

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2021



Hoffman, Philipp, & Martell, PLLC

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

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FRAZEE, MINNESOTA**

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## **INTRODUCTORY SECTION**

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2021**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
<b>Elected</b>		
Ken Miosek	Mayor	December 31, 2022
Mike Sharp	Vice-Mayor	December 31, 2024
Mark Kemper	Councilmember	December 31, 2022
Nicole Strand	Councilmember	December 31, 2022
Mark Flemmer	Councilmember	December 31, 2024
<b>Appointed</b>		
Jordin Roberts	Administrator/Clerk/Treasurer	Indefinite

## **FINANCIAL SECTION**



## Hoffman, Philipp, & Martell, PLLC

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### INDEPENDENT AUDITOR'S REPORT

City Council  
City of Frazee

#### **Report on the Audit of the Financial Statements**

##### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, as of December 31, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Frazee 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.

##### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control over financial reporting 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 that raise substantial doubt about the City of Frazee'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 generally accepted auditing standards 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 they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 Frazee's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used in 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 that raise substantial doubt about the City of Frazee'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 in our audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frazee's basic financial statements. The accompanying combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and other schedules, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2022, on our consideration of the City of Frazee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Frazee'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 the City of Frazee's internal control over financial reporting and compliance.



Hoffman, Philipp, & Martell, PLLC  
July 15, 2022

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Unaudited)

The management of the City of Frazee offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Frazee for the fiscal year ended December 31, 2021. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

The total net position of governmental activities is \$6,825,218, of which \$4,657,182 is the net investment in capital assets, \$1,366,557 is restricted for general government, economic development, and debt service, and \$801,479 is unrestricted. The total net position of governmental activities increased by \$518,608 for the year ended December 31, 2021, mainly as a result of a federal grant for the purchase of a fire truck.

The total net position of business-type activities is \$4,188,242, of which \$3,490,463 is the net investment in capital assets, \$150,291 is restricted for infrastructure replacement, and \$547,488 is unrestricted. The total net position of business-type activities increased by \$454,418 in 2021, as a result of federal grants for completion of the well house project.

At the close of 2021, the City's governmental funds reported combined ending fund balances of \$1,392,241, an increase of \$137,910 from the prior year. Of the total fund balance amount, \$576,104 is legally or contractually restricted, \$159,421 is formally committed for specific purposes, \$43,683 is assigned for sanitation, and \$613,033 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. 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 businesses. All of the current year's revenues and expenses are considered regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, we divide the City into three kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, sanitation, culture and recreation, conservation of natural resources, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the Events Center, liquor store, and the utilities – sewer and water.
- **Component unit**—The City includes a separate legal entity in its report. The Economic Development Authority is presented in a separate column. Although legally separate, this "component unit" is important because the City is financially accountable for it.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Frazee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the *Balance Sheet – Governmental Funds* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three governmental fund types: General, Debt Service, and Special Revenue. Information is presented separately in the *Governmental Funds Balance Sheet* and in the *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances* for the General Fund, the 2006 Red Willow Heights II Debt Service Fund, and the Southeast Area and Main Avenue West Debt Service Fund, all of which are

considered to be major funds. Data from the other nonmajor governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Frazee adopts annual budgets for its General Fund. A *Budgetary Comparison Schedule* has been provided for this fund to demonstrate compliance with budgets.

**Proprietary Funds** The City of Frazee maintains four proprietary funds. 1) The Events Center Enterprise Fund is used to account for the operations of the City’s Events Center. Financing is provided by concession sales and space rental for events. 2) The Liquor Enterprise Fund is used to account for the operations of the City’s liquor store. Financing is provided through the liquor store’s sale of on and off-sale liquor. 3) The Sewer Enterprise Fund is used to account for the operations of the City’s sewer system. Financing is provided by charges to residents for services. 4) The Water Enterprise Fund is used to account for the operations of the City’s water system. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the *Statement of Net Position* and the *Statement of Activities* as business-type activities. All four of the enterprise funds are considered to be major funds.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found beginning on page 24 of this report.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information*, as listed in the table of contents. The City also provides Supplementary and Other Information including combining statements, a *Schedule of Intergovernmental Revenue*, and a *Schedule of Expenditures of Federal Awards*.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Over time, net position serves as a useful indicator of the City’s financial position. The City’s assets exceeded liabilities by \$11,013,460 at the close of 2021. The largest portion of the City’s net position (approximately 74 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 14 percent of the City’s net position is restricted and 12 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$1,348,967 as of December 31, 2021 may be used to meet the City’s ongoing obligations to citizens.

The City’s overall financial position increased from last year. Total assets increased by \$825,687 from the prior year due to the purchase of a fire truck and completion of the well house project. Deferred outflows of resources related to pensions increased by \$261,667. Total liabilities decreased by \$239,042 from the prior year due to scheduled debt payments, and deferred inflows of resources related to pensions increased by \$353,370. This resulted in an increased net position of \$973,026 from the prior year.

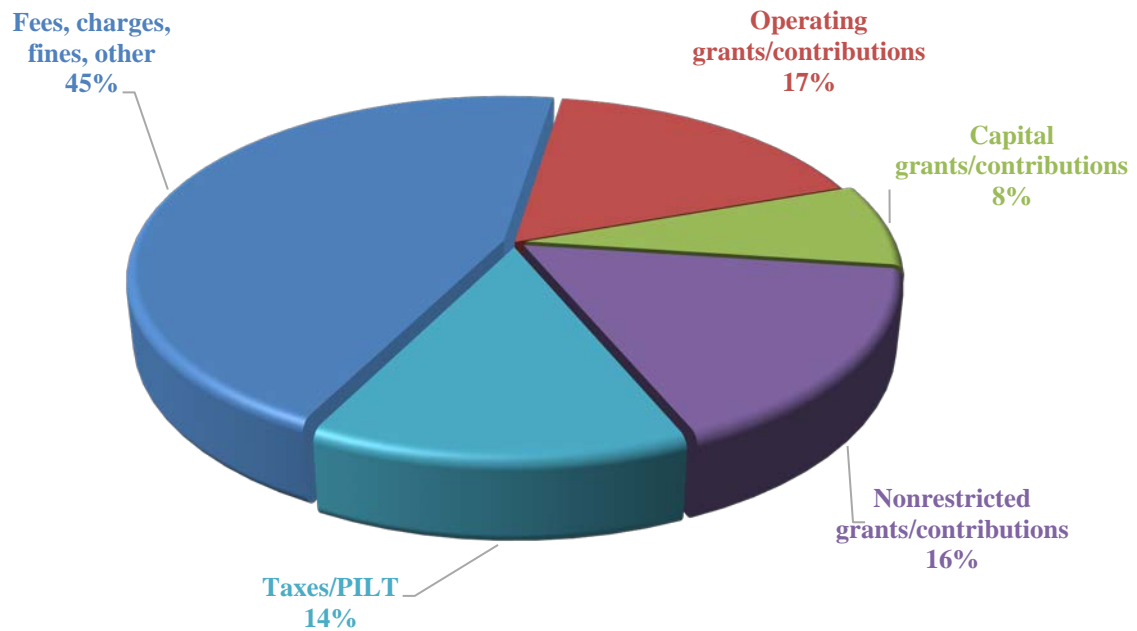
## NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 2,536,689	\$ 2,513,394	\$ 954,534	\$ 778,794	\$ 3,491,223	\$ 3,292,188
Capital assets	5,901,589	5,517,569	5,299,467	5,066,835	11,201,056	10,584,404
Total assets	\$ 8,438,278	\$ 8,030,963	\$ 6,254,001	\$ 5,845,629	\$ 14,692,279	\$ 13,876,592
Deferred outflows - pension	\$ 328,726	\$ 151,055	\$ 100,311	\$ 16,315	\$ 429,037	\$ 167,370
Other liabilities	\$ 262,862	\$ 373,428	\$ 170,908	\$ 366,298	\$ 433,770	\$ 739,726
Long-term liabilities outstanding	1,281,709	1,336,452	1,860,750	1,749,093	3,142,459	3,085,545
Total liabilities	\$ 1,544,571	\$ 1,709,880	\$ 2,031,658	\$ 2,115,391	\$ 3,576,229	\$ 3,825,271
Deferred inflows - pension	\$ 397,215	\$ 165,528	\$ 134,412	\$ 12,729	\$ 531,627	\$ 178,257
Net position						
Net investment in capital assets	\$ 4,657,182	\$ 4,222,344	\$ 3,490,463	\$ 3,362,432	\$ 8,147,645	\$ 7,584,776
Restricted	1,366,557	250,297	150,291	96,171	1,516,848	346,468
Unrestricted	801,479	1,833,969	547,488	275,221	1,348,967	2,109,190
Total net position	\$ 6,825,218	\$ 6,306,610	\$ 4,188,242	\$ 3,733,824	\$ 11,013,460	\$ 10,040,434

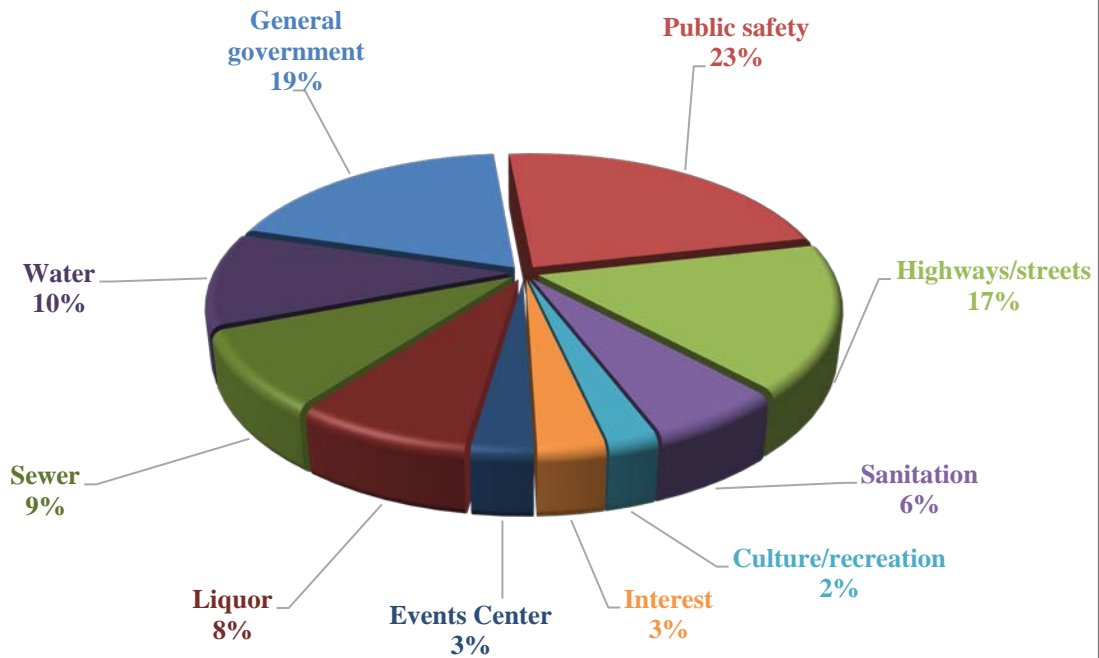
## CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	\$ 248,864	\$ 232,102	\$ 1,194,677	\$ 1,065,067	\$ 1,443,541	\$ 1,297,169
Operating grants and contributions	532,887	204,515	18,953	-	551,840	204,515
Capital grants and contributions	67,010	1,001	177,840	1,350,563	244,850	1,351,564
Property taxes	427,254	408,146	-	-	427,254	408,146
Franchise tax	3,835	4,038	-	-	3,835	4,038
Grants and contributions not restricted to specific programs	533,152	522,018	-	-	533,152	522,018
Payments in lieu of taxes	15,513	22,268	-	-	15,513	22,268
Investment earnings	4,997	10,158	1,032	1,566	6,029	11,724
Transfers	(48,000)	(38,000)	-	-	(48,000)	(38,000)
Total revenues and transfers	\$ 1,785,512	\$ 1,366,246	\$ 1,392,502	\$ 2,417,196	\$ 3,178,014	\$ 3,783,442
Expenses						
General government	\$ 341,161	\$ 396,696	\$ -	\$ -	\$ 341,161	\$ 396,696
Public safety	414,242	366,102	-	-	414,242	366,102
Highways and streets	302,183	283,930	-	-	302,183	283,930
Sanitation	110,081	102,575	-	-	110,081	102,575
Culture and recreation	41,584	28,288	-	-	41,584	28,288
Conservation of natural resources	2,077	1,269	-	-	2,077	1,269
Economic development	-	40,000	-	-	-	40,000
Interest	55,576	41,040	-	-	55,576	41,040
Events Center	-	-	53,622	87,299	53,622	87,299
Liquor	-	-	514,982	555,167	514,982	555,167
Sewer	-	-	160,328	159,711	160,328	159,711
Water	-	-	209,152	188,740	209,152	188,740
Total expenses	\$ 1,266,904	\$ 1,259,900	\$ 938,084	\$ 990,917	\$ 2,204,988	\$ 2,250,817
Increase (decrease) in net position	\$ 518,608	\$ 106,346	\$ 454,418	\$ 1,426,279	\$ 973,026	\$ 1,532,625
Net position - January 1, as previously reported	6,306,610	6,200,264	3,733,824	2,307,545	7,499,932	8,507,809
Net position, December 31	\$ 6,825,218	\$ 6,306,610	\$ 4,188,242	\$ 3,733,824	\$ 11,013,460	\$ 10,040,434

