
Change in net pension asset, net pension liability, and related deferred outflows and inflows	(47,383)	(23,721)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 832,816
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The accompanying notes are an integral part of these financial statements.

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2022

	Business-type Activities - Enterprise Funds				
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,520,393	\$ 1,053,510	\$ 547,363	\$ 514,951	\$ 3,636,217
Taxes receivable	-	-	3,060	-	3,060
Accounts receivable	-	295,778	34,065	62,043	391,886
Special assessments receivable	-	-	15,024	-	15,024
Inventories	345,679	338,771	40,264	1,083	725,797
Prepaid items	9,845	539,255	2,879	8,568	560,547
TOTAL CURRENT ASSETS	1,875,917	2,227,315	642,675	586,645	5,332,552
NONCURRENT ASSETS					
Restricted cash and cash equivalents	-	-	-	-	-
Revenue bond covenant accounts	-	776,300	-	-	776,300
Capital assets	-	-	-	-	-
Land	-	25,000	5,000	2,000	32,000
Construction in progress	-	265,777	605,916	979,240	1,850,933
Buildings	20,529	4,466,866	2,776,365	2,951,941	10,215,701
Infrastructure	-	3,721,777	5,409,351	3,526,038	12,657,166
Machinery and equipment	150,865	308,044	592,334	1,293,760	2,345,003
Licensed vehicles	-	269,102	28,150	83,470	380,722
Less accumulated depreciation	(149,776)	(3,864,864)	(4,268,855)	(4,511,840)	(12,895,335)
Total capital assets (net of accumulated depreciation)	21,618	5,191,702	5,148,261	4,224,609	14,586,190
TOTAL NONCURRENT ASSETS	21,618	5,968,002	5,148,261	4,224,609	15,362,490
TOTAL ASSETS	1,897,535	8,195,317	5,790,936	4,811,254	20,695,042
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	77,319	82,473	25,773	56,700	242,265
Deferred amount on refunding	-	5,925	-	-	5,925
TOTAL DEFERRED OUTFLOWS OF RESOURCES	77,319	88,398	25,773	56,700	248,190
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	60,852	289,711	3,467	8,862	362,892
Salaries payable	19,822	43,880	3,880	15,574	83,156
Accrued interest payable	-	2,627	937	14,500	18,064
Unearned revenue	-	338,773	-	-	338,773
Customer deposits payable	-	14,627	-	-	14,627
Bonds and notes payable - current	-	555,000	81,000	120,000	756,000
TOTAL CURRENT LIABILITIES	80,674	1,244,616	89,284	158,936	1,573,512
NONCURRENT LIABILITIES					
Bonds and notes payable, less current	-	2,798	172,000	1,329,084	1,503,882
Net pension liability	237,601	253,441	79,200	174,241	744,483
TOTAL NONCURRENT LIABILITIES	237,601	256,239	251,200	1,503,325	2,248,365
TOTAL LIABILITIES	318,275	1,500,855	340,484	1,662,261	3,821,877
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	3,334	3,556	1,112	2,445	10,447
NET POSITION					
Net investment in capital assets	21,618	4,639,830	4,895,261	2,775,524	12,332,233
Restricted for debt service	-	326,576	18,085	-	344,661
Unrestricted	1,631,627	1,812,896	561,767	427,724	4,434,014
TOTAL NET POSITION	\$ 1,653,245	\$ 6,779,302	\$ 5,475,113	\$ 3,203,248	\$ 17,110,908

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
REVENUES					
Charges for sales and services	\$ 2,355,091	\$ 3,003,894	\$ 398,798	\$ 741,860	\$ 6,500,443
OPERATING EXPENSES					
Cost of sales	1,658,128	1,685,427	-	-	3,343,555
Salaries	225,415	295,026	75,866	167,846	764,153
Employee benefits and payroll taxes	90,424	102,456	33,708	70,733	297,321
Advertising	5,939	-	-	-	5,939
Contract services	260	71,486	22,141	188,693	282,580
Facility fees	-	67,147	-	-	67,147
Insurance	5,518	19,014	1,548	9,213	35,293
Miscellaneous	87,629	31,223	5,366	6,738	130,956
Rent	39,000	11,880	3,360	3,360	57,600
Repairs and maintenance	1,695	38,807	17,556	18,690	76,748
Supplies	3,986	124,122	8,900	18,677	155,685
Telephone	2,710	1,469	1,499	1,538	7,216
Utilities	-	3,374	40,164	61,485	105,023
Depreciation	3,573	240,646	186,264	144,476	574,959
TOTAL OPERATING EXPENSES	2,124,277	2,692,077	396,372	691,449	5,904,175
OPERATING INCOME	230,814	311,817	3,426	50,211	596,268
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	4,787	7,938	2,710	9,394	24,829
Special assessments	-	-	1,129	-	1,129
Property taxes	-	-	33,479	-	33,479
Grants and contributions	1,042	1,111	347	764	3,264
Interest expense	-	(43,647)	(10,519)	(36,692)	(90,858)
Loss on disposal of capital assets	-	(9,362)	-	-	(9,362)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,829	(43,960)	27,146	(26,534)	(37,519)
INCOME BEFORE CAPITAL CONTRIBUTIONS, CAPITAL GRANTS, AND TRANSFERS	236,643	267,857	30,572	23,677	558,749
Capital contributions	-	-	15,036	15,036	30,072
Capital grants	-	6,995	92,095	157,905	256,995
Transfers in	-	-	68,460	90,635	159,095
Transfers out	(200,004)	(146,487)	(100,298)	(49,977)	(496,776)
CHANGE IN NET POSITION	36,639	128,355	105,865	237,276	508,135
TOTAL NET POSITION - JANUARY 1	1,616,606	6,650,947	5,369,248	2,965,972	16,602,773
TOTAL NET POSITION - DECEMBER 31	\$ 1,653,245	\$ 6,779,302	\$ 5,475,113	\$ 3,203,248	\$ 17,110,908

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

CITY OF GRAND MARAIS, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,355,252	\$ 2,988,233	\$ 399,743	\$ 756,336	\$ 6,499,564
Cash paid to suppliers	(1,910,790)	(2,193,646)	(147,702)	(385,675)	(4,637,813)
Cash paid to employees	(225,969)	(291,832)	(81,325)	(173,871)	(772,997)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>218,493</u>	<u>502,755</u>	<u>170,716</u>	<u>195,790</u>	<u>1,088,754</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and contributions	1,042	1,111	347	764	3,264
Transfers in from other funds	-	-	68,460	90,635	159,095
Transfers out to other funds	(200,004)	(146,497)	(100,298)	(49,977)	(496,776)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(198,962)</u>	<u>(145,386)</u>	<u>(31,491)</u>	<u>41,422</u>	<u>(334,417)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of fixed assets	-	(123,512)	(197,894)	(45,680)	(367,086)
Special assessments collected	-	-	17,333	-	17,333
Property taxes collected	-	-	36,274	-	36,274
Principal paid on long-term debt	-	(305,000)	(79,000)	(310,000)	(694,000)
Interest paid on long-term debt	-	(29,273)	(10,966)	(40,614)	(80,853)
Capital grants	-	6,995	92,095	157,905	256,995
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(450,790)</u>	<u>(142,158)</u>	<u>(236,389)</u>	<u>(831,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>4,787</u>	<u>1,223</u>	<u>2,710</u>	<u>4,526</u>	<u>13,246</u>
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS	<u>24,318</u>	<u>(92,198)</u>	<u>(223)</u>	<u>4,349</u>	<u>(63,754)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,496,075</u>	<u>1,922,008</u>	<u>547,606</u>	<u>510,602</u>	<u>4,476,291</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,520,393</u>	<u>\$ 1,829,810</u>	<u>\$ 547,383</u>	<u>\$ 514,951</u>	<u>\$ 4,412,537</u>

