

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2019



Hoffman, Philipp, & Knutson, PLLC

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2019**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Ken Miosek	Mayor	December 31, 2022
Mike Sharp	Vice-Mayor	December 31, 2020
Mark Kemper	Councilmember	December 31, 2022
Nicole Strand	Councilmember	December 31, 2022
Mark Flemmer	Councilmember	December 31, 2020
Appointed		
Denise Anderson	Administrator/Clerk/Treasurer	Indefinite

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Frazee

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the City's preparation and fair presentation of the financial statements 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's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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 December 31, 2019, 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.

Other Matters

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, 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.

Other 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 introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2020, 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 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's internal control over financial reporting and compliance.



Hoffman, Philipp, & Knutson, PLLC
June 15, 2020



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, 2019. 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 \$6,200,264, of which \$4,036,233 is the net investment in capital assets, \$252,227 is restricted for general government and debt service, and \$1,911,804 is unrestricted. The total net position of governmental activities increased by \$253,251 for the year ended December 31, 2019, mainly as a result of a large grant for assistance to firefighters and a reduction in net pension liability.

The total net position of business-type activities is \$2,307,545, of which \$1,956,527 is the net investment in capital assets, \$42,108 is restricted for water infrastructure replacement, and \$308,910 is unrestricted. The total net position of business-type activities increased by \$50,147 in 2019, as a result of water infrastructure grants and a reduction in net pension liability.

At the close of 2019, the City's governmental funds reported combined ending fund balances of \$1,203,081, a decrease of \$90,773 from the prior year. Of the total fund balance amount, \$252,227 is legally or contractually restricted, \$19,818 is formally committed for economic development, \$366,468 is assigned for specific purposes, and \$564,568 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 and liabilities 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, liabilities, deferred inflows of resources, and deferred outflows of resources, with the difference between the two 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 four governmental fund types: General, Special Revenue, Debt Service, and Capital Projects. 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 2003 Red Willow Heights I Debt Service 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. Budgetary comparison schedules have been provided for these funds 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 23 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides supplementary and other information including combining statements and a schedule of intergovernmental revenue.

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 \$8,507,809 at the close of 2019. The largest portion of the City’s net position (approximately 70 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 four percent of the City’s net position is restricted and 26 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$2,220,714 as of December 31, 2019, 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 \$142,334 from the prior year. Deferred outflows of resources related to pensions decreased by \$149,662. Total liabilities decreased by \$126,020 from the prior year due to the reduction in net pension liability. Deferred inflows of resources related to pensions decreased by \$184,706. This resulted in an increased net position of \$303,398 from the prior year.