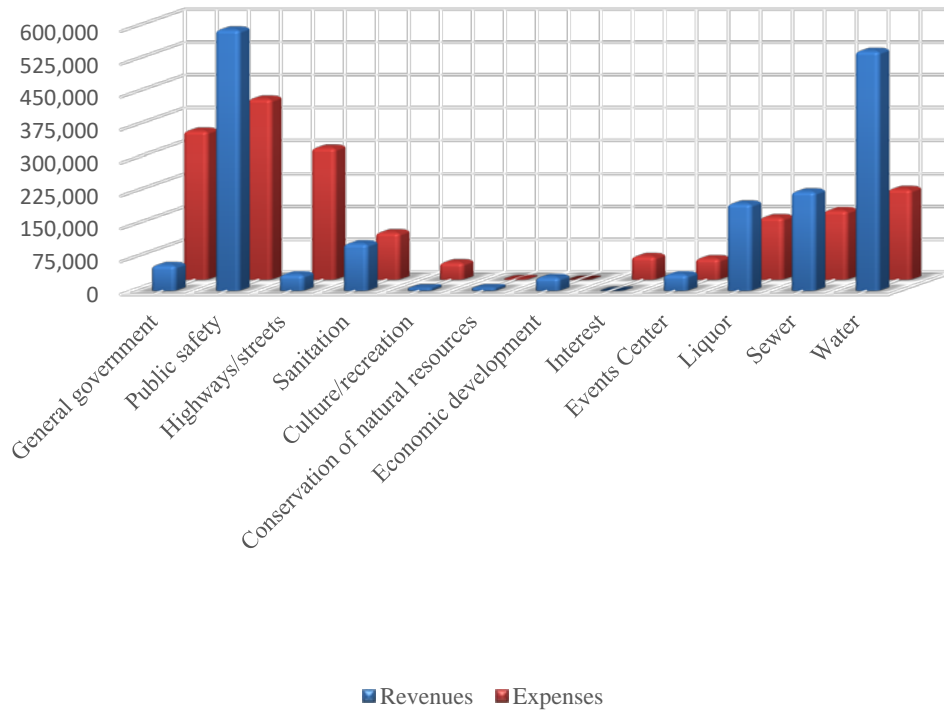
## Revenues by Source



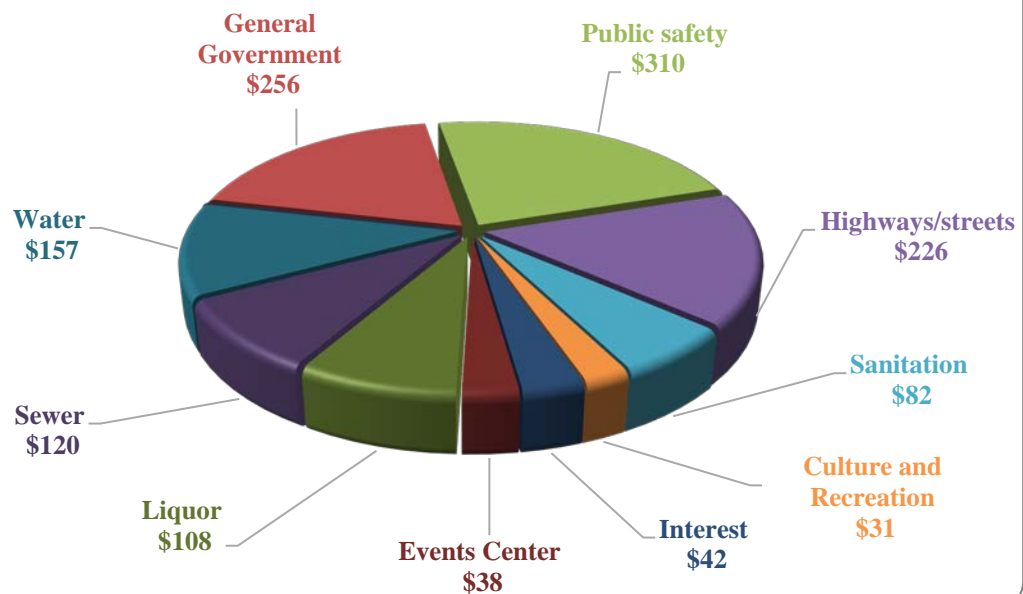
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 1,335 Population as of 2021



## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

### **Governmental Funds**

At the end of 2021, the City's governmental funds reported combined ending fund balances of \$1,392,241. Of this amount, approximately 41 percent constitutes legally or contractually restricted fund balance, approximately 11 percent constitutes formally committed fund balance, three percent constitutes specifically assigned fund balance, and 45 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$1,021,646. The General Fund had a restricted fund balance of \$76,006, the committed fund balance was \$159,421, and the unassigned fund balance was \$786,219. The General Fund has no assigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2021. Total fund balance represents 59 percent of total General Fund expenditures. In 2021, the fund balance amount in the General Fund increased by \$166,445, mainly as a result of American Rescue Funds received (coronavirus relief) and Small Cities Assistance (highways and streets).

The fund balance of the 2006 Red Willow Heights II Debt Service Fund increased \$8,158 from the prior year, due to special assessments and TIF revenues collected in excess of current debt payments.

The fund balance of the Southeast Area and Main Avenue West Debt Service Fund increased by \$32,764 from the prior year, due to special assessments collected in excess of current debt payments.

### **Proprietary Funds**

The Events Center Enterprise Fund reported an operating loss in 2021 of \$20,371, primarily due to expenses including depreciation in excess of revenues.

The Liquor Enterprise Fund reported an operating income in 2021 of \$46,527, indicating that it is collecting funds from sales of liquor at a rate higher than current expenses.

The Sewer Enterprise Fund reported an operating income in 2021 of \$78,067, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating income in 2021 of \$178,761, indicating that it is collecting fees at a rate higher than current expenses.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no amendments to the original budget as approved for 2021.

Actual revenues were more than overall final budgeted revenues by \$483,172, with the largest positive variance in intergovernmental revenue, and actual expenditures were more than overall final budgeted expenditures by \$536,504, with the largest variance in underbudgeted capital outlay for public safety funded by grants.



## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The City's net investment in capital assets for its governmental and business-type activities as of December 31, 2021, amounted to \$11,201,056. The total increase in the City's investment in capital assets for the current fiscal year was approximately six percent. This increase was primarily due to the purchase of a fire truck and completion of the well house project..

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 69,819	\$ 69,819	\$ -	\$ -	\$ 69,819	\$ 69,819
Construction in progress	30,246	4,436	-	2,740,439	30,246	2,744,875
Infrastructure	4,575,946	4,726,621	4,941,262	1,949,040	9,517,208	6,675,661
Buildings and improvements	214,177	228,204	308,772	325,694	522,949	553,898
Machinery and equipment	1,011,401	488,489	49,433	51,662	1,060,834	540,151
Total capital assets	<u>\$ 5,901,589</u>	<u>\$ 5,517,569</u>	<u>\$ 5,299,467</u>	<u>\$ 5,066,835</u>	<u>\$ 11,201,056</u>	<u>\$ 10,584,404</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

### Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$3,053,411, net of bond discounts, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
G.O. Bonds	\$ 1,058,000	\$ 1,272,000	\$ -	\$ -	\$ 1,058,000	\$ 1,272,000
MN PFA	-	-	1,679,958	1,548,178	1,679,958	1,548,178
Revenue Bonds	-	-	112,000	133,000	112,000	133,000
Capital Notes	186,407	23,247	17,046	23,225	203,453	46,472
	<u>\$ 1,244,407</u>	<u>\$ 1,295,247</u>	<u>\$ 1,809,004</u>	<u>\$ 1,704,403</u>	<u>\$ 3,053,411</u>	<u>\$ 2,999,650</u>

Minnesota Statutes limit the amount of debt the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2021, overall debt of the City is below the three percent debt limit.

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

- The City is adjusting to the ongoing impacts of the worldwide Coronavirus pandemic. The American Rescue Plan (ARP) funding was passed by Congress into law on March 11, 2021. The City has budgeted to use the ARP funds to respond to public health emergency needs, serve the hardest hit communities and address inequities, address negative economic impacts, and improve access to water and broadband infrastructure.
- Specific unemployment statistics for the City of Frazee are not available. However, according to the Minnesota Department of Employment & Economic Development, the unemployment rate for Becker County was 3.2 percent as of December 31, 2021. This is lower than the statewide rate of 3.4 percent and lower than the national average rate of 4.4 percent.
- Frazee's 2021 population according to the League of Minnesota Cities was 1,335, a decrease of 53 since the 2020 census of 1,388.
- On December 20, 2021, the City of Frazee set its 2022 revenue and expenditure budgets.
- The City has completed a Comprehensive Plan which guides City council members and future elected officials in decisions of updating and maintaining streets, sidewalks, curbs, gutters, and equipment as planned and budgeted for.
- The City continues to work towards future development to accommodate the needs of residents by consistently exploring and working towards more programming and grant opportunities as a best practice.
- To look towards future economic, business, tourism, beautification, arts, and culture opportunities, the City continues to levy for debt associated with reconstruction projects, including the Highway 87 Complete Streets - Shared Use Path Project and Lake Street, Red Willow Heights, and the Southeast and Southwest projects recently completed, along with the arrival of Minnesota Heartland Trail and City park upgrades.
- The EDA is in stages of leasing out components of the Downtown Infill Project working with the Minnesota Housing Partnership and CEDA. Concentration of Red Willow lot sales and marketing has increased, resulting in new single-family residences.
- Construction is in progress for the Highway 87 Complete Streets Project including the multi-use trail connecting to the Minnesota Heartland Trail System will continue with an expected completion in 2022.
- Parks and Recreation continues to work on increasing the safety and appearance of city parks, including restoration of the Town Lake Beach with a new beach house and concession facilities. Parks and Recreation is also partnering with the EDA and Becker County Parks and Trails to seek means to acquire property to develop a regional recreational park.

## **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of the City of Frazee for all those with an interest in 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 of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2021**

	<b>Primary Government</b>			<b>Discretely Presented Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 697,064	\$ 709,908	\$ 1,406,972	\$ 224,559
Investments	706,374	129,108	835,482	860,109
Taxes receivable				
Current	6,158	-	6,158	-
Prior	21,798	-	21,798	-
Special assessments receivable				
Current	3,668	-	3,668	-
Prior	20,637	3,360	23,997	-
Accounts receivable	16,762	64,056	80,818	-
Due from other governments	893	-	893	-
Inventory	-	48,102	48,102	-
Notes receivable	57,299	-	57,299	57,217
Special assessments receivable - noncurrent	787,642	-	787,642	-
Net pension asset	218,394	-	218,394	-
Capital assets				
Non-depreciable	100,065	-	100,065	911,201
Depreciable - net of accumulated depreciation	5,801,524	5,299,467	11,100,991	126,321
<b>Total Assets</b>	<b>\$ 8,438,278</b>	<b>\$ 6,254,001</b>	<b>\$ 14,692,279</b>	<b>\$ 2,179,407</b>
<b><u>Deferred Outflows of Resources</u></b>				
Related to pensions	\$ 328,726	\$ 100,311	\$ 429,037	\$ -
<b><u>Liabilities</u></b>				
Accounts payable	\$ 19,003	\$ 5,939	\$ 24,942	\$ 8,413
Salaries payable	18,373	9,813	28,186	-
Contracts payable	-	-	-	71,674
Due to other governments	942	4,969	5,911	-
Accrued interest payable	13,412	7,212	20,624	23,982
Long-term liabilities				
Due within one year	244,805	128,517	373,322	-
Due in more than one year	1,036,904	1,732,233	2,769,137	1,518,000
Net pension liability	211,132	142,975	354,107	-
<b>Total Liabilities</b>	<b>\$ 1,544,571</b>	<b>\$ 2,031,658</b>	<b>\$ 3,576,229</b>	<b>\$ 1,622,069</b>
<b><u>Deferred Inflows of Resources</u></b>				
Related to pensions	\$ 397,215	\$ 134,412	\$ 531,627	\$ -
<b><u>Net Position</u></b>				
Net investment in capital assets	\$ 4,657,182	\$ 3,490,463	\$ 8,147,645	\$ (480,418)
Amounts restricted for				
General government	76,779	-	76,779	-
Economic development	241,049	-	241,049	-
Debt service	1,048,729	-	1,048,729	-
Capital project	-	-	-	849,155
Infrastructure Replacement	-	150,291	150,291	-
Unrestricted amounts	801,479	547,488	1,348,967	188,601
<b>Total Net Position</b>	<b>\$ 6,825,218</b>	<b>\$ 4,188,242</b>	<b>\$ 11,013,460</b>	<b>\$ 557,338</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Charges, Fines and Other</u>	<u>Operating Grants and Contributions</u>
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 341,161	\$ 60,500	\$ -
Public safety	414,242	61,481	136,297
Highways and streets	302,183	5,555	-
Sanitation	110,081	108,891	-
Culture and recreation	41,584	3,390	5,495
Conservation of natural resources	2,077	9,047	-
Economic development	48,000	-	-
Interest	55,576	-	-
<b>Total governmental activities</b>	<b>\$ 1,314,904</b>	<b>\$ 248,864</b>	<b>\$ 141,792</b>
<b>Business-type activities</b>			
Events Center	\$ 53,622	\$ 33,251	\$ 8,953
Liquor	514,982	561,509	10,000
Sewer	160,328	228,833	-
Water	209,152	371,084	-
<b>Total business-type activities</b>	<b>\$ 938,084</b>	<b>\$ 1,194,677</b>	<b>\$ 18,953</b>
<b>Total Primary Government</b>	<b>\$ 2,252,988</b>	<b>\$ 1,443,541</b>	<b>\$ 160,745</b>
<b>Component Unit</b>			
Economic Development Authority	\$ 96,314	\$ 23,561	\$ 4,449
<b>General revenues</b>			
Property taxes			
Franchise tax			
Grants and contributions not restricted to specific programs			
Payments in lieu of taxes			
Investment earnings			
<b>Total general revenues</b>			
<b>Change in net position</b>			
<b>Net Position - January 1</b>			
<b>Net Position - December 31</b>			

**EXHIBIT 2**

	Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government			Discretely Presented Component Unit	
	Governmental Activities	Business-Type Activities	Total		
\$ -	\$ (280,661)	\$ -	\$ (280,661)	\$ -	
391,095	174,631	-	174,631	-	
33,837	(262,791)	-	(262,791)	-	
-	(1,190)	-	(1,190)	-	
-	(32,699)	-	(32,699)	-	
-	6,970	-	6,970	-	
33,173	(14,827)	-	(14,827)	-	
-	(55,576)	-	(55,576)	-	
<b>\$ 458,105</b>	<b>\$ (466,143)</b>	<b>\$ -</b>	<b>\$ (466,143)</b>	<b>\$ -</b>	
\$ -	\$ -	\$ (11,418)	\$ (11,418)	\$ -	
-	-	56,527	56,527	-	
47	-	68,552	68,552	-	
177,793	-	339,725	339,725	-	
<b>\$ 177,840</b>	<b>\$ -</b>	<b>\$ 453,386</b>	<b>\$ 453,386</b>	<b>\$ -</b>	
<b>\$ 635,945</b>	<b>\$ (466,143)</b>	<b>\$ 453,386</b>	<b>\$ (12,757)</b>	<b>\$ -</b>	
\$ -	\$ -	\$ -	\$ -	\$ (68,304)	
	\$ 427,254	\$ -	\$ 427,254	\$ -	
	3,835	-	3,835	-	
	533,152	-	533,152	48,000	
	15,513	-	15,513	-	
	4,997	1,032	6,029	199	
	<b>\$ 984,751</b>	<b>\$ 1,032</b>	<b>\$ 985,783</b>	<b>\$ 48,199</b>	
	<b>\$ 518,608</b>	<b>\$ 454,418</b>	<b>\$ 973,026</b>	<b>\$ (20,105)</b>	
	<b>6,306,610</b>	<b>3,733,824</b>	<b>10,040,434</b>	<b>577,443</b>	
	<b>\$ 6,825,218</b>	<b>\$ 4,188,242</b>	<b>\$ 11,013,460</b>	<b>\$ 557,338</b>	