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

CITY OF GRAND MARAIS, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				
	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 230,814	\$ 311,817	\$ 3,426	\$ 50,211	\$ 596,268
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,573	240,646	186,264	144,476	574,959
Net pension liability, deferred outflows, and deferred inflows related to pensions	15,975	17,041	5,325	11,716	50,057
Changes in assets and liabilities					
(increase) decrease in:					
Accounts receivable	161	(17,863)	(55)	14,676	(3,081)
Inventories	(50,589)	(151,771)	(17,038)	(35)	(219,433)
Prepaid items	(751)	(1,483)	(816)	(990)	(4,040)
Increase (decrease) in:					
Accounts payable	19,864	98,972	(931)	(17,239)	100,666
Salaries payable	(554)	3,194	(5,459)	(6,025)	(8,844)
Customer deposits	-	2,202	-	-	2,202
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 218,493	\$ 502,755	\$ 170,716	\$ 196,790	\$ 1,088,754
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS					
Cash and cash equivalents	\$ 1,520,393	\$ 1,053,510	\$ 547,383	\$ 514,951	\$ 3,636,237
Restricted cash and cash equivalents:					
Revenue bond covenant accounts	-	776,300	-	-	776,300
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 1,520,393	\$ 1,829,810	\$ 547,383	\$ 514,951	\$ 4,412,537
NONCASH CAPITAL AND FINANCING ACTIVITIES					
Total capital asset additions	\$ -	\$ 123,512	\$ 212,930	\$ 60,716	\$ 397,158
Contributions of capital assets from government	-	-	(15,036)	(15,036)	(30,072)
Cash paid for purchase or construction of capital assets	\$ -	\$ 123,512	\$ 197,894	\$ 45,680	\$ 367,086

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

B. Basic Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

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

Proprietary Funds

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

Major Proprietary Funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments purchased with a maturity of three months or less.

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- 8) Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the proprietary funds and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions. See notes 14 and 15 for details.

- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- 11) For purposes of measuring the net pension liability and asset, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- 12) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the Debt Service Fund, and loans receivable, which are reported in the Storefront Renovation Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is related to pensions. See notes 14 and 15 for details.
- 13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Unassigned—all other spendable amounts.

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

F. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The county generally remits taxes to the City at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Federal, state, and other revenues are reported under the legal and contractual requirements of the individual programs and are classified into essentially two types of revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the City; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

- 2) City employees earn vacation and sick leave based on years of service and union and employment contracts. The liability for accrued vacation leave is recorded in the appropriate funds as an accrued liability. Unpaid sick leave does not vest and, therefore, is not accrued. Sick pay is expensed in the year taken.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Use of Estimates

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash	\$ 10,010,387
Petty cash	2,017
Certificates of deposit	1,123,000
Investments	<u>1,557,498</u>
Total	<u>\$ 12,692,902</u>

Reconciliation to financial statements:

Statement of Net Position:	
Cash and cash equivalents	\$ 11,916,602
Restricted cash and cash equivalents	<u>776,300</u>
	<u>\$ 12,692,902</u>

Deposits

Custodial Credit Risk – Deposits

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits, which includes certificates of deposit, was \$11,133,387; the bank balance was \$11,241,024. Of the bank balance, \$2,217,105 was insured and \$9,023,919 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investments in money market funds are not rated as to credit risk. The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2022, had no investments in any issuer that exceeded five percent of total investments, except for the Minnesota Municipal Money Market Fund and U.S. Government Money Market Fund RBC Investor Class.

Interest Rate Risk

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

The City manages its exposure to fair value losses arising from changing interest rates by purchasing investments with varying maturity dates.

CITY OF GRAND MARAIS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

As of December 31, 2022, the City had the following investments:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Fair Value</u>	<u>Maturity Less Than 1 Year</u>
Minnesota Municipal Money Market Fund	N/A	\$ 1,441,531	\$ 1,441,531
U.S. Government Money Market Fund RBC Investor Class	N/A	115,967	115,967
Total Investments		<u>\$ 1,557,498</u>	<u>\$ 1,557,498</u>

Fair Value of Investments

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investments of \$1,557,498 are not subject to measurement.

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

NOTE 3 - LOANS RECEIVABLE

Several businesses have received loans from the City through the City's Storefront Loan Program. The unpaid principal balance on these loans as of December 31, 2022 was \$1,189.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,052,129	\$ -	\$ -	\$ -	\$ 1,052,129
Construction in progress	219,639	56,062	-	(30,072)	245,629
Total capital assets not being depreciated	<u>1,271,768</u>	<u>56,062</u>	<u>-</u>	<u>(30,072)</u>	<u>1,297,758</u>
Capital assets, being depreciated:					
Buildings	6,841,935	97,457	(12,777)	-	6,926,615
Improvements	1,191,920	-	-	-	1,191,920
Infrastructure	8,065,329	60,564	-	-	8,125,893
Machinery and equipment	1,020,419	262,416	(55,204)	-	1,227,631
Licensed vehicles	597,060	-	-	-	597,060
Total capital assets, being depreciated	<u>17,716,663</u>	<u>420,437</u>	<u>(67,981)</u>	<u>-</u>	<u>18,069,119</u>
Less accumulated depreciation for:					
Building	(3,629,520)	(87,515)	6,651	-	(3,710,384)
Improvements	(685,278)	(21,834)	-	-	(707,112)
Infrastructure	(4,082,494)	(153,706)	-	-	(4,236,200)
Machinery and equipment	(659,023)	(60,474)	55,204	-	(664,293)
Licensed vehicles	(310,086)	(17,175)	-	-	(327,261)
Total accumulated depreciation	<u>(9,366,401)</u>	<u>(340,704)</u>	<u>61,855</u>	<u>-</u>	<u>(9,645,250)</u>
Total capital assets, being depreciated, net	<u>8,350,262</u>	<u>79,733</u>	<u>(6,126)</u>	<u>-</u>	<u>8,423,869</u>
Governmental activities capital assets, net	<u>\$ 9,622,030</u>	<u>\$ 135,795</u>	<u>\$ (6,126)</u>	<u>\$ (30,072)</u>	<u>\$ 9,721,627</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 32,000	\$ -	\$ -	\$ -	\$ 32,000
Construction in progress	1,838,118	-	(17,257)	30,072	1,850,933
Total capital assets not being depreciated	<u>1,870,118</u>	<u>-</u>	<u>(17,257)</u>	<u>30,072</u>	<u>1,882,933</u>
Capital assets, being depreciated:					
Building	10,215,701	-	-	-	10,215,701
Infrastructure	12,966,753	225,691	(535,278)	-	12,657,166
Machinery and equipment	2,213,833	141,395	(10,225)	-	2,345,003
Licensed vehicles	380,722	-	-	-	380,722
Total capital assets, being depreciated	<u>25,777,009</u>	<u>367,086</u>	<u>(545,503)</u>	<u>-</u>	<u>25,598,592</u>
Less accumulated depreciation for:					
Building	(5,041,238)	(234,744)	-	-	(5,275,982)
Infrastructure	(5,655,736)	(282,065)	543,173	-	(5,394,628)
Machinery and equipment	(1,849,696)	(47,997)	10,225	-	(1,887,468)
Licensed vehicles	(327,104)	(10,153)	-	-	(337,257)
Total accumulated depreciation	<u>(12,873,774)</u>	<u>(574,959)</u>	<u>553,398</u>	<u>-</u>	<u>(12,895,335)</u>
Total capital assets, being depreciated, net	<u>12,903,235</u>	<u>(207,873)</u>	<u>7,895</u>	<u>-</u>	<u>12,703,257</u>
Business-type activities capital assets, net	<u>\$ 14,773,353</u>	<u>\$ (207,873)</u>	<u>\$ (9,362)</u>	<u>\$ 30,072</u>	<u>\$ 14,586,190</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 4,650
Public safety	47,258
Streets	174,973
Culture and recreation	<u>113,823</u>
Total depreciation expense- governmental activities	<u>\$ 340,704</u>
 Business-type activities	
Liquor store	\$ 3,573
Electric	240,646
Water	186,264
Sewer	<u>144,476</u>
Total depreciation expense- business-type activities	<u>\$ 574,959</u>

NOTE 5 - RATE STABILIZATION PROVISION

A reserve for rate stabilization in the electric enterprise fund was established in 1996. The concept of rate stabilization is used by utilities to defer current revenues to future periods to reduce impacts of future rate increases to customers. The reserve, which is recorded as unearned revenue, will be used to offset future rate increases and maintain income stability in future periods. At December 31, 2022, the rate stabilization reserve was \$338,773.