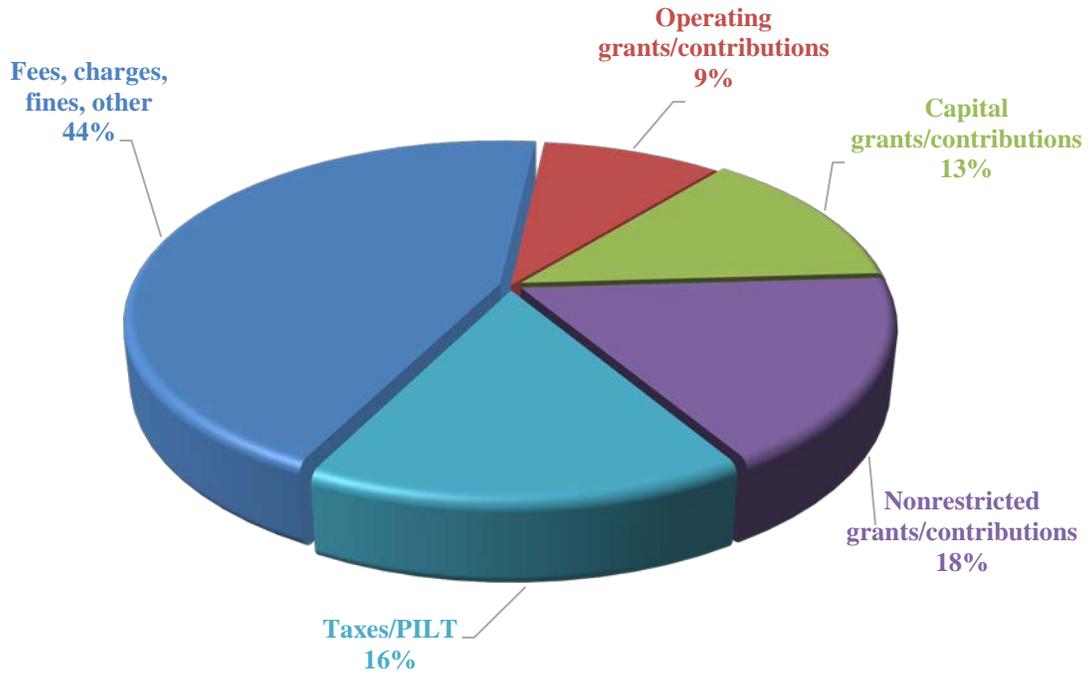
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 2,597,840	\$ 2,537,859	\$ 625,457	\$ 607,525	\$ 3,223,297	\$ 3,145,384
Capital assets	5,543,450	5,602,915	2,618,872	2,494,986	8,162,322	8,097,901
Total assets	\$ 8,141,290	\$ 8,140,774	\$ 3,244,329	\$ 3,102,511	\$ 11,385,619	\$ 11,243,285
Deferred outflows - pension	\$ 213,622	\$ 330,017	\$ 22,807	\$ 56,074	\$ 236,429	\$ 386,091
Other liabilities	\$ 53,654	\$ 50,894	\$ 59,490	\$ 31,220	\$ 113,144	\$ 82,114
Long-term liabilities outstanding	1,816,664	2,040,148	861,404	794,970	2,678,068	2,835,118
Total liabilities	\$ 1,870,318	\$ 2,091,042	\$ 920,894	\$ 826,190	\$ 2,791,212	\$ 2,917,232
Deferred inflows - pension	\$ 284,330	\$ 432,736	\$ 38,697	\$ 74,997	\$ 323,027	\$ 507,733
Net position						
Net investment in capital assets	\$ 4,036,233	\$ 3,666,915	\$ 1,956,527	\$ 1,787,241	\$ 5,992,760	\$ 5,454,156
Restricted	252,227	278,695	42,108	17,585	294,335	296,280
Unrestricted	1,911,804	2,001,403	308,910	452,572	2,220,714	2,453,975
Total net position	\$ 6,200,264	\$ 5,947,013	\$ 2,307,545	\$ 2,257,398	\$ 8,507,809	\$ 8,204,411