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

					Nonmajor	
		2006 Red	Southeast Area and	Other		
	General	Willow Heights II	Main Avenue West	Governmental		Total
		Debt Service	Debt Service	Funds		Governmental
				(Statement 1)		Funds
<u>Assets</u>						
<b>Assets</b>						
Cash and pooled investments	\$ 160,225	\$ 6,681	\$ 149,851	\$ 380,307	\$ 697,064	
Investments	702,198	996	-	3,180	706,374	
Taxes receivable						
Current	5,385	-	-	773	6,158	
Prior	21,798	-	-	-	21,798	
Special assessments receivable						
Current	-	2,225	1,042	401	3,668	
Prior	-	9,600	7,684	3,353	20,637	
Accounts receivable	15,670	-	-	1,092	16,762	
Due from other funds	175,593	-	-	-	175,593	
Due from other governments	893	-	-	-	893	
Notes receivable	-	-	-	57,299	57,299	
Special assessments receivable						
Noncurrent	-	349,808	376,523	61,311	787,642	
<b>Total Assets</b>	<b>\$ 1,081,762</b>	<b>\$ 369,310</b>	<b>\$ 535,100</b>	<b>\$ 507,716</b>	<b>\$ 2,493,888</b>	
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>						
<b>Liabilities</b>						
Accounts payable	\$ 19,003	\$ -	\$ -	\$ -	\$ 19,003	
Salaries payable	18,373	-	-	-	18,373	
Due to other funds	-	-	-	175,593	175,593	
Due to other governments	942	-	-	-	942	
<b>Total Liabilities</b>	<b>\$ 38,318</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 175,593</b>	<b>\$ 213,911</b>	
<b>Deferred Inflows of Resources</b>						
Taxes	\$ 21,798	\$ -	\$ -	\$ -	\$ 21,798	
Notes	-	-	-	57,299	57,299	
Special assessments	-	359,408	384,207	65,024	808,639	
<b>Total Deferred Inflows of Resources</b>	<b>\$ 21,798</b>	<b>\$ 359,408</b>	<b>\$ 384,207</b>	<b>\$ 122,323</b>	<b>\$ 887,736</b>	
<b>Fund Balance</b>						
Restricted for						
American Rescue Plan	\$ 76,006	\$ -	\$ -	\$ -	\$ 76,006	
Debt service	-	9,902	150,893	97,481	258,276	
Economic development	-	-	-	241,049	241,049	
Perpetual care	-	-	-	773	773	
Committed to						
Fire equipment	124,549	-	-	-	124,549	
General government	2,380	-	-	-	2,380	
Parks	8,800	-	-	-	8,800	
Police equipment	4,000	-	-	-	4,000	
Street equipment	19,692	-	-	-	19,692	
Assigned to						
Sanitation	-	-	-	43,683	43,683	
Unassigned	786,219	-	-	(173,186)	613,033	
<b>Total Fund Balance</b>	<b>\$ 1,021,646</b>	<b>\$ 9,902</b>	<b>\$ 150,893</b>	<b>\$ 209,800</b>	<b>\$ 1,392,241</b>	
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>						
	<b>\$ 1,081,762</b>	<b>\$ 369,310</b>	<b>\$ 535,100</b>	<b>\$ 507,716</b>	<b>\$ 2,493,888</b>	

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2021**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>1,392,241</b>
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Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		5,901,589
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		887,736
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Long-term liabilities are not due and payable in the current period and,  
therefore, are not reported in the governmental funds.

Compensated absences payable	\$ (37,302)	
Accrued interest payable	(13,412)	
Capital notes payable	(186,407)	
General obligation bonds payable	<u>(1,058,000)</u>	(1,295,121)

Net pension liability and related outflows/inflows of resources represent the  
allocation of the pension obligations of the statewide plans to the City. Such  
balances are not reported in the governmental funds:

Deferred outflows of resources related to pensions	\$ 328,726	
Deferred inflows of resources related to pensions	(397,215)	
Net pension asset	218,394	
Net pension liability	<u>(211,132)</u>	<u>(61,227)</u>

<b>Net position of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>6,825,218</u></b>
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**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

				Nonmajor Other Governmental Funds (Statement 2)	Total Governmental Funds
	General	2006 Red Willow Heights II Debt Service	Southeast Area and Main Avenue West Debt Service		
<b>Revenues</b>					
Taxes	\$ 394,078	\$ -	\$ -	\$ 97,842	\$ 491,920
Special assessments	-	12,252	80,304	24,052	116,608
Licenses and permits	31,651	-	-	-	31,651
Intergovernmental	1,109,894	-	-	-	1,109,894
Charges for services	170,181	-	-	9,047	179,228
Fines and forfeitures	5,485	-	-	-	5,485
Investment earnings	4,980	17	-	-	4,997
Gifts and contributions	5,495	-	-	-	5,495
Miscellaneous	30,355	-	-	12,610	42,965
<b>Total Revenues</b>	<b>\$ 1,752,119</b>	<b>\$ 12,269</b>	<b>\$ 80,304</b>	<b>\$ 143,551</b>	<b>\$ 1,988,243</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 347,583	\$ -	\$ -	\$ 6,737	\$ 354,320
Public safety	466,921	-	-	-	466,921
Highways and streets	129,148	-	-	-	129,148
Sanitation	110,081	-	-	-	110,081
Culture and recreation	30,121	-	-	-	30,121
Conservation of natural resources	-	-	-	2,077	2,077
<b>Debt service</b>					
Principal retirement	36,595	70,000	38,000	106,000	250,595
Interest	8,319	11,050	9,540	13,255	42,164
<b>Capital outlay</b>					
Public safety	590,873	-	-	-	590,873
Highways and streets	16,385	-	-	-	16,385
Culture and recreation	9,425	-	-	-	9,425
<b>Total Expenditures</b>	<b>\$ 1,785,451</b>	<b>\$ 89,050</b>	<b>\$ 47,540</b>	<b>\$ 128,069</b>	<b>\$ 2,050,110</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (33,332)</b>	<b>\$ (76,781)</b>	<b>\$ 32,764</b>	<b>\$ 15,482</b>	<b>\$ (61,867)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ 84,939	\$ -	\$ -	\$ 84,939
Transfers out	-	-	-	(84,939)	(84,939)
Proceeds from issuance of debt	199,777	-	-	-	199,777
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 199,777</b>	<b>\$ 84,939</b>	<b>\$ -</b>	<b>\$ (84,939)</b>	<b>\$ 199,777</b>
<b>Net Change in Fund Balance</b>	<b>\$ 166,445</b>	<b>\$ 8,158</b>	<b>\$ 32,764</b>	<b>\$ (69,457)</b>	<b>\$ 137,910</b>
<b>Fund Balance - January 1</b>	<b>855,201</b>	<b>1,744</b>	<b>118,129</b>	<b>279,257</b>	<b>1,254,331</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,021,646</b>	<b>\$ 9,902</b>	<b>\$ 150,893</b>	<b>\$ 209,800</b>	<b>\$ 1,392,241</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net change in fund balance - total governmental funds (Exhibit 5)	\$	137,910
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Amounts reported for governmental activities in the  
Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in  
the Statement of Activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 616,683	
Current year depreciation	(232,663)	384,020

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenues in the governmental funds.

Change in		
Taxes receivable	\$ (60,831)	
Special assessments receivable	(116,608)	
Notes receivable	22,388	(155,051)

The issuance of long-term debt provides current financial resources to governmental  
funds, but increases long-term liabilities in the Statement of Net Position, while the  
repayment of the principal of long-term debt consumes the current financial resources  
of governmental funds, however, neither transaction has any effect on net position.

Proceeds from issuance of debt	\$ (199,777)	
Principal repayment on debt	250,595	50,818

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures in  
governmental funds.

Change in		
Accrued interest payable	\$ (13,412)	
Compensated absences payable	3,925	(9,487)

Net pension asset and liability do not represent an impending source or use of current resources.  
Therefore, the change in the asset, liability, and related deferrals of resources are not  
reported in the governmental funds.

Change in		
Net pension asset	\$ 55,763	
Net pension liability	108,651	
Deferred outflows of resources related to pensions	177,671	
Deferred inflows of resources related to pensions	(231,687)	110,398

Change in net position of governmental activities (Exhibit 2)	\$	<u>518,608</u>
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**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2021**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<b><u>Assets</u></b>					
<b>Current Assets</b>					
Cash and pooled investments	\$ 24,544	\$ 121,810	\$ 256,878	\$ 306,676	\$ 709,908
Investments	-	-	78,340	50,768	129,108
Special assessments receivable					
Prior	-	-	3,360	-	3,360
Accounts receivable	-	2,355	25,079	36,622	64,056
Inventory	-	48,102	-	-	48,102
<b>Total Current Assets</b>	<b>\$ 24,544</b>	<b>\$ 172,267</b>	<b>\$ 363,657</b>	<b>\$ 394,066</b>	<b>\$ 954,534</b>
<b>Noncurrent Assets</b>					
Capital assets					
Depreciable - net of accumulated depreciation	292,735	24,974	706,654	4,275,104	5,299,467
<b>Total Assets</b>	<b>\$ 317,279</b>	<b>\$ 197,241</b>	<b>\$ 1,070,311</b>	<b>\$ 4,669,170</b>	<b>\$ 6,254,001</b>
<b><u>Deferred Outflows of Resources</u></b>					
Related to pensions	\$ 6,472	\$ 43,684	\$ 24,269	\$ 25,886	\$ 100,311
<b><u>Liabilities</u></b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 826	\$ 3,337	\$ 901	\$ 875	\$ 5,939
Salaries payable	-	2,578	3,474	3,761	9,813
Compensated absences payable	-	-	5,063	7,038	12,101
Due to other governments	120	4,745	-	104	4,969
Accrued interest payable	-	-	6,281	931	7,212
Capital notes payable	-	-	6,416	-	6,416
Bonds payable	-	-	16,500	93,500	110,000
<b>Total Current Liabilities</b>	<b>\$ 946</b>	<b>\$ 10,660</b>	<b>\$ 38,635</b>	<b>\$ 106,209</b>	<b>\$ 156,450</b>
<b>Noncurrent Liabilities</b>					
Compensated absences payable	\$ -	\$ -	\$ 9,658	\$ 29,987	\$ 39,645
Net pension liability	9,225	62,263	34,591	36,896	142,975
Capital notes payable	-	-	10,630	-	10,630
Bonds payable	-	-	140,000	1,541,958	1,681,958
<b>Total Noncurrent Liabilities</b>	<b>\$ 9,225</b>	<b>\$ 62,263</b>	<b>\$ 194,879</b>	<b>\$ 1,608,841</b>	<b>\$ 1,875,208</b>
<b>Total Liabilities</b>	<b>\$ 10,171</b>	<b>\$ 72,923</b>	<b>\$ 233,514</b>	<b>\$ 1,715,050</b>	<b>\$ 2,031,658</b>
<b><u>Deferred Inflows of Resources</u></b>					
Related to pensions	\$ 8,672	\$ 58,534	\$ 32,519	\$ 34,687	\$ 134,412
<b><u>Net Position</u></b>					
Net investment in capital assets	\$ 292,735	\$ 24,974	\$ 533,108	\$ 2,639,646	\$ 3,490,463
Restricted for					
Infrastructure Replacement	-	-	75,285	75,006	150,291
Unrestricted amounts	12,173	84,494	220,154	230,667	547,488
<b>Total Net Position</b>	<b>\$ 304,908</b>	<b>\$ 109,468</b>	<b>\$ 828,547</b>	<b>\$ 2,945,319</b>	<b>\$ 4,188,242</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<b>Sales and Cost of Goods Sold</b>					
Sales	\$ 17,298	\$ 560,700	\$ -	\$ -	\$ 577,998
Cost of goods sold	(2,826)	(370,299)	-	-	(373,125)
<b>Gross Profit</b>	<b>\$ 14,472</b>	<b>\$ 190,401</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 204,873</b>
<b>Operating Revenues</b>					
Charges for services	-	-	228,833	371,084	599,917
Miscellaneous	15,953	809	-	-	16,762
<b>Total Gross Profit and Operating Revenues</b>	<b>\$ 30,425</b>	<b>\$ 191,210</b>	<b>\$ 228,833</b>	<b>\$ 371,084</b>	<b>\$ 821,552</b>
<b>Operating Expenses</b>					
Personnel services	\$ 9,632	\$ 76,198	\$ 98,716	\$ 107,850	\$ 292,396
Entertainment	914	6,598	-	-	7,512
Insurance	3,544	9,927	3,608	1,710	18,789
Repairs and maintenance	3,980	4,483	5,257	10,810	24,530
Supplies	4,814	9,527	4,156	11,304	29,801
Utilities	9,857	16,885	14,261	10,688	51,691
Miscellaneous	2,213	19,585	3,203	8,624	33,625
Depreciation	15,842	1,480	21,565	41,337	80,224
<b>Total Operating Expenses</b>	<b>\$ 50,796</b>	<b>\$ 144,683</b>	<b>\$ 150,766</b>	<b>\$ 192,323</b>	<b>\$ 538,568</b>
<b>Operating Income (Loss)</b>	<b>\$ (20,371)</b>	<b>\$ 46,527</b>	<b>\$ 78,067</b>	<b>\$ 178,761</b>	<b>\$ 282,984</b>
<b>Nonoperating Revenues (Expenses)</b>					
Special assessments	\$ -	\$ -	\$ 47	\$ -	\$ 47
Intergovernmental	8,953	10,000	-	-	18,953
Investment earnings	-	96	919	17	1,032
Interest expense	-	-	(9,562)	(16,829)	(26,391)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 8,953</b>	<b>\$ 10,096</b>	<b>\$ (8,596)</b>	<b>\$ (16,812)</b>	<b>\$ (6,359)</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ (11,418)</b>	<b>\$ 56,623</b>	<b>\$ 69,471</b>	<b>\$ 161,949</b>	<b>\$ 276,625</b>
Capital contributions	-	-	-	177,793	177,793
<b>Change in Net Position</b>	<b>\$ (11,418)</b>	<b>\$ 56,623</b>	<b>\$ 69,471</b>	<b>\$ 339,742</b>	<b>\$ 454,418</b>
<b>Net Position - January 1</b>	<b>316,326</b>	<b>52,845</b>	<b>759,076</b>	<b>2,605,577</b>	<b>3,733,824</b>
<b>Net Position - December 31</b>	<b>\$ 304,908</b>	<b>\$ 109,468</b>	<b>\$ 828,547</b>	<b>\$ 2,945,319</b>	<b>\$ 4,188,242</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
Increase (Decrease) in Cash and Cash Equivalents**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 33,337	\$ 570,664	\$ 223,642	\$ 355,002	\$ 1,182,645
Payments to employees	(10,651)	(83,380)	(99,290)	(107,413)	(300,734)
Payments to suppliers	(28,845)	(444,797)	(31,869)	(44,005)	(549,516)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (6,159)</b>	<b>\$ 42,487</b>	<b>\$ 92,483</b>	<b>\$ 203,584</b>	<b>\$ 332,395</b>
<b>Cash Flows from Noncapital and Related Financing Activities</b>					
Intergovernmental receipts	\$ 8,953	\$ 10,000	\$ -	\$ -	\$ 18,953
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital grants received	\$ -	\$ -	\$ -	\$ 251,179	\$ 251,179
Proceeds from issuance of debt	-	-	-	220,780	220,780
Purchase of capital assets	-	-	-	(459,986)	(459,986)
Special assessments received	-	-	500	47	547
Revenue bond payments	-	-	(16,500)	(93,500)	(110,000)
Capital note payments	-	-	(6,179)	-	(6,179)
Interest paid	-	-	(3,281)	(15,898)	(19,179)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (25,460)</b>	<b>\$ (97,378)</b>	<b>\$ (122,838)</b>
<b>Cash Flows from Investing Activities</b>					
Investment earnings received	\$ -	\$ 96	\$ 919	\$ 17	\$ 1,032
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 2,794</b>	<b>\$ 52,583</b>	<b>\$ 67,942</b>	<b>\$ 106,223</b>	<b>\$ 229,542</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>21,750</b>	<b>69,227</b>	<b>267,276</b>	<b>251,221</b>	<b>609,474</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>24,544</b>	<b>121,810</b>	<b>335,218</b>	<b>357,444</b>	<b>839,016</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ (20,371)	\$ 46,527	\$ 78,067	\$ 178,761	\$ 282,984
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>					
Depreciation expense	\$ 15,842	\$ 1,480	\$ 21,565	\$ 41,337	\$ 80,224
Decrease (increase) in assets					
Accounts receivable	-	5,829	(5,065)	(16,051)	(15,287)
Inventory	-	(4,797)	-	-	(4,797)
Increase (decrease) in liabilities					
Accounts payable	(697)	(617)	(809)	(354)	(2,477)
Salaries payable	-	385	359	484	1,228
Due to other governments	120	800	-	(1,108)	(188)
Compensated absences payable	-	-	2,322	4,734	7,056
Net pension liability	(1,053)	(7,120)	(3,956)	(4,219)	(16,348)
<b>Total adjustments</b>	<b>\$ 14,212</b>	<b>\$ (4,040)</b>	<b>\$ 14,416</b>	<b>\$ 24,823</b>	<b>\$ 49,411</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (6,159)</b>	<b>\$ 42,487</b>	<b>\$ 92,483</b>	<b>\$ 203,584</b>	<b>\$ 332,395</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021**

**I. Summary of Significant Accounting Policies**

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Financial Reporting Entity**

The City of Frazee was established on February 10, 1891, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Frazee (primary government) and its component unit for which the City is financially accountable.