NOTE 6 - LONG-TERM LIABILITIES

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental Activities					
General Obligation Bonds					
2017A Capital Improvement Plan	06/28/2017	3.00%	\$ 2,030,000	02/01/2033	\$ 1,570,000
2019A Improvement Refunding	12/30/2019	2.00%	\$ 1,110,000	02/01/2031	930,000
2021A Refunding	11/18/2021	1.10%	\$ 1,325,000	02/01/2029	1,325,000
Governmental Activities Long-term Liabilities					<u>3,825,000</u>
Business-type Activities					
Revenue Bonds					
2012A Electric System Refunding	07/25/2012	2.00-2.50%	\$ 1,925,000	05/01/2023	195,000
2013B Electric System Refunding	06/20/2013	3.00%	\$ 1,300,000	05/01/2023	360,000
Total Revenue Bonds					<u>555,000</u>
General Obligation Bonds					
2017A Utility Revenue	06/28/2017	3.00%	\$ 1,545,000	02/01/2033	1,195,000
2021A Refunding	11/18/2021	1.10%	\$ 205,000	02/01/2029	205,000
Total General Obligation Bonds					<u>1,400,000</u>
General Obligation Notes					
2004 Improvement	08/11/2004	2.53%	\$ 812,229	02/20/2024	103,000
Revenue Note					
2008A Water	01/24/2008	3.59%	\$ 470,000	12/01/2027	150,000
Business-type Activities Long-term Liabilities					<u>2,208,000</u>
Total Long-Term Liabilities					<u>\$ 6,033,000</u>

Governmental Funds

Pledged Revenues

The City issued GO improvement bonds to finance various improvement projects within the City in 2004 of \$710,000, in 2005 of \$895,000, and in 2008 of \$2,695,000. In 2013, the City issued \$3,295,000 general obligation refunding bonds of which the proceeds were used to partially advance refund the outstanding 2004, 2005, and 2008 GO improvement bonds. In 2014, the 2004 bonds were fully paid, in 2015 the 2005 bonds were fully paid, and in 2016 the 2008 bonds were fully paid. In 2021, the City issued \$1,325,000 general obligation refunding bonds of which the proceeds were used to partially advance refund the outstanding 2013 GO refunding bonds. In 2022, the 2013 bonds were paid fully of principal and interest from the advance refunding, special assessments levied upon the benefitted property and ad valorem taxes totaling \$1,884,540. Interest paid for the current year on the issue was \$10,243. At December 31, 2022, the 2021 GO refunding bonds principal and interest to maturity in 2029 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$1,369,523.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

In 2009, the City issued \$1,675,000 improvement refunding bonds of which the proceeds were used to effect a refunding of \$1,630,000 of the outstanding GO Temporary Improvement Bonds of 2007 issued to finance various municipal improvement projects within the City. In 2019, the City issued \$1,110,000 improvement refunding bonds of which the proceeds were used to refund the 2009 improvement refunding bonds. Principal and interest paid for the current year on the issue was \$109,500. At December 31, 2022 the 2019 improvement refunding bonds' principal and interest to maturity in 2031 to be paid primarily from special assessments levied upon the benefitted property and ad valorem taxes totals \$1,126,200.

Enterprise Funds

Pledged Revenues

The City has pledged Electric Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay electric system revenue bonds. In 2012, the City issued \$1,925,000 electric system revenue refunding bonds of which the proceeds were used to effect an advance refunding of the outstanding 2003 electric system revenue bonds. In 2013, the City issued \$1,300,000 electric system revenue refunding bonds of which the proceeds were used to advance refund the outstanding 2004 and 2005 electric system revenue bonds. Proceeds from the original refunded bonds were used to finance electric system improvements. Principal and interest paid for the current year on these issues was \$324,775. At December 31, 2022, principal and interest on the bonds to be paid from pledged future revenues to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2012A	2023	\$ 197,437
2013B	2023	365,400
		<u>\$ 562,837</u>

The City has pledged future Sewer Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay GO sewer revenue bonds. In 2013, the City issued \$340,000 general obligation refunding bonds of which the proceeds were used to advance refund the outstanding 2006 GO sewer revenue bonds. Proceeds from the 2006 bonds were used to finance improvements to the sewer system. In 2021, the City issued \$205,000 general obligation refunding bonds of which the proceeds were used to partially advance refund the outstanding 2013 GO refunding bonds. In 2022, the 2013 bonds were paid fully of principal and interest from the advance refunding and pledged future revenues totaling \$223,180. Interest paid for the current year on the issue was \$1,585. At December 31, 2022, the 2021 GO refunding bonds principal and interest on the bonds to maturity in 2029 to be paid from pledged future revenues total \$213,058.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The City has pledged future Sewer Enterprise Fund revenues, net of any normal and reasonable expenses of operations, to repay \$1,545,000 GO utility revenue bonds issued in 2017 of which the proceeds were used to construct the public works facility. Principal and interest paid for the current year was \$125,850. At December 31, 2022, principal and interest on the bonds to maturity in 2033 to be paid from pledged future revenues total \$1,394,600.

The City has pledged future Water Enterprise Fund revenues, net of any normal and reasonable expenses for operations, to repay an \$812,229 GO improvement note issued in 2004 and a \$470,000 revenue note issued in 2008. Proceeds from these issues were used to finance water system renovations and improvements. Principal and interest paid for the current year on these issues was \$88,329. At December 31, 2022, principal and interest on the 2008 note to be paid from pledged future revenues, and special assessments and ad valorem taxes for the 2004 issue, to maturity is:

<u>Issue</u>	<u>Maturity</u>	<u>Principal and Interest</u>
2004	2024	\$ 105,618
2008A	2027	169,239
		<u>\$ 274,857</u>

Long-term liability activity for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds Payable					
2013A GO Refunding	\$ 1,860,000	\$ -	\$ (1,860,000)	\$ -	\$ -
2017A GO Capital Improvement Plan	1,690,000	-	(120,000)	1,570,000	125,000
2019A GO Improvement Refunding	1,020,000	-	(90,000)	930,000	95,000
2021A GO Refunding	<u>1,325,000</u>	<u>-</u>	<u>-</u>	<u>1,325,000</u>	<u>230,000</u>
Total Bonds Payable	5,895,000	-	(2,070,000)	3,825,000	450,000
Bond Premium	<u>120,954</u>	<u>-</u>	<u>(33,076)</u>	<u>87,878</u>	<u>-</u>
Governmental Activities -					
Long-term Liabilities	<u>\$ 6,015,954</u>	<u>\$ -</u>	<u>\$ (2,103,076)</u>	<u>\$ 3,912,878</u>	<u>\$ 450,000</u>