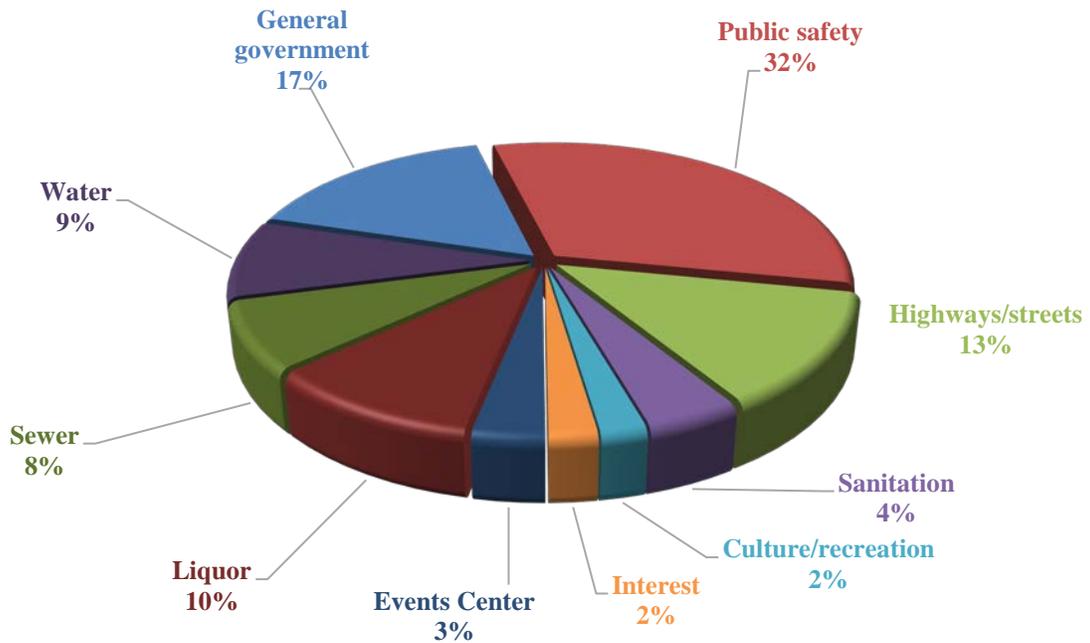
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	\$ 263,381	\$ 212,435	\$ 999,120	\$ 1,084,456	\$ 1,262,501	\$ 1,296,891
Operating grants and contributions	265,569	88,521	-	-	265,569	88,521
Capital grants and contributions	279,887	693,673	98,943	98,157	378,830	791,830
Property taxes	442,125	390,254	-	-	442,125	390,254
Franchise tax	4,447	11,420	-	-	4,447	11,420
Grants and contributions not restricted to specific programs	499,853	499,105	-	-	499,853	499,105
Payments in lieu of taxes	18,712	11,665	-	-	18,712	11,665
Investment earnings	13,800	6,066	2,013	1,097	15,813	7,163
Transfers	(45,000)	(45,000)	-	-	(45,000)	(45,000)
Total revenues and transfers	\$ 1,742,774	\$ 1,868,139	\$ 1,100,076	\$ 1,183,710	\$ 2,842,850	\$ 3,051,849
Expenses						
General government	\$ 348,488	\$ 241,689	\$ -	\$ -	\$ 348,488	\$ 241,689
Public safety	676,639	332,077	-	-	676,639	332,077
Highways and streets	276,579	291,831	-	-	276,579	291,831
Sanitation	92,222	66,693	-	-	92,222	66,693
Culture and recreation	45,004	58,994	-	-	45,004	58,994
Conservation of natural resources	2,090	5,539	-	-	2,090	5,539
Economic development	1,268	16,810	-	-	1,268	16,810
Interest	47,233	42,433	-	-	47,233	42,433
Events Center	-	-	75,697	90,377	75,697	90,377
Liquor	-	-	623,793	777,340	623,793	777,340
Sewer	-	-	163,033	134,806	163,033	134,806
Water	-	-	187,406	164,783	187,406	164,783
Total expenses	\$ 1,489,523	\$ 1,056,066	\$ 1,049,929	\$ 1,167,306	\$ 2,539,452	\$ 2,223,372
Increase (decrease) in net position	\$ 253,251	\$ 812,073	\$ 50,147	\$ 16,404	\$ 303,398	\$ 828,477
Net position - January 1, as previously reported	5,947,013	5,134,940	2,257,398	2,240,994	7,499,932	7,375,934
Net position, December 31	\$ 6,200,264	\$ 5,947,013	\$ 2,307,545	\$ 2,257,398	\$ 8,507,809	\$ 8,204,411