The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, sanitation, culture and recreation, conservation of natural resources, economic development, Events Center, liquor store, and sewer and water utilities, as authorized by its charter.

The Frazee Fire Relief Association is organized to provide pension and other benefits to its members in accordance with Minnesota statutes. The Fire Relief Association is a defined benefit plan type and is required by GASB Pronouncement No. 68 to be included in the financial statements of the City.

The City participates in a joint venture as described in Note VI-C.

**Discretely Presented Component Unit**

While part of the City of Frazee, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Frazee Economic Development Authority (EDA) is a component unit of the City of Frazee and is discretely presented. The EDA was created to enhance economic development for the City. Board members are appointed by the City Council.

The component unit does not issue separately audited component unit financial statements. Additional financial information about the EDA can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**I. Summary of Significant Accounting Policies (Continued)**

**B. Basic Financial Statements**

**1. Government-Wide Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The Statement of Activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

**2. Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental, and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes, grants, donations, subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Fund Financial Statements (Continued)

The 2006 Red Willow Heights II Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Refunding Bonds of 2012 for the Red Willow Heights II project. Financing is provided by special assessments restricted for debt service.

The Southeast Area and Main Avenue West Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Bonds of 2017 for street improvement projects. Financing is provided by special assessments restricted for debt service.

The City reports the following major enterprise funds:

The Events Center Enterprise Fund is used to account for the operations of the City's Events Center. Financing is provided by concession sales and space rental for events.

The Liquor Enterprise Fund is used to account for the operations of the City's liquor store. Financing is provided through the liquor store's sale of on and off-sale liquor.

The Sewer Enterprise Fund is used to account for the operations of the City's sewer system. Financing is provided by charges to residents for services.

The Water Enterprise Fund is used to account for the operations of the City's water system. Financing is provided by charges to residents for services.

Additionally, the City reports the following non-major fund types:

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers tax revenues to be available if they are collected within 60 days after the end of the current period. Intergovernmental revenues, charges for services, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand and demand deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2021, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. City funds also participate in a pooled checking account for operating purposes. Pooled investment earnings for 2021 were \$4,981. Total investment earnings for 2021 were \$6,029.

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Becker County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2003 through 2021 and deferred special assessments collectible in 2022 and beyond. Taxes and special assessments receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

Accounts receivable consist primarily of charges for services for sewer and water utilities.

Notes receivable consist of housing rehabilitation and business development notes. Notes receivable are offset by deferred inflows of resources for the balance outstanding as of year-end.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**I. Summary of Significant Accounting Policies**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity**

**3. Receivables and Payables (Continued)**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances from/to other funds” (i.e., the non-current portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

**4. Inventory**

All inventories are valued at cost using the First-In, First-Out (FIFO) method. Inventories in the proprietary funds are recorded as expenses when consumed.

**5. Capital Assets**

Capital assets, which include land, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except land and construction in progress which are capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	30-40
Buildings and improvements	20-40
Machinery and equipment	5-30

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**I. Summary of Significant Accounting Policies**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and the proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports delinquent property tax and special assessment receivables, special assessments levied for subsequent years, and notes receivable as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

**7. Compensated Absences**

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund and the Sewer and Water Enterprise Funds.

**8. Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities. Bond discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are immediately expensed. In the fund financial statements, governmental fund types recognize the face amount of the debt as other financing sources when issued.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**I. Summary of Significant Accounting Policies**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**9. Pensions**

For purposes of measuring the net pension liability, 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. For the governmental activities, the pension liability is liquidated by the General Fund, and for business-type activities, the pension liability is liquidated by the Events Center, Liquor, Sewer, and Water Enterprise Funds.

For purposes of measuring the net pension asset, deferred outflows/inflows of resources, and expense associated with the City's requirement to contribute to the Frazee Firefighters Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Frazee Firefighters Relief Association Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension asset is recorded in the General Fund.

**10. Net Position and Fund Balance**

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

In the fund financial statements, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City reports no non-spendable fund balance at December 31, 2021.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

10. Net Position and Fund Balance (Continued)

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Administrator/Clerk/Treasurer.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds.

The City will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level the replenishment will be funded by taxes.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when unforeseen emergencies exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The City does not identify an amount for stabilization at December 31, 2021.

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. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

11. 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, liabilities, and deferred outflows/inflows of resources, and disclosure of contingent amounts 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.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

II. Stewardship, Compliance, and Accountability

Deficit Fund Balances

The following debt service funds had deficit fund balances as of December 31, 2021 which will be eliminated with future special assessments:

2016 Improvements and Refunding Debt Service Fund:	\$74,835
Southeast Area Streets and Utilities Debt Service Fund:	\$98,351

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City's total deposits and investments to the basic financial statements, as of December 31, 2021, are as follows:

<b>Governmental Activities</b>	
Cash and pooled investments	\$ 697,064
Investments	706,374
	<u>\$ 1,403,438</u>
<b>Business-Type Activities</b>	
Cash and pooled investments	\$ 709,908
Investments	129,108
	<u>\$ 839,016</u>
<b>Component Unit</b>	
Cash and pooled investments	\$ 224,559
Investments	860,109
	<u>\$ 1,084,668</u>
Total Cash and Investments	<u><u>\$ 3,327,122</u></u>
Checking Accounts	\$ 1,551,435
Savings Accounts	1,082,832
Certificates of Deposit	423,947
Municipal Money Market Fund	<u>268,908</u>
Total Deposits and Investments	<u><u>\$ 3,327,122</u></u>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit.

Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City's policy is to comply with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2021, the City's deposits were not exposed to custodial credit risk.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**III. Detailed Notes on All Funds**

**A. Assets**

**1. Deposits and Investments (Continued)**

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**Interest Rate Risk**

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2021, the City's investments in a Minnesota Municipal Money Market Fund with a fair value of \$268,908 had maturities of one year or less.

**Credit Risk**

Generally, a credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute. The City's exposure to credit risk as of December 31, 2021, is in the nonrated Minnesota Municipal Money Market Fund with a fair value of \$268,908.

**Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a policy on custodial credit risk. At December 31, 2021, none of the City's investments were subject to custodial credit risk.

**Concentration of Credit Risk**

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The City's investments are in a Minnesota Municipal Money Market Fund, which constitute 8 percent of the City's portfolio.

**Fair Value Hierarchy**

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Fair Value Hierarchy (Continued)

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

At December 31, 2021, the City's investment in the Minnesota Municipal Money Market Fund in the amount of \$268,908 was valued at amortized cost and was not subject to fair value level classification.

2. Receivables

Receivables as of December 31, 2021, for the City's governmental activities and business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
<b>Governmental Activities</b>		
Taxes receivable	\$ 27,956	\$ -
Special assessments receivable	811,947	787,642
Accounts receivable	16,762	-
Due from other governments	893	-
Notes receivable	57,299	-
	<u>57,299</u>	<u>-</u>
Total Governmental Activities	<u>\$ 914,857</u>	<u>\$ 787,642</u>
<b>Business-Type Activities</b>		
Special assessments receivable	\$ 3,360	\$ -
Accounts receivable	64,056	-
	<u>64,056</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 67,416</u>	<u>\$ -</u>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**III. Detailed Notes on All Funds**

**A. Assets (Continued)**

**3. Capital Assets**

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2021, was as follows:

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 69,819	\$ -	\$ -	\$ 69,819
Construction in progress	4,436	25,810	-	30,246
Total capital assets not depreciated	\$ 74,255	\$ 25,810	\$ -	\$ 100,065
Capital assets being depreciated				
Infrastructure	\$ 6,074,740	\$ -	\$ -	\$ 6,074,740
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	1,208,817	590,873	-	1,799,690
Total capital assets being depreciated	\$ 8,029,157	\$ 590,873	\$ -	\$ 8,620,030
Less: accumulated depreciation for				
Infrastructure	\$ 1,348,119	\$ 150,675	\$ -	\$ 1,498,794
Buildings and improvements	517,396	14,027	-	531,423
Machinery and equipment	720,328	67,961	-	788,289
Total accumulated depreciation	\$ 2,585,843	\$ 232,663	\$ -	\$ 2,818,506
Total capital assets, depreciated, net	\$ 5,443,314	\$ 358,210	\$ -	\$ 5,801,524
Governmental Activities Capital Assets, Net	\$ 5,517,569	\$ 384,020	\$ -	\$ 5,901,589

**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 2,740,439	\$ 312,856	\$ 3,053,295	\$ -
Capital assets being depreciated				
Infrastructure	\$ 2,538,403	\$ 3,053,295	\$ -	\$ 5,591,698
Buildings and improvements	1,137,670	-	-	1,137,670
Machinery and equipment	427,669	-	-	427,669
Total capital assets being depreciated	\$ 4,103,742	\$ 3,053,295	\$ -	\$ 7,157,037
Less: accumulated depreciation for				
Infrastructure	\$ 589,363	\$ 61,073	\$ -	\$ 650,436
Buildings and improvements	811,976	16,922	-	828,898
Machinery and equipment	376,007	2,229	-	378,236
Total accumulated depreciation	\$ 1,777,346	\$ 80,224	\$ -	\$ 1,857,570
Total capital assets, depreciated, net	\$ 2,326,396	\$ 2,973,071	\$ -	\$ 5,299,467
Business-Type Activities Capital Assets, Net	\$ 5,066,835	\$ 3,285,927	\$ 3,053,295	\$ 5,299,467

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Depreciation Expense

Depreciation expense was charged to functions of the City as follows:

<b>Governmental Activities</b>	
General government	\$ 5,885
Public safety	49,971
Highways and streets	165,344
Culture and recreation	<u>11,463</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 232,663</u></u>
<b>Business-Type Activities</b>	
Events Center	\$ 15,842
Liquor	1,480
Sewer	21,565
Water	<u>41,337</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 80,224</u></u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2021 is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Cemetery Special Revenue Fund	\$ 2,407	To cover cash deficit
	2008 Street Improvements Special Revenue Fund	74,835	To cover cash deficit
	Southeast Area Street and Utilities Debt Service Fund	<u>98,351</u>	To cover cash deficit
Total Due To/From Other Funds		<u><u>\$ 175,593</u></u>	

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

Operating Transfers

Interfund transfers for the year ended December 31, 2021, consisted of the following operating transfers:

Transfer to 2006 Red Willow Heights II Debt Service Fund from TIF 1-3 Red Willow Heights Special Revenue Fund	\$ 84,939	TIF assessments for debt service
Transfer to Economic Development Authority Component Unit from General Fund	40,000	Annual appropriation
Transfer to Economic Development Authority Component Unit from 2006 Red Willow Heights II Debt Service Fund	<u>8,000</u>	TIF adjustment for economic development
Total Interfund Transfers	<u><u>\$ 132,939</u></u>	

C. Liabilities

Compensated Absences

Under the City's personnel policy, qualified full-time employees are granted paid time off (personal and sick leave only) of 96 hours (12 days) each year. Earned paid time off has no cash value upon termination or retirement. There is no maximum accumulation of paid time off, however, paid time off not used during the calendar year is forfeited and subsequently 96 hours is added to each employee in the following year. For full-time employees, vacation leave accrual varies from 40-120 hours (5 to 15 days) per year. After one year of service, vacation leave may be used as it is earned. Employees may accrue vacation leave up to a maximum of two times their annual accrual rate. Vacation leave can only be converted to a cash payment at termination. Unvested sick leave, approximately \$32,398 at December 31, 2021, is available to employees in the event of illness-related absences and is not paid to them at termination. Compensated absences are generally liquidated by the General Fund and the Sewer and Water Enterprise Funds.

Long-Term Debt

Governmental Activities

City of Frazee General Obligation Refunding Bonds, Series 2012A (Rural Water MIDI Loan) represent debt incurred to refund the General Obligation Street Improvement Bonds of 2006 and the General Obligation Red Willow Heights Improvement Bonds of 2006. These bonds have an original issue amount of \$810,000. They carry a net interest rate of 3.0 percent and are due in annual installments from the Red Willow Heights II Debt Service Fund of \$55,000 to \$70,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$65,333 with a present value of \$72,012. The balance outstanding at December 31, 2021 is \$320,000.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee General Obligation Improvement Bonds of 2013 represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$333,000. They carry a net interest rate of 2.20 percent and are due in annual installments from the Southeast Area Street and Utilities Improvement Debt Service Fund of \$21,000 to \$22,000 through February 1, 2024. The balance outstanding at December 31, 2021 is \$65,000.

City of Frazee General Obligation Improvement Bonds of 2014A represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$393,000. They carry a net interest rate of 3.10 percent and are due in annual installments from the County Road 118 Debt Service Fund of \$33,000 to \$39,000 through February 1, 2027. The balance outstanding at December 31, 2021 is \$215,000.

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Street Improvement Bonds of 2008 and provide for 2017 street improvements. These bonds have an original issue amount of \$288,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the 2016 Improvements and Refunding Debt Service Fund of \$19,000 to \$39,000 through February 1, 2027. As a result of the refunding, the City of Frazee realized an economic gain of \$22,834 with a present value of \$13,641. The balance outstanding at December 31, 2021 is \$159,000.