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities					
Bonds Payable					
2012A Electric System Revenue Refunding	\$ 385,000	\$ -	\$ (190,000)	\$ 195,000	\$ 195,000
2013A GO Refunding	220,000	-	(220,000)	-	-
2013B Electric System Revenue Refunding	475,000	-	(115,000)	360,000	360,000
2017A GO Utility Revenue	1,285,000	-	(90,000)	1,195,000	95,000
2021A GO Refunding	<u>205,000</u>	-	-	<u>205,000</u>	<u>25,000</u>
Total Bonds Payable	2,570,000	-	(615,000)	1,955,000	675,000
Bond Premium	<u>63,465</u>	-	<u>(11,583)</u>	<u>51,882</u>	-
Total	<u>2,633,465</u>	-	<u>(626,583)</u>	<u>2,006,882</u>	<u>675,000</u>
Notes Payable					
2004 GO Improvement	152,000	-	(49,000)	103,000	51,000
2008A Water Revenue	<u>180,000</u>	-	<u>(30,000)</u>	<u>150,000</u>	<u>30,000</u>
Total Notes Payable	<u>332,000</u>	-	<u>(79,000)</u>	<u>253,000</u>	<u>81,000</u>
Business-type Activities -					
Long-term Liabilities	<u>\$ 2,965,465</u>	<u>\$ -</u>	<u>\$ (705,583)</u>	<u>\$ 2,259,882</u>	<u>\$ 756,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 450,000	\$ 74,423	\$ 756,000	\$ 51,507	\$ 1,206,000	\$ 125,930
2024	455,000	66,215	207,000	37,880	662,000	104,095
2025	470,000	57,828	160,000	32,632	630,000	90,460
2026	420,000	49,515	165,000	27,893	585,000	77,408
2027	425,000	41,705	165,000	23,342	590,000	65,047
2028-2032	1,440,000	102,256	630,000	62,223	2,070,000	164,479
2033-2037	<u>165,000</u>	<u>2,475</u>	<u>125,000</u>	<u>1,875</u>	<u>290,000</u>	<u>4,350</u>
Total	<u>\$ 3,825,000</u>	<u>\$ 394,417</u>	<u>\$ 2,208,000</u>	<u>\$ 237,352</u>	<u>\$ 6,033,000</u>	<u>\$ 631,769</u>

No interest was capitalized during 2022; interest incurred and charged to expense totaled \$141,735.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 7 - INTERFUND ACTIVITY

Interfund transfers for the year ended December 31, 2022, consisted of the following:

	Transfers Out					Total
	General Fund	Liquor Store Enterprise Fund	Electric Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	
<u>Transfers In</u>						
General Fund	\$ -	\$ 200,004	\$ 34,981	\$ 4,731	\$ 4,731	\$ 244,447
Debt Service Fund	-	-	56,097	45,315	30,210	131,622
Water Enterprise Fund	68,480	-	-	-	-	68,480
Sewer Enterprise Fund	-	-	55,419	35,216	-	90,635
Nonmajor Fund -						
Library Special Revenue Fund	214,503	-	-	-	-	214,503
5th Ave W Improvement Capital Project Fund	-	-	-	15,036	15,036	30,072
Totals	\$ 282,963	\$ 200,004	\$ 146,497	\$ 85,262	\$ 34,941	\$ 749,667

Transfers are used to:

- 1) move profits or excess cash from the Liquor Store Enterprise Fund to the General Fund;
- 2) move the City's contribution to the Library Special Revenue Fund;
- 3) move the Water and Sewer's contribution to the 5th Ave W Improvement Capital Project Fund;
- 4) move ARPA funds from the General Fund to the Water Enterprise Fund;
- 5) move funds to the Debt Service Fund for debt service expenditures; and
- 6) reimburse the General Fund for expenditures.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 - FUND EQUITY

As of December 31, 2022, fund balances are comprised of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventories	\$ 33,324	\$ -	\$ -	\$ 33,324
Prepaid items	135,924	-	26,096	162,020
Total Nonspendable	<u>169,248</u>	<u>-</u>	<u>26,096</u>	<u>195,344</u>
Restricted:				
Library	-	-	233,484	233,484
Storefront renovation	-	-	147,809	147,809
Debt service	-	1,086,517	-	1,086,517
Total Restricted	<u>-</u>	<u>1,086,517</u>	<u>381,293</u>	<u>1,467,810</u>
Committed:				
Cable TV	-	-	56,098	56,098
Assigned:				
Buildings	156,428	-	-	156,428
Fire	215,322	-	-	215,322
Insurance reserve	10,804	-	-	10,804
Street equipment	-	-	-	-
Street improvements	377,249	-	-	377,249
Street sealcoat project	220,965	-	-	220,965
Recreation capital projects	1,137,306	-	-	1,137,306
Library	-	-	207,983	207,983
Total Assigned	<u>2,118,074</u>	<u>-</u>	<u>207,983</u>	<u>2,326,057</u>
Unassigned	<u>4,218,705</u>	<u>-</u>	<u>-</u>	<u>4,218,705</u>
Total Fund Balances	<u>\$ 6,506,027</u>	<u>\$ 1,086,517</u>	<u>\$ 671,470</u>	<u>\$ 8,264,014</u>

NOTE 9 - RISK MANAGEMENT

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - JOINTLY GOVERNED ORGANIZATION

Cook County/Grand Marais Joint Economic Development Authority

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

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

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

In June of 2015, the City entered into a joint powers agreement with the Cook County/Grand Marais Joint Economic Development Authority (EDA) and Cook County for reassessment of Cedar Grove Business Park lots and contributions for Business Park debt servicing, changing the original agreement. Under this new agreement, on or before July 1 of each year, the County is required to pay the City 50% of the annual bond payment the City must pay for that year on the 2009A Improvement Refunding Bonds. The EDA will be credited towards the Business Park assessments for any amounts paid to the City by the County. On September 30, 2016, the City reassessed the lots that had not been sold and reduced assessment amounts of \$13,392.86 per lot. The EDA is required to pay to the City any levied assessments on lots sold in the Business Park, to be used by the City for payments on the 2009A Improvement Refunding Bonds. In 2020, the 2009A bonds were fully paid and refunded through the 2019 improvement refunding bond. In 2022, the City received \$96,806 from the EDA and County under this agreement and \$20,656 in sale of lot proceeds.

Joint Powers Agreement for Library Services

The City of Grand Marais entered into a joint powers agreement with Cook County on December 15, 1992. The purpose of the agreement is to provide library services to the residents of the City and County through the City's Grand Marais Public Library. The County, in consideration of the services provided to its residents, agrees to continue its membership in the multi-county Arrowhead Library System and contribute 50% of the budgeted annual operating costs of the library board to the City, which totaled \$185,723 in 2022.

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - JOINTLY GOVERNED ORGANIZATION (CONTINUED)

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

NOTE 11 - JOINT VENTURES

Joint Recreation Board

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

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

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

In 2022, the City did not contribute to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, Cook County Courthouse, 411 West Second Street, Grand Marais, MN 55604.

Joint Powers Agreement for Shared Costs of Cook County Community Center

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

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

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - JOINT VENTURES (CONTINUED)

annual CPI for the preceding calendar year, such greater amount must be approved by the City. The County shall annually invoice the City for the City's portion of the operating loss up to the maximum allowed percent increase as applicable at least 60 days prior to the payment date and shall include a separate itemized accounting of the operating loss with the County's invoice. Any request for additional payments for operating losses above the allowed percent maximum increase in any given year shall be by separate written request from the County.

- (ii) Pay fifty percent (50%) of the YMCA personnel costs for the 6-month period prior to the official opening of the YMCA in the year that the Community Center building commences operation, up to a maximum of \$35,000.
- (iii) Annually contribute \$10,000 to the Community Center Capital Improvement Fund. The County shall manage the Capital Improvement Fund, which shall be used for the repair, replacement, and maintenance of the structural components of the Community Center building.
- (iv) The City shall not be responsible for payment of any costs or expenses for or related to the Community Center except as otherwise provided in this Agreement.