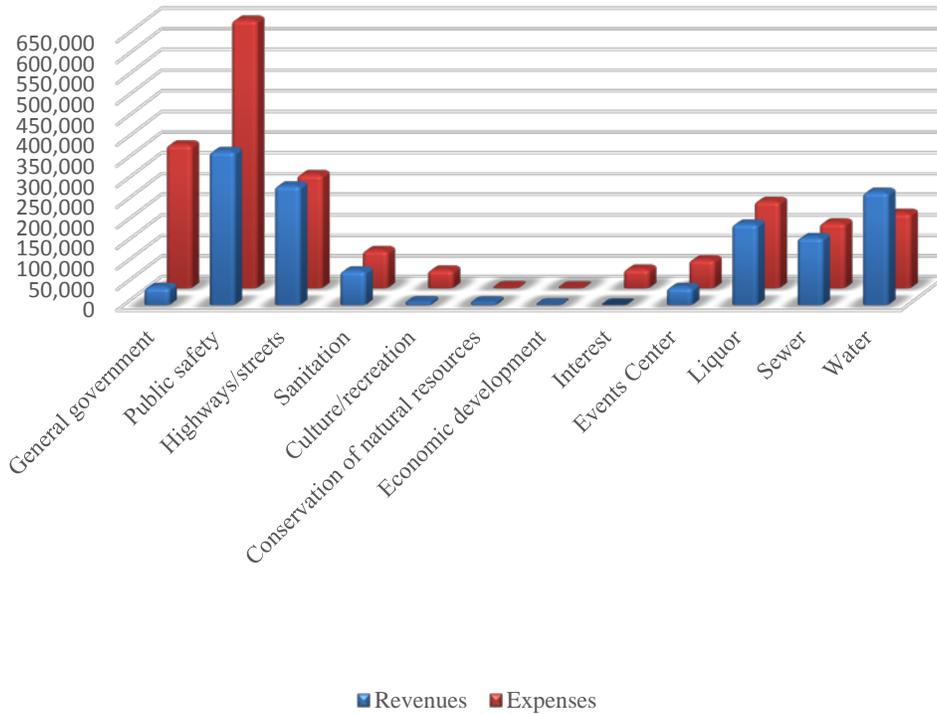
Revenues by Source



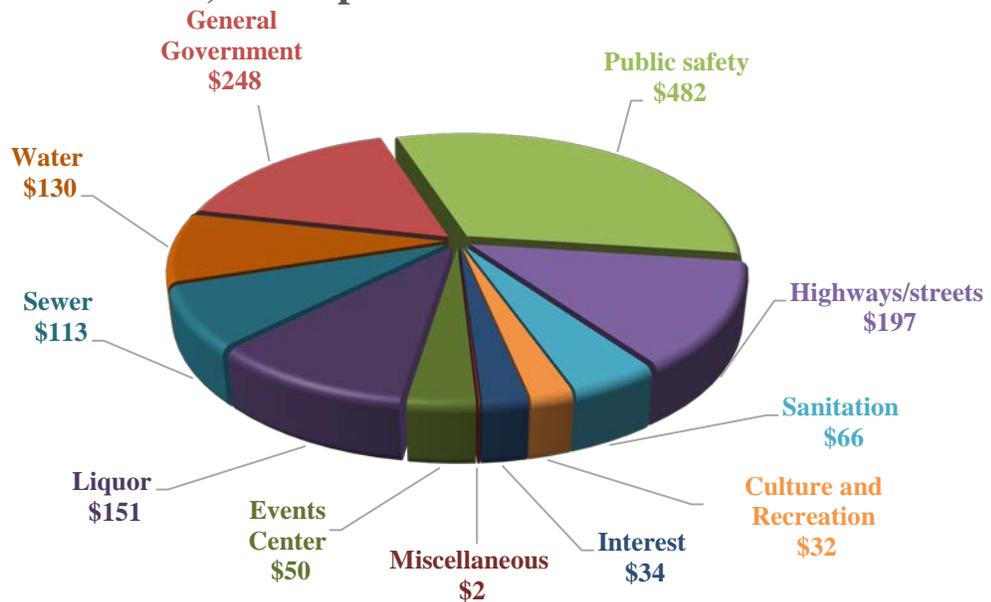
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 1,405 Population as of 2019



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 2019, the City's governmental funds reported combined ending fund balances of \$1,203,081. Of this amount, approximately 21 percent constitutes legally or contractually restricted fund balance, one percent constitutes formally committed fund balance, 31 percent constitutes specifically assigned fund balance, and 47 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 \$742,876. The General Fund's assigned fund balance was \$127,149 and the unassigned fund balance was \$615,457. The General Fund has no restricted fund balance or committed fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2019. Total fund balance represents 54 percent of total General Fund expenditures. In 2019, the fund balance amount in the General Fund decreased by \$27,129, as a result of underbudgeted capital outlay.