City of Frazee General Obligation Improvement Bonds of 2017A represent debt incurred for infrastructure improvements to the Southeast area and Main Avenue West. These bonds have an original issue amount of \$404,000. They carry a net interest rate of 3 percent and are due in annual installments from the Southeast Area and Main Avenue West Debt Service Fund of \$39,000 to \$47,000 through February 1, 2028. The balance outstanding at December 31, 2021 is \$299,000.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a Massey Ferguson tractor. This capital note installment purchase has an original issue amount of \$63,285 and carries a net interest rate of 3.60 percent and is due in combined annual installments from the General Fund (streets share) and the Sewer Enterprise Fund of \$3,979 to \$6,651 through 2024. The balance outstanding from the General Fund at December 31, 2021 is \$17,046.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a 2021 Freighliner M2 fire truck. This capital note installment purchase has an original issue amount of \$199,777 and carries a net interest rate of 2.50 percent and is due in combined annual installments from the General Fund of \$31,177 to \$68,933 through 2025. The balance outstanding from the General Fund at December 31, 2021 is \$169,361.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**III. Detailed Notes on All Funds**

**C. Liabilities**

**Long-Term Debt (Continued)**

**Business-Type Activities**

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Utility Revenue Bonds of 2010. These bonds have an original issue amount of \$215,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$20,000 to \$25,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$12,455 with a present value of \$11,178. The balance outstanding at December 31, 2021 is \$112,000.

City of Frazee Minnesota PFA Clean Water and Drinking Water Revolving Loans of 2017 represent debt incurred for wastewater and drinking water improvements. These loans have an original issue amount of \$393,040. They carry a net interest rate of 1 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$20,000 to \$23,000 through August 20, 2036. The balance outstanding at December 31, 2021 is \$324,500.

City of Frazee Minnesota PFA Drinking Water Revolving Loans of 2019 represent debt incurred for water infrastructure improvements. This loan has an original issue amount of \$87,742, with an additional \$1,117,589 added in 2020 and \$220,780 in 2021, and carries a net interest rate of 1 percent and is due in annual installments from the Water Enterprise Fund of \$69,000 to \$81,000 through 2039. The balance outstanding at December 31, 2021 is \$1,355,458.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a Massey Ferguson tractor. This capital note installment purchase has an original issue amount of \$63,285 and carries a net interest rate of 3.60 percent and is due in combined annual installments from the General Fund (streets share) and the Sewer Enterprise Fund of \$3,979 to \$6,416 through 2024. The balance outstanding from the Sewer Enterprise Fund at December 31, 2021 is \$17,046.

**Debt Service Requirements**

Debt service requirements for governmental activities and business-type activities at December 31, 2021, are as follows:

Year End December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 233,593	\$ 32,450	\$ 116,416	\$ 20,938
2023	238,607	25,834	117,651	18,161
2024	233,734	19,215	114,979	16,543
2025	231,473	13,221	116,000	15,045
2026	156,000	6,752	118,000	13,535
2027-2031	151,000	3,635	482,000	51,955
2032-2036	-	-	504,500	27,425
2037-2039	-	-	239,458	4,890
Total debt service requirements:	<u>\$ 1,244,407</u>	<u>\$ 101,107</u>	<u>\$ 1,809,004</u>	<u>\$ 168,492</u>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**III. Detailed Notes on All Funds**

**C. Liabilities**

**Long-Term Debt (Continued)**

**Changes in Long-Term Liabilities**

**Governmental Activities**

Long-term liability activity for the governmental activities for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Refunding, Series 2012A	\$ 390,000	\$ -	\$ 70,000	\$ 320,000	\$ 70,000
Improvement of 2013	106,000	-	41,000	65,000	21,000
Improvement of 2014A	247,000	-	32,000	215,000	33,000
Improvement Refunding of 2016A	192,000	-	33,000	159,000	33,000
Improvement of 2017	337,000	-	38,000	299,000	39,000
Capital Notes - installment purchases	23,225	199,777	36,595	186,407	37,593
<b>Total</b>	<b>\$ 1,295,225</b>	<b>\$ 199,777</b>	<b>\$ 250,595</b>	<b>\$ 1,244,407</b>	<b>\$ 233,593</b>
Compensated Absences	41,227	25,123	29,048	37,302	11,212
Net Pension Liability	319,783	-	108,651	211,132	-
Governmental Activities Long-Term Liabilities	<u><u>\$ 1,656,235</u></u>	<u><u>\$ 224,900</u></u>	<u><u>\$ 388,294</u></u>	<u><u>\$ 1,492,841</u></u>	<u><u>\$ 244,805</u></u>

**Business-Type Activities**

Long-term liability activity for the business-type activities for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
General Obligation Bonds					
Improvement and Refunding Bonds	\$ 133,000	\$ -	\$ 21,000	\$ 112,000	\$ 21,000
PFA Revolving Loans	1,548,178	220,780	89,000	1,679,958	89,000
Capital Notes - installment purchase	23,225	-	6,179	17,046	6,416
<b>Total</b>	<b>\$ 1,704,403</b>	<b>\$ 220,780</b>	<b>\$ 116,179</b>	<b>\$ 1,809,004</b>	<b>\$ 116,416</b>
Compensated Absences	44,690	18,369	11,313	51,746	12,102
Net Pension Liability	197,010	-	54,035	142,975	-
Business-Type Activities Long-Term Liabilities	<u><u>\$ 1,946,103</u></u>	<u><u>\$ 239,149</u></u>	<u><u>\$ 181,527</u></u>	<u><u>\$ 2,003,725</u></u>	<u><u>\$ 128,518</u></u>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, notes receivable, and special assessments, not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2021, are summarized below by fund:

	Taxes	Notes Receivable	Special Assessments	Total
<b>Major governmental funds</b>				
General	\$ 21,798	\$ -	\$ -	\$ 21,798
Debt Service Funds				
2006 Red Willow Heights II	-	-	359,408	359,408
Southeast Area and Main Avenue West	-	-	384,207	384,207
<b>Non-major governmental funds</b>				
Special Revenue Funds				
Small Cities Development Project	-	57,299	-	57,299
Debt Service Funds				
2016 Improvements and Refunding	-	-	7,260	7,260
County Road 118	-	-	57,764	57,764
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Deferred Inflows:	<u>\$ 21,798</u>	<u>\$ 57,299</u>	<u>\$ 808,639</u>	<u>\$ 887,736</u>

IV. Pension Plans

Defined Benefit Pension Plans

A. Plan Descriptions

The City of Frazee 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.

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**IV. Pension Plans**

**Defined Benefit Pension Plans (Continued)**

**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.

**1. 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. For 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.

**2. Police and Fire Plan Benefits**

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

IV. Pension Plans

Defined Benefit Pension Plans

B. Benefits Provided

2. Police and Fire Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Contributions are generally recorded in the General Fund, the Liquor Enterprise Fund, the Sewer Enterprise Fund, and the Water Enterprise Fund.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the City of Frazee was required to contribute 7.50 percent for Coordinated Plan members. The City of Frazee's contributions to the General Employees Fund for the year ended December 31, 2021, were \$30,032. The City of Frazee's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan member's members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City of Frazee was required to contribute 17.70 percent for Police and Fire Plan members. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$32,620. The City of Frazee's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2021, the City of Frazee reported a liability of \$230,604 for its proportionate share of the General Employees Fund's net pension liability. The City of Frazee'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 of Frazee totaled \$7,087.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**IV. Pension Plans**

**Defined Benefit Pension Plans**

**D. Pension Costs**

**1. General Employees Fund Pension Costs (Continued)**

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Frazee's proportionate share of the net pension liability was based on the City of Frazee's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2010 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .0054 percent at the end of the measurement period and .0053 percent for the beginning of the period.

City of Frazee's proportionate share of the net pension liability	\$ 230,604
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee	<u>7,087</u>
Total	<u><u>\$ 237,691</u></u>

There were no provision changes during the measurement period.

For the year ended December 31, 2021, the City of Frazee recognized pension expense of \$20,872 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional \$572 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, 2021, the City of Frazee 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 1,416	\$ 7,042
Changes in actuarial assumption	140,802	3,835
Difference between projected and actual investment earnings	-	200,379
Changes in proportion	4,497	5,538
Contributions paid to PERA subsequent to the measurement date	<u>15,075</u>	<u>-</u>
Total	<u><u>\$ 161,790</u></u>	<u><u>\$ 216,794</u></u>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

IV. Pension Plans

Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

The \$15,075 reported as deferred outflows of resources related to pensions resulting from the City of Frazee's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2022	\$ (11,713)
2023	\$ (3,453)
2024	\$ (443)
2025	\$ (54,470)
2026	\$ -

2. Police and Fire Fund Pension Costs

At December 31, 2021, the City of Frazee reported a liability of \$123,503 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Frazee's proportionate share of the net pension liability was based on the City of Frazee's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .016 percent at the end of the measurement period and .0151 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in fire state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2021,

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**IV. Pension Plans**

**Defined Benefit Pension Plans**

**D. Pension Costs**

**2. Police and Fire Fund Pension Costs (Continued)**

the City of Frazee recognized pension expense of \$8,123 for its proportionate share of the Police and Fire Plan's pension expense. The City of Frazee recognized \$266 as grant revenue for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City of Frazee recognized \$1,440 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

City of Frazee's proportionate share of the net pension liability	\$ 123,503
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee	<u>5,579</u>
Total	<u><u>\$ 129,082</u></u>

There were no provision changes during the measurement period.

At December 31, 2021, the City of Frazee reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 23,442	\$ -
Changes in actuarial assumptions	181,517	63,798
Difference between projected and actual investment earnings	-	237,242
Changes in proportion	15,416	13,793
Contributions paid to PERA subsequent to the measurement date	<u>16,554</u>	<u>-</u>
Total	<u><u>\$ 236,929</u></u>	<u><u>\$ 314,833</u></u>

The \$16,554 reported as deferred outflows of resources related to pensions resulting from the City of Frazee's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred

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**D. Pension Costs**

**2. Police and Fire Fund Pension Costs (Continued)**

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

Year ended December 31:	Pension Expense Amount:
2022	\$ (83,890)
2023	\$ (13,570)
2024	\$ (14,499)
2025	\$ (24,216)
2026	\$ 41,718

**Total Pension Expense**

The total pension expense for all plans recognized by the City of Frazee for the year ended December 31, 2021 was \$32,023.

**E. Long-Term Expected Return on Investment**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100.0%	

**F. Actuarial Methods and Assumptions**

The total pension liability in the June 30, 2021, 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.

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**F. Actuarial Methods and Assumptions (Continued)**

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 and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation. Marshall County, MN

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 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Mortality Table. Mortality rates for the Police and Fire Plan is based on the Pub-2010 Public Safety Employee Mortality tables. 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 most recent four-year experience for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

**General Employees Fund**

**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.

**Police and Fire Fund**

**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 inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.0 percent.

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IV. Pension Plans

Defined Benefit Pension Plans

F. Actuarial Methods and Assumptions

**Police and Fire Fund**

Changes in Actuarial Assumptions (Continued)

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disable annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 1, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50%. 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 and the Police and Fire 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 of Frazee'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 of Frazee'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:



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**IV. Pension Plans**

**Defined Benefit Pension Plans**

**H. Pension Liability Sensitivity (Continued)**

<b><u>Sensitivity Analysis</u></b>					
<b><u>Net Pension Liability (Asset) at Different Discount Rates</u></b>					
	<b><u>General Employees Fund</u></b>			<b><u>Police and Fire Fund</u></b>	
1% Lower	5.50%	\$	470,315	5.50%	\$ 392,101
Current Discount Rate	6.50%	\$	230,604	6.50%	\$ 123,503
1% Higher	7.50%	\$	33,907	7.50%	\$ (96,681)

**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](http://www.mnpera.org).

**V. Defined Benefit Pension Plan – Firefighters Relief Association**

**A. Plan Description**

The Frazee Fire Relief Association participates in the Firefighters' Relief Association (FRA), an agent lump-sum defined benefit pension plan.

As of the actuarial reporting date of January 1, 2020, the plan covered 26 active firefighters and 7 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G. The one-year lookback option was used for 2021.

All investments undertaken by the plan are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

**B. Benefits Provided**

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,400 for each year active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 5 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retired before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

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V. Defined Benefit Pension Plan – Firefighters Relief Association

B. Benefits Provided (Continued)

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum of the service pension benefit times the vesting percentage. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10 percent of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing an existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no payroll percentage calculations). The minimum contribution from the City and state aid is determined as follows:

	Normal Cost
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change
+	Administrative Expenses
-	Anticipated State Aid
-	Projected Investment Earnings
=	Total Contribution Required

The Plan is funded in part by Fire State Aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$29,308 in Fire State Aid paid by the City to the Relief Association for the year ended December 31, 2021. Required contributions are calculated annually based on statutory provisions. For the year ended December 31, 2021, there was no statutorily-required City contribution to the plan. Under GASB measurement standards, the plan is funded at approximately 160% of plan assets.

D. Pension Costs

At December 31, 2021, the City of Frazee reported a net pension asset of \$218,394 for the Association's proportionate share of the FRA's expense. The net pension asset was measured as of December 31, 2020, with the one-year look back option used for 2021. The total pension liability (asset) used to calculate the net pension asset was determined by an actuary applying an actuarial formula to specific census data certified by the fire department.

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V. Defined Benefit Pension Plan – Firefighters Relief Association

D. Pension Costs (Continued)

The following table presents the changes in net pension liability during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a-b)
Balances at January 1, 2020	\$ 298,832	\$ 461,463	\$ (162,631)
Changes for the Year:			
Service Cost	21,595	-	21,595
Interest Cost	16,493	-	16,493
Plan Changes	39,596	-	39,596
Nonemployer Contributions	-	45,803	(45,803)
Projected Investment Return	-	25,065	(25,065)
Gain or Loss	-	63,879	(63,879)
Benefit Payments	(12,561)	(12,561)	-
Administrative Expenses	-	(1,300)	1,300
Net Changes	\$ 65,123	\$ 120,886	\$ (55,763)
Balances at December 31, 2020	\$ 363,955	\$ 582,349	\$ (218,394)

There were no provision changes during the measurement period.

As December 31, 2021, the City of Frazee reported deferred inflows of resources from the following sources:

Description	Deferred Inflows of Resources
Differences between expected and actual liability	\$ 6,059
Difference between projected and actual investment earnings	63,725
Total	\$ 69,784

Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount:
2022	(18,147)
2023	(11,821)
2024	(23,097)
2025	(13,480)
2026	(705)
2027	(2,534)

**CITY OF FRAZEE  
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V. Defined Benefit Pension Plan – Firefighters Relief Association (Continued)

E. Actuarial Assumptions

The actuarial total pension asset was determined as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Frazee Firefighters Relief Association Actuarial Rollforward Report Under GASB Statements 67 & 68	
Valuation Date	1/1/2020
FRA Plan Fiscal Year Beginning	1/1/2020
FRA Plan Fiscal Year Ending	12/31/2020
Employer Fiscal Year Beginning	1/1/2021
Employer Fiscal Year Ending	12/31/2021
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Discount Rate	5.25%
Expected return on plan assets	3.50%
Inflation rate	2.50%

Changes in Actuarial Assumptions

- There were no changes in actuarial assumptions since the prior reporting period.

Changes in Plan Provisions

- The benefit level increased from \$1,650 to \$1,900.