In 2022, the City contributed \$115,000 to the County under this agreement.

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

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - JOINT VENTURES (CONTINUED)

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

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

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2022, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Electric Utility Commitment

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

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. Due to the known breadth and duration of this pandemic, the impact of COVID-19 on the City's future operational and financial performance cannot be determined and has not been reflected in the financial statements.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

National Pollutant Discharge Elimination System Permit

The City has petitioned for a contested case from the Minnesota Pollution Control Agency (MPCA) disputing certain requirements contained in the MPCA's proposed National Pollutant Discharge Elimination System (NPDES) Permit applicable to the City's wastewater treatment facility. The MPCA makes the decision to grant or deny the request and no decision has been made. The City is also seeking a variance and is in ongoing decisions with the MPCA seeking resolution of the dispute.

NOTE 13 - FUNDS HELD BY OTHERS

The City's Grand Marais Public Library is a beneficiary of a designated fund at Minnesota Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Minnesota Community Foundation is held as a separate fund designated for the benefit of the Grand Marais Public Library. The agreement provides that payments from the fund to the Grand Marais Public Library can be made at the discretion of the Minnesota Community Foundation at such times and in such amounts and for such charitable purposes as the Minnesota Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to the Minnesota Community Foundation to be held and administered for the benefit of the Grand Marais Public Library. The market value of the fund assets was approximately \$38,596 on December 31, 2022.

The City's Grand Marais Public Library is a beneficiary of a designated fund at Duluth-Superior Area Community Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to Duluth-Superior Area Community Foundation is held as a separate fund designated for the benefit of the Grand Marais Public Library. The agreement provides that payments from the fund to the Grand Marais Public Library can be made at the discretion of the Duluth-Superior Area Community Foundation at such times and in such amounts and for such charitable purposes as the Duluth-Superior Area Community Foundation deems appropriate. The fund is not included in the City of Grand Marais, Minnesota's financial statements, since all property in the fund was contributed to the Duluth-Superior Area Community Foundation to be held and administered for the benefit of the Grand Marais Public Library. The market value of the fund assets was approximately \$121,294 on December 31, 2022.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2022, were \$116,679. The City's contributions were equal to the required contributions as set by state statute.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,584,007 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$46,469.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0200 percent at the end of the measurement period and 0.0193 percent for the beginning of the period.

City's proportionate share of the net pension liability	\$ 1,584,007
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>46,469</u>
Total	<u>\$ 1,630,476</u>

There were no provision changes during the measurement period.

For the year ended December 31, 2022, the City recognized pension expense of \$245,316 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$6,944 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 13,231	\$ 16,268
Changes in actuarial assumptions	346,321	5,960
Net collective difference between projected and actual investment earnings	44,161	-
Changes in proportion	49,167	-
Contributions paid to PERA subsequent to the measurement date	62,579	-
Total	\$ 515,459	\$ 22,228

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The \$62,579 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2023	\$ 160,190
2024	\$ 163,154
2025	\$ (35,941)
2026	\$ 143,249

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$230,127.

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	5.50%	\$ 2,502,021
Current Discount Rate	6.50%	\$ 1,584,007
1% Higher	7.50%	\$ 831,093

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

I. Pension Plan Fiduciary Net Position

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

NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT

Plan Description

The City of Grand Marais Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered 15 active firefighters and 8 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

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

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed \$24,410 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the Volunteer Firefighter Fund for the year ended December 31, 2022.

Pension Costs

At December 31, 2022, the City reported a net pension asset of \$92,293 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/21	\$ 354,289	\$ 533,409	\$ (179,120)
Changes for the Year			
Service Cost	16,288	-	16,288
Interest on Pension Liability	21,837	-	21,837
Actuarial Experience (Gains)/Losses	(7,191)	-	(7,191)
Projected Investment Earnings	-	32,005	(32,005)
Changes in Benefit Level	-	-	-
Contributions (State)	-	24,410	(24,410)
Asset (Gain)/Loss	-	(111,555)	111,555
Benefit Payouts	(13,240)	(13,240)	-
Administrative Costs	-	(753)	753
Net Changes	17,694	(69,133)	86,827
Balance End of Year 12/31/22	\$ 371,983	\$ 464,276	\$ (92,293)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2022, the City recognized pension expense of \$27,746.

At December 31, 2022, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gain/Losses	\$ 15,000	\$ 24,044
Difference Between Projected and Actual Investment Earnings	53,261	-
Total	\$ 68,261	\$ 24,044

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

Year Ended December 31:	Pension Expense Amount
2023	\$ (6,205)
2024	\$ 6,764
2025	\$ 22,786
2026	\$ 20,872

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Actuarial Assumptions

The total pension liability at December 31, 2022, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

There were no changes in actuarial assumptions in 2022.

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ (82,814)	\$ (92,293)	\$ (101,329)

Plan Investments

Investment Policy:

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

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

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

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

Asset Allocation:

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

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

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

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during fiscal year 2022 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2022, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

CITY OF GRAND MARAIS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 16 - PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN (DEFINED CONTRIBUTION PLAN)

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$9	\$9	5%	5%	5%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRAND MARAIS, MINNESOTA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 697,574	\$ 697,574	\$ 688,808	\$ (8,766)
Special assessments	998	998	998	-
Licenses and permits	78,806	78,806	86,149	7,343
Intergovernmental	73,812	73,812	137,392	63,580
Charges for services	1,705,100	1,705,100	1,858,015	152,915
Fines	500	500	267	(233)
Gifts and contributions	-	-	3,100	3,100
Interest	1,200	1,200	7,779	6,579
Miscellaneous	-	-	1,238	1,238
TOTAL REVENUES	<u>2,557,990</u>	<u>2,557,990</u>	<u>2,783,746</u>	<u>225,756</u>
EXPENDITURES				
Current				
General government	576,787	576,787	438,063	138,724
Public safety	262,943	262,943	244,865	18,078
Streets	447,503	447,503	551,104	(103,601)
Culture and recreation	1,255,754	1,255,754	1,191,246	64,508
TOTAL EXPENDITURES	<u>2,542,987</u>	<u>2,542,987</u>	<u>2,425,278</u>	<u>117,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>15,003</u>	<u>15,003</u>	<u>358,468</u>	<u>343,465</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	244,447	44,447
Transfers out	(214,503)	(214,503)	(282,963)	(68,460)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(14,503)</u>	<u>(14,503)</u>	<u>(38,516)</u>	<u>(24,013)</u>
NET CHANGE IN FUND BALANCE	500	500	319,952	319,452
FUND BALANCE - JANUARY 1	<u>6,186,075</u>	<u>6,186,075</u>	<u>6,186,075</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 6,186,575</u>	<u>\$ 6,186,575</u>	<u>\$ 6,506,027</u>	<u>\$ 319,452</u>

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
Year Ended December 31, 2022**

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

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with City (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/22	0.0200%	\$ 1,584,007	\$ 46,469	\$ 1,630,476	\$ 1,497,364	108.89%	76.70%
6/30/21	0.0193%	\$ 824,196	\$ 25,056	\$ 849,252	\$ 1,382,230	61.44%	87.00%
6/30/20	0.0185%	\$ 1,109,160	\$ 34,255	\$ 1,143,415	\$ 1,320,425	86.59%	79.10%
6/30/19	0.0183%	\$ 1,011,766	\$ 31,499	\$ 1,043,265	\$ 1,296,308	80.48%	80.20%
6/30/18	0.0189%	\$ 1,048,495	\$ 34,357	\$ 1,082,852	\$ 1,266,933	85.47%	79.50%
6/30/17	0.0194%	\$ 1,238,483	\$ 15,537	\$ 1,254,020	\$ 1,246,920	100.57%	75.90%
6/30/16	0.0196%	\$ 1,591,423	\$ 20,830	\$ 1,612,253	\$ 1,218,107	132.36%	68.91%
6/30/15	0.0200%	\$ 1,036,504	\$ -	\$ 1,036,504	\$ 1,175,231	88.20%	78.19%