The fund balance of the 2003 Red Willow Heights I Debt Service Fund increased \$159,891 from the prior year, due to the transfer in of TIF funds to provide for the bond payments.

The fund balance of the 2006 Red Willow Heights II Debt Service Fund increased \$147,714 from the prior year, due to the transfer in of TIF funds to provide for the bond payments.

The fund balance of the Southeast Area and Main Avenue West Debt Service Fund increased by \$15,932 from the prior year, due to special assessments collected for debt service.

Proprietary Funds

The Events Center Enterprise Fund reported an operating loss in 2019 of \$26,499, indicating that it is not collecting fees for events at a rate higher than current expenses.

The Liquor Enterprise Fund reported an operating loss in 2019 of \$14,448, indicating that it is not collecting funds from sales of liquor at a rate higher than current expenses.

The Sewer Enterprise Fund reported an operating income in 2019 of \$5,319, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating loss in 2019 of \$7,058, indicating that it is not collecting fees at a rate higher than current expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2019.

Actual revenues were less than overall final budgeted revenues by \$183,457, and actual expenditures were more than overall final budgeted expenditures by \$267,229, mainly due to the receipt and disbursement of a federal grant for assistance to firefighters and the purchase of self-contained breathing apparatus equipment.

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, 2019, amounted to \$8,162,322. The total increase in the City's investment in capital assets for the current fiscal year was approximately one percent. This increase was primarily due to Minnesota Public Finance Authority funding for a wellhouse construction project in progress.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 69,819	\$ 69,819	\$ -	\$ -	\$ 69,819	\$ 69,819
Construction in progress	1,375	-	191,770	-	193,145	-
Infrastructure	4,877,296	5,027,971	2,026,762	2,104,484	6,904,058	7,132,455
Buildings and improvements	242,231	256,258	343,412	361,130	585,643	617,388
Machinery and equipment	352,729	248,867	56,928	29,372	409,657	278,239
Total capital assets	<u>\$ 5,543,450</u>	<u>\$ 5,602,915</u>	<u>\$ 2,618,872</u>	<u>\$ 2,494,986</u>	<u>\$ 8,162,322</u>	<u>\$ 8,097,901</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 \$2,142,676, net of bond discounts, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
G.O. Bonds	\$ 1,478,000	\$ 1,707,000	\$ -	\$ -	\$ 1,478,000	\$ 1,707,000
MN PFA	-	-	452,242	384,500	452,242	384,500
Revenue Bonds	-	-	154,000	175,000	154,000	175,000
Capital Notes	29,217	-	29,217	-	58,434	-
	<u>\$ 1,507,217</u>	<u>\$ 1,707,000</u>	<u>\$ 635,459</u>	<u>\$ 559,500</u>	<u>\$ 2,142,676</u>	<u>\$ 2,266,500</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2019, 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.

- 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 5.1 percent as of December 31, 2019. This is higher than the statewide rate of 3.5 percent and higher than the national average rate of 3.4 percent.
- Frazee's 2019 population according to the League of Minnesota Cities was 1,405, an increase of 55 since the 2010 census of 1,350.
- On December 9, 2019, the City of Frazee set its 2020 revenue and expenditure budgets.
- The City of Frazee is optimistic that it will continue to see further development within the City. With several new businesses in the community and new homes popping up every year, there continues to be a progressive and positive community attitude.
- The City of Frazee prides itself in providing the essential services to its citizens, while continually looking for ways to improve and grow. The City continues to apply for and receive assistance from outside agencies to help support ways to accomplish the community's goals.