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience with forward-looking expectations available in market data.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2021 are summarized in the following table:

Asset Class	Allocation at December 31, 2020	Long-term Expected Real Rate of Return
Cash	24.00%	2.00%
Fixed Income	22.00%	3.50%
Equities	53.00%	7.30%
Other	1.00%	6.50%
Total	100.00%	5.25%

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V. Defined Benefit Pension Plan – Firefighters Relief Association

F. Discount Rate

The discount rate used to measure the total pension liability was 5.25 percent. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City's proportionate share of the net pension asset of the Association, calculated using the discount rate of 5.25 percent, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25 percent) or one percentage point higher (6.25 percent) than the current rate:

	<u>1% Decrease (4.25%)</u>	<u>Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Proportionate share of Net Pension Asset	\$ (199,596)	\$ (218,394)	\$ (236,357)

H. Pension Plan Fiduciary Net Position

Information about the changes in the Plan's net pension asset is as follows:

	<u>Measurement Period Ending and Fiscal Year Ending</u>	
	<u>12/31/2020</u>	<u>12/31/2019</u>
<b>Additions</b>		
Contributions		
State contributions	\$ 29,308	\$ 30,501
Other nonemployer contributions	16,495	19,495
Total contributions	<u>\$ 45,803</u>	<u>\$ 49,996</u>
Investment income		
Return on plan assets	\$ 88,944	\$ 68,345
<b>Total additions</b>	<u><b>\$ 134,747</b></u>	<u><b>\$ 118,341</b></u>
<b>Deductions</b>		
Benefit payments		
Lump sums	\$ (12,561)	\$ (33,900)
Non-investment expense paid	<u>(1,300)</u>	<u>(1,245)</u>
<b>Total deductions</b>	<u><b>\$ (13,861)</b></u>	<u><b>\$ (35,145)</b></u>
<b>Net increase in net pension</b>	<b>\$ 120,886</b>	<b>\$ 83,196</b>
<b>Net position restricted for pensions</b>		
Beginning of year	<u><b>\$ 461,463</b></u>	<u><b>\$ 378,267</b></u>
Value at end of year	<u><b>\$ 582,349</b></u>	<u><b>\$ 461,463</b></u>
<b>Rate of Return for Year:</b>	18.60%	17.70%

**CITY OF FRAZEE  
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V. Defined Benefit Pension Plan – Firefighters Relief Association

H. Pension Plan Fiduciary Net Position (Continued)

Detailed information about the Frazee Firefighters Relief Association Plan's fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained from the Board of Trustees of the Frazee Firefighters Relief Association Plan at the City of Frazee, PO Box 387, Frazee, Minnesota 56544.

VI. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board

The Frazee Burlington Silverleaf Joint Powers Board was formed on November 18, 1991 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59, and includes the City of Frazee and the Towns of Burlington and Silverleaf. The purpose of the Board is to create and operate a facility for solid waste composting and recycling.

Control of the Board is vested in the Frazee Burlington Silverleaf Joint Powers Board, which is composed of two governing members from each participating city and town. In the event of dissolution of the Frazee Burlington Silverleaf Joint Powers Board, the net assets at the time shall be distributed to the respective participants in proportion to the contributions made by each.

Funding is provided by participants in amounts determined by the Board on an annual basis. The City contributed \$1,156 to the Joint Powers Board in 2021 for part-time wages, utilities, and insurance. Complete financial information can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

**CITY OF FRAZEE  
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**VII. Component Unit Disclosures**

**A. Summary of Significant Accounting Policies**

The financial statements of the discretely presented component unit is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the component unit are discussed below.

**1. Financial Reporting Entity**

The Economic Development Authority (EDA) was created pursuant to Minnesota Statutes § 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The five-member board consists of two Council members and three other Council-appointed members. The EDA may exercise any of the powers enumerated by the authorizing statute without prior approval of the Council (does not include power to issue bonds).

The Economic Development Authority is an enterprise fund. This entity is a component unit of the City of Frazee because the City is financially accountable for it and it is discretely presented in the City of Frazee's financial statements.

**2. Basis of Presentation**

The component unit does not issue separately audited component unit financial statements. Additional financial information can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

The discretely presented component unit is accounted for an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, revenues, and expenses (i.e., the combining statement of net position and the combining statement of revenues, expenses, and changes in net position). Enterprise funds are used to account for (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**3. Measurement Focus and Basis of Accounting**

The component unit is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the component unit policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF FRAZEE  
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**VII. Component Unit Disclosures**

**A. Summary of Significant Accounting Policies (Continued)**

**4. Assets, Liabilities, and Net Position**

**a. Cash and Cash Equivalents**

The component unit has defined cash and cash equivalents to include cash on hand and demand deposits.

**b. Deposits and Investments**

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments and are reported at their fair value at December 31, 2021, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2021 were \$159.

**c. Capital Assets**

Capital assets, which include land, buildings and improvements, improvements other than buildings, and machinery and equipment, are reported in the applicable component unit column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are 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.

Buildings and improvements, improvements other than buildings, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-39
Improvements other than buildings	39
Machinery and equipment	15

**d. Long-Term Obligations**

Long-term obligations are reported as liabilities in the component unit activities.



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**VII. Component Unit Disclosures**

**A. Summary of Significant Accounting Policies**

**4. Assets, Liabilities, and Net Position (Continued)**

**e. 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 amounts 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.

**B. Detailed Notes on All Funds**

**1. Assets**

**Deposits and Investments**

All cash and investments of the component units are on deposit with the City of Frazee Administrator/Clerk/Treasurer and included within its cash and investments.

**Capital Assets**

Capital asset activity for the component unit for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land - Economic Development Authority	\$ 181,697	\$ -	\$ -	\$ 181,697
Construction in progress - Downtown East Main	-	729,504	-	729,504
Total capital assets, not being depreciated	\$ 181,697	\$ 729,504	\$ -	\$ 911,201
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 164,932	\$ 19,878	\$ -	\$ 184,810
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 54,366	\$ 4,123	\$ -	\$ 58,489
Total accumulated depreciation	\$ 54,366	\$ 4,123	\$ -	\$ 58,489
Total capital assets, depreciated, net	\$ 110,566	\$ 15,755	\$ -	\$ 126,321
Total Capital Assets, Net	\$ 292,263	\$ 745,259	\$ -	\$ 1,037,522

**Depreciation Expense**

Depreciation expense of \$4,123 was charged to the Economic Development Authority.

**CITY OF FRAZEE  
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**VII. Component Unit Disclosures**

**B. Detailed Notes on All Funds**

**2. Liabilities**

**Long-Term Debt**

City of Frazee Economic Development Authority General Obligation Tax Increment Bonds, Series 2021A represent debt incurred for construction of the Downtown Infill Project. These bonds have an original issue amount of \$1,518,000. They carry a net interest rate of 3.25 percent and are due in semi-annual interest-only payments of \$24,667.50, with the full principal amount due on February 1, 2024, from the Economic Development Authority Fund. The balance outstanding at December 31, 2021 is \$1,518,000.

**Debt Service Requirements**

Debt service requirements the City of Frazee Economic Development Authority at December 31, 2021, are as follows:

Year End December 31	General Obligation Tax Increment Bonds, Series 2021A	
	Principal	Interest
2022	\$ -	\$ 53,446
2023	-	49,335
2024	1,518,000	24,668
Total debt service requirements:	\$ 1,518,000	\$ 127,449

**Changes in Long-Term Liabilities**

Long-term liability activity for the City of Frazee Economic Development Authority for the year ended December 31, 2021, was as follows:

City of Frazee EDA Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds					
Tax Increment Bonds, Series 2021A	\$ -	\$ 1,518,000	\$ -	\$ 1,518,000	\$ -

**C. Summary of Significant Contingencies and Other Items**

**Risk Management**

The discretely presented component unit is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The component unit is covered under the City of Frazee's membership in the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Taxes	\$ 379,940	\$ 379,940	\$ 394,078	\$ 14,138
Licenses and permits	28,100	28,100	31,651	3,551
Intergovernmental	635,052	635,052	1,109,894	474,842
Charges for services	211,655	211,655	170,181	(41,474)
Fines and forfeitures	6,200	6,200	5,485	(715)
Investment earnings	1,300	1,300	4,980	3,680
Gifts and contributions	6,200	6,200	5,495	(705)
Miscellaneous	10,500	10,500	30,355	19,855
<b>Total Revenues</b>	<b>\$ 1,278,947</b>	<b>\$ 1,278,947</b>	<b>\$ 1,752,119</b>	<b>\$ 473,172</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Mayor/council	\$ 15,735	\$ 15,735	\$ 14,116	\$ 1,619
Financial administration	255,637	255,637	311,560	(55,923)
Assessor	-	-	157	(157)
Planning commission	32,350	32,350	18,750	13,600
Other general government	3,000	3,000	3,000	-
<b>Total general government</b>	<b>\$ 306,722</b>	<b>\$ 306,722</b>	<b>\$ 347,583</b>	<b>\$ (40,861)</b>
<b>Public safety</b>				
Police	\$ 335,168	\$ 335,168	\$ 335,895	\$ (727)
Fire	113,477	113,477	96,491	16,986
Fire relief association	26,000	26,000	30,623	(4,623)
Rescue squad	1,350	1,350	3,912	(2,562)
<b>Total public safety</b>	<b>\$ 475,995</b>	<b>\$ 475,995</b>	<b>\$ 466,921</b>	<b>\$ 9,074</b>
<b>Highways and streets</b>				
Street department	\$ 142,652	\$ 142,652	\$ 100,215	\$ 42,437
Snow removal	10,500	10,500	5,662	4,838
Street lighting	19,000	19,000	23,271	(4,271)
<b>Total highways and streets</b>	<b>\$ 172,152</b>	<b>\$ 172,152</b>	<b>\$ 129,148</b>	<b>\$ 43,004</b>
<b>Sanitation</b>				
Recycling	\$ 880	\$ 880	\$ 1,156	\$ (276)
Solid waste	89,480	89,480	108,925	(19,445)
<b>Total sanitation</b>	<b>\$ 90,360</b>	<b>\$ 90,360</b>	<b>\$ 110,081</b>	<b>\$ (19,721)</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

***Schedule 1***  
***(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Expenditures</b>				
<b>Current (continued)</b>				
<b>Culture and recreation</b>				
Parks	\$ 20,618	\$ 20,618	\$ 20,802	\$ (184)
Recreational programs	5,000	5,000	5,000	-
Other culture and recreation	4,100	4,100	4,319	(219)
<b>Total culture and recreation</b>	<b>\$ 29,718</b>	<b>\$ 29,718</b>	<b>\$ 30,121</b>	<b>\$ (403)</b>
<b>Total current</b>	<b>\$ 1,074,947</b>	<b>\$ 1,074,947</b>	<b>\$ 1,083,854</b>	<b>\$ (8,907)</b>
<b>Debt service</b>				
Principal retirement	\$ -	\$ -	\$ 36,595	\$ (36,595)
Interest	-	-	8,319	(8,319)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,914</b>	<b>\$ (44,914)</b>
<b>Capital outlay</b>				
Public safety	\$ 91,000	\$ 91,000	\$ 590,873	\$ (499,873)
Highways and streets	35,000	35,000	16,385	18,615
Culture and recreation	8,000	8,000	9,425	(1,425)
<b>Total capital outlay</b>	<b>\$ 134,000</b>	<b>\$ 134,000</b>	<b>\$ 616,683</b>	<b>\$ (482,683)</b>
<b>Total Expenditures</b>	<b>\$ 1,208,947</b>	<b>\$ 1,208,947</b>	<b>\$ 1,745,451</b>	<b>\$ (536,504)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 70,000</b>	<b>\$ 70,000</b>	<b>\$ 6,668</b>	<b>\$ (63,332)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from issuance of debt	\$ -	\$ -	\$ 199,777	\$ 199,777
Transfers out	(40,000)	(40,000)	(40,000)	-
<b>Total other financing sources (uses)</b>	<b>\$ (40,000)</b>	<b>\$ (40,000)</b>	<b>\$ 159,777</b>	<b>\$ 199,777</b>
<b>Net Change in Fund Balance</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>	<b>\$ 166,445</b>	<b>\$ 136,445</b>
<b>Fund Balance - January 1</b>	<b>855,201</b>	<b>855,201</b>	<b>855,201</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 885,201</b>	<b>\$ 885,201</b>	<b>\$ 1,021,646</b>	<b>\$ 136,445</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Schedule 2**

**SCHEDULE OF CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
December 31, 2021	\$ 30,032	\$ 30,032	\$ -	\$ 400,420	7.5%
December 31, 2020	\$ 27,247	\$ 27,247	\$ -	\$ 363,293	7.5%
December 31, 2019	\$ 29,798	\$ 29,798	\$ -	\$ 397,306	7.5%
December 31, 2018	\$ 28,121	\$ 28,121	\$ -	\$ 374,947	7.5%
December 31, 2017	\$ 26,293	\$ 26,293	\$ -	\$ 352,901	7.5%
December 31, 2016	\$ 25,675	\$ 25,675	\$ -	\$ 342,333	7.5%
December 31, 2015	\$ 24,893	\$ 24,893	\$ -	\$ 331,909	7.5%

**PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
December 31, 2021	\$ 32,620	\$ 32,620	\$ -	\$ 184,294	17.70%
December 31, 2020	\$ 32,390	\$ 32,390	\$ -	\$ 182,994	17.70%
December 31, 2019	\$ 29,262	\$ 29,262	\$ -	\$ 172,637	16.95%
December 31, 2018	\$ 27,330	\$ 27,330	\$ -	\$ 168,704	16.20%
December 31, 2017	\$ 25,156	\$ 25,156	\$ -	\$ 155,284	16.20%
December 31, 2016	\$ 24,940	\$ 24,940	\$ -	\$ 153,951	16.20%
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.20%

*This schedule is intended to present 10 years and will be updated as information becomes available.*

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

*Schedule 3*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Employer's Proportion of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability</b>	<b>Covered Payroll</b>	<b>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2021	0.0054%	\$ 230,604	\$ 7,087	\$ 237,691	\$ 382,743	60.25%	87.00%
June 30, 2020	0.0053%	\$ 317,759	\$ 9,685	\$ 327,444	\$ 375,679	84.58%	79.06%
June 30, 2019	0.0054%	\$ 298,554	\$ 9,333	\$ 307,887	\$ 378,277	78.92%	80.23%
June 30, 2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 375,270	82.78%	75.93%
June 30, 2017	0.0053%	\$ 338,349	\$ 4,245	\$ 342,594	\$ 350,993	96.40%	75.90%
June 30, 2016	0.0055%	\$ 446,573	\$ 5,862	\$ 452,435	\$ 343,830	129.88%	68.90%
June 30, 2015	0.0056%	\$ 290,221	\$ -	\$ 290,221	\$ 331,609	87.52%	78.20%

**PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Employer's Proportion of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability</b>	<b>Covered Payroll</b>	<b>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2021	0.0160%	\$ 123,503	\$ 5,579	\$ 129,082	\$ 198,006	62.37%	93.66%
June 30, 2020	0.0151%	\$ 199,034	\$ 4,672	\$ 203,706	\$ 170,658	116.63%	87.19%
June 30, 2019	0.0161%	\$ 171,401	\$ 2,173	\$ 173,574	\$ 169,241	101.28%	89.26%
June 30, 2018	0.0150%	\$ 164,148	\$ 1,386	\$ 165,534	\$ 160,606	102.21%	88.84%
June 30, 2017	0.0150%	\$ 202,518	\$ 1,350	\$ 203,868	\$ 159,077	127.31%	85.40%
June 30, 2016	0.0160%	\$ 642,108	\$ 1,440	\$ 643,548	\$ 159,181	403.38%	63.90%
June 30, 2015	0.0170%	\$ 193,160	\$ 1,530	\$ 194,690	\$ 155,181	124.47%	86.60%

*This schedule is intended to present 10 years and will be updated as information becomes available.*

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Schedule 4**

**VOLUNTEER FIREFIGHTER RETIREMENT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**SCHEDULE OF CONTRIBUTIONS**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Employee Payroll</b>	<b>Contributions as a Percentage of Covered-Employee Payroll</b>
December 31, 2021	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2020	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2019	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2018	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2017	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2016	\$ -	\$ -	\$ -	N/A	N/A

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION ASSET**

<b>Fiscal Year Ending</b>	<b>Proportion of the Net Pension Asset</b>	<b>Proportionate Share of the Net Pension Asset</b>	<b>Covered- Employee Payroll</b>	<b>Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Asset</b>
January 1, 2021	100%	\$ 218,394	N/A	N/A	154.00%
January 1, 2020	100%	\$ 162,631	N/A	N/A	154.00%
January 1, 2019	100%	\$ 106,377	N/A	N/A	139.00%
January 1, 2018	100%	\$ 131,591	N/A	N/A	136.00%
January 1, 2017	100%	\$ 114,654	N/A	N/A	136.00%
January 1, 2016	100%	\$ 95,304	N/A	N/A	132.00%

*This schedule is intended to present 10 years and will be updated as information becomes available.*



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021**

**I. Budgetary Information**

**Budget Policy**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Becker County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

**II. Excess of Expenditures Over Budget**

The following departments had expenditures in excess of budget for the year ended December 31, 2021:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
<b>General Fund</b>			
<b><i>General government</i></b>			
Financial administration	\$ 311,560	\$ 255,637	\$ (55,923)
Assessor	157	-	(157)
<b><i>Public safety</i></b>			
Police	335,895	335,168	(727)
Fire relief association	30,623	26,000	(4,623)
Rescue squad	3,912	1,350	(2,562)
<b><i>Highways and streets</i></b>			
Street lighting	23,271	19,000	(4,271)
<b><i>Sanitation</i></b>			
Recycling	1,156	880	(276)
Solid waste	108,925	89,480	(19,445)
<b><i>Culture and recreation</i></b>			
Parks	20,802	20,618	(184)
Other culture and recreation	4,319	4,100	(219)
<b><i>Debt service</i></b>			
Principal retirement	36,595	-	(36,595)
Interest	8,319	-	(8,319)
<b><i>Capital outlay</i></b>			
Public safety	590,873	91,000	(499,873)
Culture and recreation	9,425	8,000	(1,425)

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios**

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. Changes in actuarial assumptions are described in the Notes to the Financial Statements. The assumptions and methods used for this actuarial valuation were recommended by PERA and adopted by the City Council. The following changes were reflected in the valuation performed on behalf of PERA for the fiscal year June 30:

**General Employees Fund**

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 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.
- The base mortality table for healthy annuitants and employees were 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.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

**General Employees Fund**

2020 Changes (Continued)

*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 morality 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 morality 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.
- 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.

*Changes in Plan Provisions*

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

**General Employees Fund (Continued)**

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.

2015 Changes

*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.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios (Continued)

**Police and Fire Fund**

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 inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.0 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disable annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 1, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

2020 Changes

*Changes in Actuarial Assumptions*

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

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

2019 Changes

*Changes in Actuarial Assumptions*

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

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

**Police and Fire Fund (Continued)**

2018 Changes

*Changes in Actuarial Assumptions*

- The morality projection scale was changed from MP-2016 to MP-2017.

*Changes in Plan Provisions*

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- 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.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

*Changes in Actuarial Assumptions*

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

III. Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

**Police and Fire Fund**

2017 Changes (Continued)

*Changes in Plan Provisions*

- There have been no changes since the prior valuation.

2016 Changes

*Changes in Actuarial Assumptions*

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future 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 5.60 percent.
- 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 2037 and 2.50 percent per year thereafter.

*Changes in Plan Provisions*

- The postretirement benefit increase to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

## **SUPPLEMENTARY INFORMATION**



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

**Special Revenue Funds**

The Cemetery Special Revenue Fund is used to account for and report activities of the cemetery. Financing is provided by the sale of cemetery plots and charges for services restricted for perpetual care.

The Storm Water Special Revenue Fund is used to account for and report the activities of the City's storm drainage system. Financing is provided by charges to residents for services assigned to sanitation.

The Revolving Loan Pool Special Revenue Fund is used to account for and report revolving loans. Financing is provided by loan repayments committed to economic development.

The Small Cities Development Program (SCDP) Special Revenue Fund is used to account for and report the financial resources of the Small Cities Development Program. Funding is provided by grants and special assessments assigned to economic development.

The TIF 1-3 Red Willow Heights Special Revenue Fund is used to account for and report the activities of the Red Willow Heights project. Financing is provided by tax increment financing assigned to economic development.

The TIF 1-4 Swift Site Special Revenue Fund is used to account for and report the activities of the Swift Site project. Financing is provided by tax increment financing assigned to economic development.

The TIF 1-5 Downtown Renovations Special Revenue Fund is used to account for and report the activities of the Downtown Renovation project. Financing is provided by tax increment financing assigned to economic development.

**Debt Service Funds**

The 2016 Improvements and Refunding Debt Service Fund is used to account for and report debt associated with General Obligation Street Improvement and Refunding Bonds of 2016 for street improvements. Financing is provided by special assessments restricted for debt service.

The County Road 118 Debt Service Fund is used to account for and report debt associated with the General Obligation Improvement Bonds of 2014 for street improvements. Financing is provided by special assessments restricted for debt service.

The Southeast Area Streets and Utilities Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Bonds of 2017 for street improvements. Financing is provided by special assessments restricted for debt service.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<b><u>Assets</u></b>			
<b>Assets</b>			
Cash and pooled investments	\$ 282,867	\$ 97,440	\$ 380,307
Investments	3,180	-	3,180
Taxes receivable			
Current	773	-	773
Special assessments receivable			
Current	-	401	401
Prior	-	3,353	3,353
Accounts receivable	1,092	-	1,092
Notes receivable	57,299	-	57,299
Special assessments receivable - noncurrent	-	61,311	61,311
<b>Total Assets</b>	<b><u>\$ 345,211</u></b>	<b><u>\$ 162,505</u></b>	<b><u>\$ 507,716</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u></b>			
<b>Liabilities</b>			
Due to other funds	\$ 2,407	\$ 173,186	\$ 175,593
<b>Deferred Inflows of Resources</b>			
Notes	\$ 57,299	\$ -	\$ 57,299
Special assessments	-	65,024	65,024
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 57,299</u></b>	<b><u>\$ 65,024</u></b>	<b><u>\$ 122,323</u></b>
<b>Fund Balance</b>			
Restricted for			
Debt service	\$ -	\$ 97,481	\$ 97,481
Perpetual care	773	-	773
Economic development	241,049	-	241,049
Assigned to			
Sanitation	43,683	-	43,683
Unassigned	-	(173,186)	(173,186)
<b>Total Fund Balance</b>	<b><u>\$ 285,505</u></b>	<b><u>\$ (75,705)</u></b>	<b><u>\$ 209,800</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b><u>\$ 345,211</u></b>	<b><u>\$ 162,505</u></b>	<b><u>\$ 507,716</u></b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Total NonMajor Governmental Funds (Exhibit 5)
<b>Revenues</b>			
Taxes	\$ 97,842	\$ -	\$ 97,842
Special assessments	-	24,052	24,052
Charges for services	9,047	-	9,047
Miscellaneous	12,610	-	12,610
<b>Total Revenues</b>	<b>\$ 119,499</b>	<b>\$ 24,052</b>	<b>\$ 143,551</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 6,737	\$ -	\$ 6,737
Conservation of natural resources	2,077	-	2,077
<b>Total current</b>	<b>\$ 8,814</b>	<b>\$ -</b>	<b>\$ 8,814</b>
<b>Debt service</b>			
Principal retirement	\$ -	\$ 106,000	\$ 106,000
Interest	-	13,255	13,255
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ 119,255</b>	<b>\$ 119,255</b>
<b>Total Expenditures</b>	<b>\$ 8,814</b>	<b>\$ 119,255</b>	<b>\$ 128,069</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 110,685</b>	<b>\$ (95,203)</b>	<b>\$ 15,482</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out	(84,939)	-	(84,939)
<b>Net Change in Fund Balance</b>	<b>\$ 25,746</b>	<b>\$ (95,203)</b>	<b>\$ (69,457)</b>
<b>Fund Balance - January 1</b>	<b>259,759</b>	<b>19,498</b>	<b>279,257</b>
<b>Fund Balance - December 31</b>	<b>\$ 285,505</b>	<b>\$ (75,705)</b>	<b>\$ 209,800</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 3**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Cemetery	Storm Water	Revolving Loan Pool	Small Cities Development Project (SCDP)	TIF 1-3 Red Willow Heights	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 1)
<b><u>Assets</u></b>								
Cash and pooled investments	\$ -	\$ 42,591	\$ 19,818	\$ 84,991	\$ -	\$ 106,406	\$ 29,061	\$ 282,867
Investments	3,180	-	-	-	-	-	-	3,180
Taxes receivable								
Current	-	-	-	-	773	-	-	773
Accounts receivable	-	1,092	-	-	-	-	-	1,092
Notes receivable	-	-	-	57,299	-	-	-	57,299
<b>Total Assets</b>	<b>\$ 3,180</b>	<b>\$ 43,683</b>	<b>\$ 19,818</b>	<b>\$ 142,290</b>	<b>\$ 773</b>	<b>\$ 106,406</b>	<b>\$ 29,061</b>	<b>\$ 345,211</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u></b>								
<b>Liabilities</b>								
Due to other funds	\$ 2,407	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,407
<b>Deferred Inflows of Resources</b>								
Notes	\$ -	\$ -	\$ -	\$ 57,299	\$ -	\$ -	\$ -	\$ 57,299
<b>Fund Balance</b>								
Restricted for								
Perpetual care	\$ 773	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 773
Economic development	-	-	19,818	84,991	773	106,406	29,061	241,049
Assigned to								
Sanitation	-	43,683	-	-	-	-	-	43,683
<b>Total Fund Balance</b>	<b>\$ 773</b>	<b>\$ 43,683</b>	<b>\$ 19,818</b>	<b>\$ 84,991</b>	<b>\$ 773</b>	<b>\$ 106,406</b>	<b>\$ 29,061</b>	<b>\$ 285,505</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 3,180</b>	<b>\$ 43,683</b>	<b>\$ 19,818</b>	<b>\$ 142,290</b>	<b>\$ 773</b>	<b>\$ 106,406</b>	<b>\$ 29,061</b>	<b>\$ 345,211</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 4**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Cemetery</u>	<u>Storm Water</u>	<u>Revolving Loan Pool</u>	<u>Small Cities Development Project (SCDP)</u>	<u>TIF 1-3 Red Willow Heights</u>	<u>TIF 1-4 Swift Site</u>	<u>TIF 1-5 Downtown Renovations</u>	<u>Total (Statement 2)</u>
<b>Revenues</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 84,604	\$ 7,175	\$ 6,063	\$ 97,842
Charges for services	-	9,047	-	-	-	-	-	9,047
Miscellaneous	1,825	-	-	10,785	-	-	-	12,610
<b>Total Revenues</b>	<b>\$ 1,825</b>	<b>\$ 9,047</b>	<b>\$ -</b>	<b>\$ 10,785</b>	<b>\$ 84,604</b>	<b>\$ 7,175</b>	<b>\$ 6,063</b>	<b>\$ 119,499</b>
<b>Expenditures</b>								
<b>Current</b>								
General government	\$ 6,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,737
Conservation of natural resources	-	2,077	-	-	-	-	-	2,077
<b>Total Expenditures</b>	<b>\$ 6,737</b>	<b>\$ 2,077</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,814</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (4,912)</b>	<b>\$ 6,970</b>	<b>\$ -</b>	<b>\$ 10,785</b>	<b>\$ 84,604</b>	<b>\$ 7,175</b>	<b>\$ 6,063</b>	<b>\$ 110,685</b>
<b>Other Financing Sources (Uses)</b>								
Transfers out	-	-	-	-	(84,939)	-	-	(84,939)
<b>Net Change in Fund Balance</b>	<b>\$ (4,912)</b>	<b>\$ 6,970</b>	<b>\$ -</b>	<b>\$ 10,785</b>	<b>\$ (335)</b>	<b>\$ 7,175</b>	<b>\$ 6,063</b>	<b>\$ 25,746</b>
<b>Fund Balance - January 1</b>	<b>5,685</b>	<b>36,713</b>	<b>19,818</b>	<b>74,206</b>	<b>1,108</b>	<b>99,231</b>	<b>22,998</b>	<b>259,759</b>
<b>Fund Balance - December 31</b>	<b>\$ 773</b>	<b>\$ 43,683</b>	<b>\$ 19,818</b>	<b>\$ 84,991</b>	<b>\$ 773</b>	<b>\$ 106,406</b>	<b>\$ 29,061</b>	<b>\$ 285,505</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 5**

**COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>2016 Improvements and Refunding</b>	<b>County Road 118</b>	<b>Southeast Area Streets and Utilities</b>	<b>Total (Statement 1)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 97,440	\$ -	\$ 97,440
Special assessments receivable				
Current	-	401	-	401
Prior	1,119	2,234	-	3,353
Noncurrent	6,141	55,170	-	61,311
<b>Total Assets</b>	<b>\$ 7,260</b>	<b>\$ 155,245</b>	<b>\$ -</b>	<b>\$ 162,505</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ 74,835	\$ -	\$ 98,351	\$ 173,186
<b>Deferred Inflows of Resources</b>				
Special assessments	\$ 7,260	\$ 57,764	\$ -	\$ 65,024
<b>Fund Balance</b>				
Restricted for debt service	\$ -	\$ 97,481	\$ -	\$ 97,481
Unassigned	(74,835)	-	(98,351)	(173,186)
<b>Total Fund Balance</b>	<b>\$ (74,835)</b>	<b>\$ 97,481</b>	<b>\$ (98,351)</b>	<b>\$ (75,705)</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 7,260</b>	<b>\$ 155,245</b>	<b>\$ -</b>	<b>\$ 162,505</b>

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Statement 6**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>2016 Improvements and Refunding</b>	<b>County Road 118</b>	<b>Southeast Area Streets and Utilities</b>	<b>Total (Statement 2)</b>
<b>Revenues</b>				
Special assessments	\$ 3,001	\$ 11,904	\$ 9,147	\$ 24,052
<b>Expenditures</b>				
<b>Debt service</b>				
Principal retirement	\$ 33,000	\$ 32,000	\$ 41,000	\$ 106,000
Interest	4,212	7,162	1,881	13,255
<b>Total Expenditures</b>	<b>\$ 37,212</b>	<b>\$ 39,162</b>	<b>\$ 42,881</b>	<b>\$ 119,255</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (34,211)</b>	<b>\$ (27,258)</b>	<b>\$ (33,734)</b>	<b>\$ (95,203)</b>
<b>Fund Balance - January 1</b>	<b>(40,624)</b>	<b>124,739</b>	<b>(64,617)</b>	<b>19,498</b>
<b>Fund Balance - December 31</b>	<b>\$ (74,835)</b>	<b>\$ 97,481</b>	<b>\$ (98,351)</b>	<b>\$ (75,705)</b>

## **OTHER SCHEDULES**



**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Schedule 5**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Shared Revenue**

**State**

Fire Relief Association supplemental benefit	\$ 1,142
Fire state aid	29,481
Local government aid	533,152
Police state aid	27,578
Small Cities Assistance	29,737

<b>Total Shared Revenue</b>	<b>\$ 621,090</b>
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**Payments**

Payments in lieu of taxes	\$ 15,513
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**Grants**

**State**

**Minnesota Department of**

Public Safety	\$ 2,090
Transportation	4,100

<b>Total State Grants</b>	<b>\$ 6,190</b>
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**Federal**

Department of	
Treasury	\$ 94,959
Environmental Protection Agency	177,793
Homeland Security	391,095

<b>Total Federal Grants</b>	<b>\$ 663,847</b>
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<b>Total Grants</b>	<b>\$ 670,037</b>
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<b>Total Intergovernmental Revenue</b>	<b>\$ 1,306,640</b>
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Not included as revenue are \$220,780 in Minnesota Public Facilities Authority loans from the Environmental Protection Agency's Drinking Water State Revolving Fund which are recorded as liabilities in the Water Enterprise Fund.