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

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

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
Year Ended December 31, 2022**

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

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/22	\$ 116,679	\$ 116,679	\$ -	\$ 1,555,716	7.50%
12/31/21	\$ 106,601	\$ 106,601	\$ -	\$ 1,421,346	7.50%
12/31/20	\$ 104,133	\$ 104,133	\$ -	\$ 1,388,435	7.50%
12/31/19	\$ 98,816	\$ 98,816	\$ -	\$ 1,317,547	7.50%
12/31/18	\$ 96,139	\$ 96,139	\$ -	\$ 1,281,853	7.50%
12/31/17	\$ 94,230	\$ 94,230	\$ -	\$ 1,256,400	7.50%
12/31/16	\$ 92,217	\$ 92,217	\$ -	\$ 1,229,560	7.50%
12/31/15	\$ 89,570	\$ 89,570	\$ -	\$ 1,194,267	7.50%

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

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

See notes to required supplementary information.

CITY OF GRAND MARAIS, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2022

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GRAND MARAIS VOLUNTEER FIRE DEPARTMENT

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total Pension Liability			
Service cost	\$ 16,288	\$ 17,139	\$ 9,883
Interest on the pension liability	21,837	15,004	20,541
Actuarial experience (gains)/losses	(7,191)	25,001	(41,288)
Changes in benefit level	-	98,013	-
Benefit payments	<u>(13,240)</u>	<u>(67,620)</u>	<u>(109,720)</u>
Net Change in Total Pension Liability	17,694	87,537	(120,584)
Total Pension Liability - Beginning	<u>354,289</u>	<u>266,752</u>	<u>387,336</u>
Total Pension Liability - Ending (a)	<u>\$ 371,983</u>	<u>\$ 354,289</u>	<u>\$ 266,752</u>
Plan Fiduciary Net Position			
Contributions:			
Fire state aid	\$ 18,647	\$ 17,626	\$ 16,989
Fire supplemental aid	3,763	3,703	3,750
Supplemental benefit reimbursement	2,000	2,000	-
Net investment income (loss)	(79,550)	47,301	71,766
PERA administrative fee	(720)	(660)	(750)
SBI investment fee	(33)	(28)	(32)
Benefit payments	<u>(13,240)</u>	<u>(67,620)</u>	<u>(109,720)</u>
Net Change in Plan Fiduciary Net Position	(69,133)	2,322	(17,997)
Plan Fiduciary Net Position - Beginning	<u>533,409</u>	<u>531,087</u>	<u>549,084</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 464,276</u>	<u>\$ 533,409</u>	<u>\$ 531,087</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (92,293)</u>	<u>\$ (179,120)</u>	<u>\$ (264,335)</u>
Plan Fiduciary Net Position as a Percentage			
Of the Total Pension Liability	124.8%	150.6%	199.1%

Note: This schedule is provided prospectively until it contains ten years of data.

See notes to required supplementary information.

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 13,585	\$ 13,226	\$ 14,361	\$ 13,943	\$ 14,923
22,427	19,348	18,388	17,338	14,640
(8,874)	26,947	(2,406)	(9,538)	(8,254)
-	-	-	-	38,924
-	(17,128)	(9,293)	-	(28,600)
27,138	42,393	21,050	21,743	31,633
360,198	317,805	296,755	275,012	243,379
<u>\$ 387,336</u>	<u>\$ 360,198</u>	<u>\$ 317,805</u>	<u>\$ 296,755</u>	<u>\$ 275,012</u>
\$ 15,911	\$ 15,842	\$ 15,588	\$ 15,880	\$ 15,995
3,884	3,770	3,771	3,853	3,913
1,000	845	-	1,000	1,000
82,759	(18,696)	53,603	24,943	415
(690)	(690)	(720)	(780)	(720)
(28)	(26)	(25)	(27)	(11)
-	(17,128)	(9,293)	-	(28,600)
102,636	(16,083)	62,924	44,869	(8,008)
446,448	462,531	399,607	354,738	362,746
<u>\$ 549,084</u>	<u>\$ 446,448</u>	<u>\$ 462,531</u>	<u>\$ 399,607</u>	<u>\$ 354,738</u>
<u>\$ (161,748)</u>	<u>\$ (86,250)</u>	<u>\$ (144,726)</u>	<u>\$ (102,852)</u>	<u>\$ (79,726)</u>
141.8%	123.9%	145.5%	134.7%	129.0%

CITY OF GRAND MARAIS, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2022**

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Actual contributions paid	-	-	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

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

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

NOTE 1 - BUDGETING

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

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

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

**NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS**

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

CITY OF GRAND MARAIS, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

Capital Project Fund

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

The 5th Ave W Improvement Capital Project Fund is used to account for and record financial resources that are restricted, committed, or assigned expenditures for the joint project with Cook County regarding the improvements of 5th Ave West.

CITY OF GRAND MARAIS, MINNESOTA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2022**

	<u>Library Special Revenue Fund</u>	<u>Cable TV Special Revenue Fund</u>	<u>Storefront Renovation Special Revenue Fund</u>	<u>5th Ave W Improvement Capital Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 466,225	\$ 56,098	\$ 147,809	\$ 17,984	\$ 688,116
Loans receivables	-	-	1,189	-	1,189
Prepaid items	26,096	-	-	-	26,096
TOTAL ASSETS	<u>\$ 492,321</u>	<u>\$ 56,098</u>	<u>\$ 148,998</u>	<u>\$ 17,984</u>	<u>\$ 715,401</u>
LIABILITIES					
Accounts payable	\$ 13,191	\$ -	\$ -	\$ 17,984	\$ 31,175
Salaries payable	11,567	-	-	-	11,567
TOTAL LIABILITIES	<u>24,758</u>	<u>-</u>	<u>-</u>	<u>17,984</u>	<u>42,742</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - loans receivable	-	-	1,189	-	1,189
FUND BALANCES					
Nonspendable	26,096	-	-	-	26,096
Restricted	233,484	-	147,809	-	381,293
Committed	-	56,098	-	-	56,098
Assigned	207,983	-	-	-	207,983
TOTAL FUND BALANCES	<u>467,563</u>	<u>56,098</u>	<u>147,809</u>	<u>-</u>	<u>671,470</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 492,321</u>	<u>\$ 56,098</u>	<u>\$ 148,998</u>	<u>\$ 17,984</u>	<u>\$ 715,401</u>

CITY OF GRAND MARAIS, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2022**

	Library Special Revenue Fund	Cable TV Special Revenue Fund	Storefront Renovation Special Revenue Fund	5th Ave W Improvement Capital Project Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes - franchise fee	\$ -	\$ 6,411	\$ -	\$ -	\$ 6,411
Intergovernmental	190,523	-	-	-	190,523
Charges for services	9,044	-	-	-	9,044
Fines	213	-	-	-	213
Gifts and contributions	8,485	-	-	-	8,485
Investment earnings	3,175	-	15	-	3,190
Miscellaneous	<u>21,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,809</u>
TOTAL REVENUES	<u>233,249</u>	<u>6,411</u>	<u>15</u>	<u>-</u>	<u>239,675</u>
EXPENDITURES					
Current					
Culture and recreation	514,745	-	-	-	514,745
Capital outlay					
Streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,072</u>	<u>30,072</u>
TOTAL EXPENDITURES	<u>514,745</u>	<u>-</u>	<u>-</u>	<u>30,072</u>	<u>544,817</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(281,496)	6,411	15	(30,072)	(305,142)
OTHER FINANCING SOURCES					
Transfers in	<u>214,503</u>	<u>-</u>	<u>-</u>	<u>30,072</u>	<u>244,575</u>
NET CHANGE IN FUND BALANCES	(66,993)	6,411	15	-	(60,567)
FUND BALANCES - JANUARY 1	<u>534,556</u>	<u>49,687</u>	<u>147,794</u>	<u>-</u>	<u>732,037</u>
FUND BALANCES - DECEMBER 31	<u>\$ 467,563</u>	<u>\$ 56,098</u>	<u>\$ 147,809</u>	<u>\$ -</u>	<u>\$ 671,470</u>