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, 2019**

	<u>Primary Government</u>			Discretely Presented Component Unit
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Assets</u>				
Cash and pooled investments	\$ 518,477	\$ 426,581	\$ 945,058	\$ 186,677
Investments	715,964	126,718	842,682	10,339
Taxes receivable				
Current	6,590	-	6,590	-
Prior	21,505	-	21,505	-
Special assessments receivable				
Current	2,498	-	2,498	-
Prior	45,403	47	45,450	-
Accounts receivable	12,986	31,779	44,765	-
Due from other governments	220	-	220	-
Inventory	-	40,332	40,332	-
Notes receivable	42,171	-	42,171	79,579
Special assessments receivable - noncurrent	1,125,649	-	1,125,649	-
Net pension asset	106,377	-	106,377	-
Capital assets				
Non-depreciable	71,194	191,770	262,964	181,697
Depreciable - net of accumulated depreciation	5,472,256	2,427,102	7,899,358	116,064
Total Assets	\$ 8,141,290	\$ 3,244,329	\$ 11,385,619	\$ 574,356
<u>Deferred Outflows of Resources</u>				
Related to pensions	\$ 213,622	\$ 22,807	\$ 236,429	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 38,455	\$ 19,959	\$ 58,414	\$ 277
Salaries payable	13,095	7,962	21,057	-
Due to other governments	2,104	4,683	6,787	-
Contracts payable	-	26,886	26,886	-
Long-term liabilities				
Due within one year	231,131	53,285	284,416	-
Due in more than one year	1,300,680	623,015	1,923,695	-
Net pension liability	284,853	185,104	469,957	-
Total Liabilities	\$ 1,870,318	\$ 920,894	\$ 2,791,212	\$ 277
<u>Deferred Inflows of Resources</u>				
Related to pensions	\$ 284,330	\$ 38,697	\$ 323,027	\$ -
<u>Net Position</u>				
Net investment in capital assets	\$ 4,036,233	\$ 1,956,527	\$ 5,992,760	\$ 297,761
Amounts restricted for				
General government	8,443	-	8,443	-
Debt service	243,784	-	243,784	-
Water Infrastructure Replacement	-	42,108	42,108	-
Unrestricted amounts	1,911,804	308,910	2,220,714	276,318
Total Net Position	\$ 6,200,264	\$ 2,307,545	\$ 8,507,809	\$ 574,079

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Revenues		
		Operating	
	Expenses	Fees, Charges, Fines and Other	Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 348,488	\$ 43,854	\$ -
Public safety	676,639	114,826	258,541
Highways and streets	276,579	8,227	2,983
Sanitation	92,222	83,730	-
Culture and recreation	45,004	4,622	4,045
Conservation of natural resources	2,090	8,122	-
Economic development	1,268	-	-
Interest	47,233	-	-
Total governmental activities	\$ 1,489,523	\$ 263,381	\$ 265,569
Business-type activities			
Events Center	\$ 75,697	\$ 49,198	\$ -
Liquor	623,793	609,345	-
Sewer	163,033	164,765	-
Water	187,406	175,812	-
Total business-type activities	\$ 1,049,929	\$ 999,120	\$ -
Total Primary Government	\$ 2,539,452	\$ 1,262,501	\$ 265,569
Component Unit			
Economic Development Authority	\$ 43,488	\$ 23,370	\$ 9,793

General revenues and transfers

Property taxes
Franchise tax
Grants and contributions not restricted to specific programs
Payments in lieu of taxes
Investment earnings
Transfers