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Schedule 6**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Grant Award Number</b>	<b>Expenditures</b>
<b>U.S. Department of the Treasury</b>			
Passed Through Minnesota Department of Revenue Coronavirus Relief Fund	21.019	COVID-19	<u>\$ 18,953</u>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Public Facilities Authority Clean Water State Revolving Fund Cluster			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF-L-021	\$ 220,780
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF-G-021	<u>177,793</u>
<b>Total Environmental Protection Agency</b>			<u>\$ 398,573</u>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota of Public Safety Assistance to Firefighters Grant	97.044	FY20AFG	<u>\$ 391,095</u>
<b>Total Federal Awards</b>			<u>\$ 808,621</u>
Totals by Cluster			
Total expenditures for Drinking Water State Revolving Fund Cluster	\$ 398,573		

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**I. Reporting Entity**

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by City of Frazee. The City's reporting entity is defined in Note I to the financial statements.

**II. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Frazee under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Frazee, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Frazee.

**III. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, in the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Frazee has elected to not use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

**IV. Subrecipients**

During 2021, the City did not pass any federal funds through to subrecipients.

**V. Reconciliation to Schedule of Intergovernmental Revenue**

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 663,847
<i>Plus:</i>	
Amounts issued in MN Public Facilities Authority Loans	220,780
<i>Less:</i>	
Amounts received for American Recovery Plan remaining unspent	(76,006)
	<hr/>
Expenditures per Schedule of Expenditures of Federal Awards	\$ 808,621
	<hr/> <hr/>

**VI. Outstanding Loan Balances**

Loan balances outstanding:

MN Public Facilities Authority Loans	<hr/> <hr/> \$ 1,679,958
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## **MANAGEMENT AND COMPLIANCE SECTION**

Colleen Hoffman, Director  
Crystelle Philipp, CPA  
Marit Martell, CPA



Hoffman, Philipp, & Martell, PLLC

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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**

City Council  
City of Frazee

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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 15, 2022.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency* in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001, 2021-002, and 2021-004, that we consider to be significant deficiencies.

### **Report on Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, we noted that the City of Frazee failed to comply with provisions of the claims and disbursements section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, insofar as they relate to accounting matters described in the Schedule of Findings and Questioned Costs as item 2021-003. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Frazee failed to comply with the provisions of the contracting and bidding, conflicts of interest, deposits and investments, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, 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.

### **City of Frazee's Response to Findings**

The City's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Martell, PLLC  
July 15, 2022

Colleen Hoffman, Director  
Crystelle Philipp, CPA  
Marit Martell, CPA



Hoffman, Philipp, & Martell, PLLC

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY UNIFORM GUIDANCE**

City Council  
City of Frazee

**Report on Compliance for Each Major Federal Program**

***Opinion on the Major Federal Program***

We have audited the City of Frazee compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended December 31, 2021. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Frazee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors Responsibilities for the audit of compliance section of our report.

We are required to be independent of the City of Frazee and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Frazee's compliance with the compliance requirements referred to above.

### ***Responsibility of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Frazee's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Frazee's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Frazee's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Frazee's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Frazee's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Frazee's Internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over



compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2001-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Frazee's response to the internal control over compliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Frazee's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Martell". The signature is written in a cursive, flowing style.

Hoffman, Philipp, & Martell, PLLC  
July 15, 2022

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**
- B. **Financial Statements**
- Internal control over financial reporting:
- Material weaknesses identified? **No**
  - Significant deficiencies identified? **Yes**
- C. Noncompliance material to the financial statements noted? **No**
- D. **Federal Awards**
- Internal control over major programs:
- Material weaknesses identified? **No**
  - Significant deficiencies identified? **Yes**
- E. Type of report the auditor issued on compliance for major federal programs: **Unmodified**
- F. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**
- G. The major federal program was:
- Assistance to Firefighters Grant Program                      CFDA #97.044**
- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. The City of Frazee qualified as a low-risk auditee? **No**

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

**Finding Number: 2021-001**

**Prior Year Finding Number(s): 2020-001 and 2020-002**

**Repeat Finding Since: 2006**

**Segregation of Duties and Internal Controls**

**Criteria:** The financial statements are the responsibility of the City's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City's objectives with regard to reliability of financial reporting and compliance with applicable laws and regulations. These controls must include a process for monitoring controls to ensure effectiveness and efficiency of operations.

**Condition:** Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective. Due to the limited number of personnel within the City of Frazee, segregation of the accounting functions necessary to ensure adequate internal control and monitoring is not possible.

**Context:** The small size and staffing of the City of Frazee limits the segregation of duties and internal control that management can design and implement. Although the City of has some controls in spite of limited staff, they do not have a documented process for monitoring those controls.

**Effect:** Without documented internal controls and a process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations. Errors or irregularities may occur and not be detected in a timely manner.

**Cause:** The City has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

**Recommendation:** Management should continually be aware of the lack of reliability of internal controls due to limited segregation of duties. We recommend the City of Frazee formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and compliance with applicable laws and regulations, and the effectiveness and efficiency of operations.

**City Administrator/Clerk/Treasurer Response:** *The City Council is aware of the inability to segregate duties due to the lack of resources. The City staff does everything in their power to identify any risks and involve other employees or Council Members if there is potential for conflict. The City Council receives monthly updates on finances, quarterly budget and actual expenditures, as well as very detailed bill lists monthly. The City is aware of the need for internal control and continues to be diligent in management oversight of financial information.*

**Note:** The following prior year findings have been combined into finding number 2021-001: Segregation of Duties and Internal Controls:

- Finding Number: 2020-001      Segregation of Duties
- Finding Number: 2020-002      Internal Controls

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED (Continued)

**Finding Number: 2021-002**

**Prior Year Finding Number: 2020-003**

**Repeat Finding Since: 2008**

**Finding Title: Audit Adjustments**

**Criteria:** A good system of internal accounting control includes an adequate system for classification and recording transactions material to financial reporting.

**Condition:** During our audit, we identified adjustments in several funds. These adjustments resulted in reclassification of amounts originally reported in the City's financial statements.

**Context:** City officials are aware that audit adjustments are made to revenues and expenditures, and they rely on the independent external auditors to assist in making the necessary adjustments to the financial statements.

**Effect:** Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. Balances are correctly reported as of December 31 each year. By definition, however, independent external auditors cannot be considered part of the government's internal control.

**Cause:** The previous City Administrator/Clerk/Treasurer did not consistently post transactions into the correct funds, and the City does not have an internal control system designed to detect these errors.

**Recommendation:** We recommend the City establish internal control procedures for analysis and review of receipt and expenditure classifications to ensure these transactions are reported in accordance with GAAP in the City's annual financial statement

**City Administrator/Clerk/Treasurer Response:** *The City continues to make improvements to their financial reporting system.*

**III. MINNESOTA LEGAL COMPLIANCE**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

**Finding Number: 2021-003**

**Prior Finding Number: 2020-004**

**Repeat Finding Since: 2008**

**Finding Title: Deficit Cash Balances**

**Criteria:** Each fund of the City should maintain a positive cash balance. Minnesota Statute, § 471.75 permits payment of expenditures provided there is money in the fund for that purpose.

**Condition:** At December 31, 2021, the following funds had deficit cash balances:

2016 Improvements and Refunding Debt Service Fund	\$ 74,835
Southeast Area Street and Utilities Debt Service Fund	\$ 98,351

**CITY OF FRAZEE  
FRAZEE, MINNESOTA**

**Context:** City officials are confident that collection of deferred special assessments will be adequate to meet future debt service requirements, and in the event there is a shortage they will transfer the cash from the General Fund.

**Effect:** Allowing a fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the City and is in noncompliance with Minnesota law. These deficits are reported in the financial statements as amounts due to other funds.

**Cause:** Special assessments are levied over a period of time to provide for debt service payments, and when taxpayers are delinquent there is not enough cash flow to cover annual debt payments.

**Recommendation:** We recommend the City eliminate the cash balance deficits by transferring from another fund, or budgeting for the debt payments when determining the annual levy.

**City Administrator/Clerk/Treasurer Response:** *The City is aware of the deficit in certain accounts. The City has made progress by closing the inactive capital projects funds with deficit balances and will continue to strive for resolution of this issue.*

**IV. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

**ITEM ARISING THIS YEAR:**

**Finding Number: 2021-004**

**Finding Title: Fire Truck Purchase**

**Program:** Federal Emergency Management Agency (FEMA) - Assistance to Firefighters Grants – CFDA #97.044

**Pass-Through Agency:** Direct

**Criteria:** All receipts and disbursements of City funds should be subject to the control environment of the City and recorded in the financial system of the City

**Condition:** The City Fire Department applied for and received a federal grant for the purchase of a new fire truck. In addition, they obtained a line of credit at the local bank for the remainder of the funding needed. These funds were never receipted or disbursed in the financial system of the City; the bank received and deposited the federal funds into the line of credit account and then issued cashier's checks directly to various vendors for the fire truck and related equipment, circumventing City controls.

**Context:** The transactions were approved by the Fire Chief, the City Administrator, and the Mayor who signed the papers for the line of credit.

**Effect:** These transactions were not subject to the controls of the City and the City Council, and were not recorded in the financial statements of the City, and were not budgeted. Journal entries were recommended during the audit to record the effect of these transactions.

**Cause:** The bank acted as the fiscal agent for the grant, thus circumventing the control environment of the City.

**Recommendation:** All funds of the City should be subject to the controls of the City and recorded and reported in the financial statements of the City.

**City Administrator/Clerk/Treasurer Response:** *The bank was used as the fiscal agent during the period of transition from the previous to the new City Administrator/Clerk/Treasurer.*

CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2021

**Finding Number: 2021-001**

**Finding Title: Segregation of Duties and Internal Controls**

**Name of Contact Person Responsible for Corrective Action:** City Council and management.

**Corrective Action Planned:** The City of Frazee is aware of the segregation of duties and internal control over financial reporting issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

**Anticipated Completion Date:** December 31, 2022. *The City Council is aware of the inability to segregate duties due to the lack of resources and the need for internal control and they continue to be diligent in management oversight of financial information.*

**Finding Number: 2021-002**

**Finding Title: Audit Adjustments**

**Name of Contact Person Responsible for Corrective Action:** City Council and management.

**Corrective Action Planned:** The City will establish internal control procedures for analysis and review of receipt and expenditure classifications to ensure these transactions are reported in accordance with GAAP and GAAS in the City's annual financial statement.

**Anticipated Completion Date:** *December 31, 2022.*

**Finding Number: 2021-003**

**Finding Title: Deficit Cash Balances**

**Name of Contact Person Responsible for Corrective Action:** City Council and management.

**Corrective Action Planned:** The City will eliminate the temporary cash balance deficits by transferring from another fund to maintain a positive cash balance in compliance with Minnesota Statute § 471.75.

**Anticipated Completion Date:** *December 31, 2022.*

**Finding Number: 2021-004**

**Finding Title: Fire Truck Purchase**

**Name of Contact Person Responsible for Corrective Action:** Jordin Roberts, City  
Administrator/Clerk/Treasurer

**Corrective Action Planned:** All funds received and all disbursements of the City will be recorded and reported in the financial statements of the City.

**Anticipated Completion Date:** *December 31, 2022.*

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2021

**Finding Number: 2020-001**  
**Repeat Finding Since: 2006**  
**Finding Title: Segregation of Duties**

**Summary of Condition:** Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

**Summary of Corrective Action:** Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

**Status:** Not corrected. This prior audit finding number and description has been combined into finding number 2021-001 – Segregation of Duties and Internal Controls.

**Finding Number: 2020-002**  
**Repeat Finding Since: 2006**  
**Finding Title: Internal Controls**

**Summary of Condition:** Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

**Summary of Corrective Action:** The City has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

**Status:** Not corrected. This prior audit finding number and description has been combined into finding number 2021-001 – Segregation of Duties and Internal Controls.

**Finding Number: 2020-003**  
**Repeat Finding Since: 2008**  
**Finding Title: Audit Adjustments**

**Summary of Condition:** Each Fund of the City is required to have a self-balancing set of accounts to reflect activity of the fund throughout the year in accordance with GAAP in the City's annual financial statement. During the 2015, 2016, 2017, 2018, 2019, and 2020 audits, adjustments were identified, resulting in reclassification of amounts originally reported in the City's financial statements.

**Summary of Corrective Action:** Management is aware the City should establish internal control



procedures for analysis and review of receipt and expenditure classifications and journal entries to ensure these transactions are reported in accordance with GAAP in the City's annual financial statement.

**Status:** Not fully corrected.

**Finding Number:** 2020-004

**Repeat Finding Since:** 2008

**Finding Title:** Deficit Cash Balances

**Summary of Condition:** Each fund of the City should maintain a positive cash balance. Minnesota Statute § 471.75 permits payment of expenditures provided there is money in the fund for that purpose. Allowing a fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the City and is noncompliance with Minnesota law.

At December 31, 2020, the following funds had deficit cash balances:

2016 Improvements and Refunding Debt Service Fund	\$ 40,624
Southeast Area Street and Utilities Debt Service Fund	\$ 64,617

**Summary of Corrective Action:** The City eliminated the cash balance deficits by transferring from another fund for reporting purposes, however, two funds had cash balance deficits at December 31, 2020.

**Status:** Not fully corrected.