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2022

REVENUES

Taxes

General property \$ 688,808

Special Assessments 998

Licenses and Permits 86,149

Intergovernmental

Federal grants

American Rescue Plan Act 68,460

State

Local government aid 63,812

Fire aid 5,120

Total Intergovernmental 137,392

Charges for Services

General government

Rent 62,310

Miscellaneous 10,028

Public safety

Fire protection contacts 43,538

Culture and recreation

Park 1,488,389

Boat harbors 103,403

Golf course 150,347

Total Charges for Services 1,858,015

Fines

Court fines 267

Gifts and Contributions 3,100

Investment Earnings 7,779

Miscellaneous

Other 1,238

TOTAL REVENUES 2,783,746

CITY OF GRAND MARAIS, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2022**

EXPENDITURES

Current

General Government

Mayor and council	\$ 28,395
City clerk	154,023
Independent audit	15,450
Legal	33,681
Planning and zoning	53,883
Buildings	67,742
Buildings capital outlay	7,710
City planning consultants	35,353
Professional services	26,728
Other	15,098
Total General Government	438,063

Public Safety

Police	152,500
Fire	60,815
Fire capital outlay	31,550
Total Public Safety	244,865

Streets

Maintenance	276,433
Street lighting	18,469
Public works	41,327
Capital outlay	214,875
Total Streets	551,104

Culture and Recreation

Recreation	681,889
Recreation capital outlay	100,218
Swimming pool	115,000
Boat harbors	58,659
Boat harbors capital outlay	3,113
City parks	29,245
Golf course	193,693
Golf course capital outlay	9,429
Total Culture and Recreation	1,191,246
TOTAL EXPENDITURES	2,425,278

**EXCESS OF REVENUES OVER
EXPENDITURES**

358,468

CITY OF GRAND MARAIS, MINNESOTA

GENERAL FUND

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

Year Ended December 31, 2022

OTHER FINANCING SOURCES (USES)

Transfers in	\$ 244,447
Transfers out	<u>(282,963)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(38,516)</u>

NET CHANGE IN FUND BALANCE

319,952

FUND BALANCE - JANUARY 1

6,186,075

FUND BALANCE - DECEMBER 31

\$ 6,506,027



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the City Council
City of Grand Marais, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Marais, Minnesota as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Grand Marais, Minnesota's basic financial statements, and have issued our report thereon dated June 20, 2023.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a significant deficiency.

Report on Compliance

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that City of Grand Marais, Minnesota failed to comply with the provisions of the contracting-bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Other Matters

We noted certain matters that we reported to management of the City of Grand Marais, Minnesota in a separate letter dated June 20, 2023, included under this cover.

City of Grand Marais, Minnesota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Grand Marais, Minnesota's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Grand Marais, Minnesota's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 20, 2023

CITY OF GRAND MARAIS, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2022

Prior Audit Financial Statement Findings

FINDING 2021-001. SEGREGATION OF DUTIES

Summary of Condition

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

Summary of Corrective Action Previously Reported

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

Current Status

Ongoing.

FINDING 2021-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition

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

Summary of Corrective Action Previously Reported

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

Current Status

Ongoing.

CITY OF GRAND MARAIS, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-001. SEGREGATION OF DUTIES

Criteria

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

Condition

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City Administrator will continue to monitor transactions and the City's administration will structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

CITY OF GRAND MARAIS, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

Recommendations

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

Views of Responsible Officials and Planned Corrective Action

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



REPRESENTATION OF THE CITY OF GRAND MARAIS, MINNESOTA

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2022**

Finding Number: 2022-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Michael J. Roth, City Administrator

Corrective Action Planned

Management will attempt to monitor transactions and structure of the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Anticipated Completion Date

Ongoing.

Finding Number: 2022-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Michael J. Roth, City Administrator

Corrective Action Planned

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

Anticipated Completion Date

Ongoing.

Michael J. Roth, City Administrator



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MANAGEMENT LETTER

To the City Council
City of Grand Marais, Minnesota

In planning and performing our audit of the financial statements of the City of Grand Marais, Minnesota as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Grand Marais, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of a deficiency in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 20, 2023, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 20, 2023 on the financial statements of the City of Grand Marais, Minnesota.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with City personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

While testing inventory for the Electric Enterprise Fund the pricing listed for multiple transformers was reported at a significantly higher value than the purchased cost. We recommend that unit costs for inventory are reviewed annually with the actual cost of items purchased during the year.

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

Walker, Giroux & Hahne, LLC

Virginia, Minnesota
June 20, 2023

FORM OF LEGAL OPINION

(See following pages)

February __, 2024

City of Grand Marais
Grand Marais, Minnesota

\$ _____
City of Grand Marais, Minnesota
General Obligation Bonds, Series 2024A

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Grand Marais, Minnesota (the “City”) in connection with the issuance and sale by the City of \$ _____ in aggregate principal amount of its General Obligation Bonds, Series 2024A, dated February __, 2024 (the “Bonds”). The Bonds recite that they have been duly authorized and issued pursuant to Minnesota Statutes Chapter 475 and Sections 469.1812 through 469.1815 and 475.521, as amended (collectively, the “Act”) and the proceedings duly had, and a resolution duly adopted by the City of Grand Marais City Council on January 31, 2024 (the “Bond Resolution”).

We have examined the laws of the State of Minnesota (the “State”), including the Act, a certified copy of the Bond Resolution and other proceedings of the City Council relating to the authorization and issuance of the Bonds, the form of the Bonds, and such certified proceedings, documents and certifications of public officials as we deemed necessary to render this opinion. We have assumed that the City and others will comply with the covenants, agreements, representations and certifications included in the items examined. As to questions of fact material to our opinion, we have relied upon such certified proceedings, documents and certifications furnished to us without undertaking to verify such facts by independent investigation.

From such examination and based on the foregoing, we are of the opinion that:

1. The Bonds are valid and binding general obligations of the City, issued under authority of the Act.
2. The principal of and interest on the Bonds are payable from tax abatement revenue to be generated from specific parcels within the City pursuant to Minnesota Statutes Section 469.1813 and ad valorem taxes heretofore duly levied on all taxable property in the City, but if necessary for payment thereof, additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.

3. Under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

4. Under the existing laws of the State, interest on the Bonds is excluded from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax and is not a specific tax preference item for purposes of the Minnesota alternative minimum tax applicable to individuals, estates and trusts.

5. The Bonds have been designated as “qualified tax-exempt obligations” under Section 265(b)(3) of the Internal Revenue Code of 1986 (the “Code”).

The opinions expressed in numbered paragraphs 3, 4 and 5 above are based solely on the documents, representations and assumptions set forth above and subject to the limitations and qualifications described herein.

The obligations of the City, and the enforceability thereof, with respect to the Bonds, the Bond Resolution and the other documents described above are subject, in part, to the provisions of the bankruptcy laws of the United States of America and to other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors’ rights generally, now or hereafter in effect. Certain of such obligations, and enforcement thereof, are also subject to general equity principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such documents.

The accrual or receipt of interest on the Bonds may otherwise affect the federal or state income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient’s particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred (or continued)

City of Grand Marais, Minnesota
February __, 2024
Page 3

indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only matters relating to our opinion set forth in the Official Statement.

We express no opinion herein as to any matter not specifically set forth above. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Very truly yours,

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated February __, 2024 (this “*Disclosure Certificate*”), is executed and delivered by the City of Grand Marais, Minnesota (the “*Issuer*”), in connection with the issuance of its \$ _____ in aggregate principal amount of its General Obligation Bonds, Series 2024A (the “*Bonds*”). The Bonds are being issued pursuant to a resolution adopted by the City Council of the City on January 31, 2024 (“*Resolution*”) authorizing the issuance of the Bonds. The Issuer covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist each Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “*Commission*”). The Issuer represents that it will be the only “obligated person” (as defined in the Rule) with respect to the Bonds at the time the Bonds are delivered to each Participating Underwriter and that no other person presently is expected to become an obligated person with respect to the Bonds at any time after the issuance of the Bonds.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report of the Issuer provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Dissemination Agent*” shall mean any entity designated by the Issuer to act as the Dissemination Agent hereunder.

“*EMMA*” means the MSRB’s Electronic Municipal Market Access System. Reference is made to Commission Release No. 34-59062, December 8, 2008 (the “*Release*”) relating to the EMMA system for municipal securities disclosure effective on July 1, 2009.

“*Financial Obligations*” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; provided, however, the term “financial obligation” excludes municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule.

“*Listed Event*” shall mean any of the events listed in Exhibit B to this Disclosure Certificate with respect to the Bonds.

“*Listed Event Notice*” means notice of a Listed Event in Prescribed Form.

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“*Official Statement*” means the “final official statement,” as defined in the paragraph (f)(3) of the Rule, relating to the Bonds.

“*Participating Underwriter*” shall mean any of the original underwriters required to comply with the Rule in connection with offering of the Bonds.

“*Prescribed Form*” means, with regard to the filing of the Annual Report and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Rule*” means Rule 15c2-12 promulgated by the Commission under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Disclosure Certificate, including any official interpretations thereof.

“*State*” shall mean the State of Minnesota.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, on or before twelve (12) months after the end of each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2023, provide to the MSRB in Prescribed Form the Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date but within 10 business days after they become available. If the Issuer’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5 of this Disclosure Certificate.

(b) If the Issuer fails to provide an Annual Report to the MSRB by the date required in subsection (a) above, the Issuer shall, or shall cause the Dissemination to, send a notice of such failure to the MSRB not in excess of 10 business days after the occurrence of such failure.

Section 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or include by reference the following:

(a) Annual audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the

extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Issuer, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the Issuer.

If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) of this Disclosure Certificate, the Annual Report shall contain unaudited financial statements, if available and if in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report within 10 business days of when they become available.

(b) An annual update of all material financial and operating data of the Issuer, to the same extent as provided in those portions of the Official Statement identified in Exhibit A hereto and as required by applicable state law.

Such information may be included in a single document such as the Issuer's audited financial statements. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any annual financial and operating data containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer, which are available to the public on the MSRB's internet website or filed with the Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

Section 5. Disclosure of Listed Events. The Issuer hereby covenants that it will, or it shall cause the Dissemination to, disseminate in a timely manner, not in excess of 10 business days after the occurrence of the Listed Event, a Listed Event Notice to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemptions of any Bonds need not be given under this Disclosure Certificate any earlier than the notice (if any) of such redemption is given to the owners of the Bonds pursuant to the Resolution. The Issuer is required to deliver such Listed Event Notice in the same manner as provided by Section 3(a) of this Disclosure Certificate.

Section 6. Duty To Update EMMA/MSRB. The Issuer shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's internet website or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the

Issuer shall give notice of such termination in the same manner as for a Listed Event Notice under Section 5 of this Disclosure Certificate.

Section 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5 of this Disclosure Certificate, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event Notice under Section 5 of this Disclosure Certificate, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or Listed Event Notice, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or Listed Event Notice in addition to that which is specifically required by

this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or Listed Event Notice.

Section 11. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer and Dissemination Agent to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer and Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, each Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Recordkeeping. The Issuer shall maintain records of all filings of Annual Reports and Listed Event Notices, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signatures on next page]

IN WITNESS WHEREOF, the Issuer has executed this Disclosure Certificate and, if applicable, has caused its seal to be hereunto affixed and attested by an authorized representative, all as of the date first above written.

CITY OF GRAND MARAIS, MINNESOTA

By_____

Name: Tracy Benson

Title: Mayor

By_____

Name: Mike Roth

Title: City Administrator

[Signature Page to Continuing Disclosure Certificate]

EXHIBIT A

**DESCRIPTION OF PORTIONS OF
OFFICIAL STATEMENT REQUIRING ANNUAL UPDATE**

1. To the extent such information is not already included in the audited financial statements of the Issuer, the following information of the type, but not necessarily in the same form, regarding the Issuer updated for the fiscal year then ended contained in the Official Statement under the captions entitled:

“Current Property Valuations”

“Direct Debt”

“Tax Levies and Collections”

“U.S. Census Data – Population Trend”

“Employment/Unemployment Data”

EXHIBIT B

EVENTS WITH RESPECT TO THE BONDS FOR WHICH LISTED EVENT NOTICES ARE REQUIRED

1. Principal and interest payment delinquencies.
2. Nonpayment-related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
7. Modifications to rights of security holders, if material.
8. Bond calls, if material and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the securities, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the Issuer[†].
13. The consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
15. Incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material.*
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.*

[†]This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

* The Issuer intends to comply with the Listed Events described in 15 and 16 of Exhibit B, and the definition of “Financial Obligation” in Section 2, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the SEC in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

TERMS OF PROPOSAL

\$6,155,000* GENERAL OBLIGATION BONDS, SERIES 2024A CITY OF GRAND MARAIS, MINNESOTA

Proposals for the purchase of \$6,155,000* General Obligation Bonds, Series 2024A (the "Bonds") of the City of Grand Marais, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via bondsale@ehlers-inc.com or **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on January 31, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, as amended, and Sections 469.1814 and 475.521, as amended, by the City, to finance the construction of a municipal liquor store and City Hall in the City. The Bonds are general obligations of the City, for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated February 15, 2024, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$160,000	2033	\$205,000	2040	\$395,000
2027	165,000	2034	315,000	2041	410,000
2028	175,000	2035	330,000	2042	425,000
2029	180,000	2036	335,000	2043	445,000
2030	185,000	2037	350,000	2044	460,000
2031	195,000	2038	365,000	2045	480,000
2032	200,000	2039	380,000		

ADJUSTMENT OPTION

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about February 15, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kutak Rock LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$6,081,140 plus accrued interest on the principal sum of \$6,155,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$123,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Grand Marais, Minnesota

PROPOSAL FORM

The City Council
City of Grand Marais, Minnesota (the "City")

January 31, 2024

RE: \$6,155,000* General Obligation Bonds, Series 2024A (the "Bonds")
DATED: February 15, 2024

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$6,081,140) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due 2026	_____ % due 2033	_____ % due 2040
_____ % due 2027	_____ % due 2034	_____ % due 2041
_____ % due 2028	_____ % due 2035	_____ % due 2042
_____ % due 2029	_____ % due 2036	_____ % due 2043
_____ % due 2030	_____ % due 2037	_____ % due 2044
_____ % due 2031	_____ % due 2038	_____ % due 2045
_____ % due 2032	_____ % due 2039	

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of \$123,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about February 15, 2024.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: _____ NO: _____.

If the competitive sale requirements are not met, we elect to use either the: _____ 10% test, or the _____ hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from February 15, 2024 of the above proposal is \$_____ and the true interest cost (TIC) is _____ %.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Grand Marais, Minnesota, on January 31, 2024.

By: _____ By: _____
Title: _____ Title: _____