Total general revenues and transfers

Change in net position

Net Position - January 1

Net Position - December 31

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	
\$ -	\$ (304,634)	\$ -	\$ (304,634)	\$ -
-	(303,272)	-	(303,272)	-
279,106	13,737	-	13,737	-
-	(8,492)	-	(8,492)	-
-	(36,337)	-	(36,337)	-
-	6,032	-	6,032	-
781	(487)	-	(487)	-
-	(47,233)	-	(47,233)	-
\$ 279,887	\$ (680,686)	\$ -	\$ (680,686)	\$ -
\$ -	\$ -	\$ (26,499)	\$ (26,499)	\$ -
-	-	(14,448)	(14,448)	-
-	-	1,732	1,732	-
98,943	-	87,349	87,349	-
\$ 98,943	\$ -	\$ 48,134	\$ 48,134	\$ -
\$ 378,830	\$ (680,686)	\$ 48,134	\$ (632,552)	\$ -
\$ -	\$ -	\$ -	\$ -	\$ (10,325)
	\$ 442,125	\$ -	\$ 442,125	\$ -
	4,447	-	4,447	-
	499,853	-	499,853	-
	18,712	-	18,712	-
	13,800	2,013	15,813	144
	(45,000)	-	(45,000)	45,000
	\$ 933,937	\$ 2,013	\$ 935,950	\$ 45,144
	\$ 253,251	\$ 50,147	\$ 303,398	\$ 34,819
	5,947,013	2,257,398	8,204,411	539,260
	\$ 6,200,264	\$ 2,307,545	\$ 8,507,809	\$ 574,079

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service	Southeast Area and Main Avenue West Debt Service	Other Governmental Funds (Statement 1)	Total Governmental Funds
<u>Assets</u>						
Assets						
Cash and pooled investments	\$ 14,582	\$ -	\$ -	\$ 90,341	\$ 413,554	\$ 518,477
Investments	711,833	964	-	-	3,167	715,964
Taxes receivable						
Current	6,568	-	-	-	22	6,590
Prior	21,505	-	-	-	-	21,505
Special assessments receivable						
Current	-	-	-	1,508	990	2,498
Prior	-	11,146	-	29,255	5,002	45,403
Accounts receivable	11,448	-	-	-	1,538	12,986
Due from other funds	51,879	-	-	-	-	51,879
Due from other governments	220	-	-	-	-	220
Notes receivable	-	-	-	-	42,171	42,171
Special assessments receivable						
Noncurrent	-	202,401	296,346	489,840	137,062	1,125,649
Total Assets	\$ 818,035	\$ 214,511	\$ 296,346	\$ 610,944	\$ 603,506	\$ 2,543,342
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 38,455	\$ -	\$ -	\$ -	\$ -	\$ 38,455
Salaries payable	13,095	-	-	-	-	13,095
Due to other funds	-	-	11,940	-	39,939	51,879
Due to other governments	2,104	-	-	-	-	2,104
Total Liabilities	\$ 53,654	\$ -	\$ 11,940	\$ -	\$ 39,939	\$ 105,533
Deferred Inflows of Resources						
Taxes	\$ 21,505	\$ -	\$ -	\$ -	\$ -	\$ 21,505
Notes	-	-	-	-	42,171	42,171
Special assessments	-	213,547	296,346	519,095	142,064	1,171,052
Total Deferred Inflows of Resources	\$ 21,505	\$ 213,547	\$ 296,346	\$ 519,095	\$ 184,235	\$ 1,234,728
Fund Balances						
Restricted for						
Debt service	\$ -	\$ 964	\$ -	\$ 91,849	\$ 150,971	\$ 243,784
Perpetual care	-	-	-	-	8,443	8,443
Committed to						
Economic development	-	-	-	-	19,818	19,818
Assigned to						
General government	823	-	-	-	-	823
Fire equipment	2,000	-	-	-	-	2,000
Police equipment	97,104	-	-	-	-	97,104
Street equipment	18,692	-	-	-	-	18,692
Parks	8,800	-	-	-	-	8,800
Economic development	-	-	-	-	208,302	208,302
Sanitation	-	-	-	-	30,747	30,747
Unassigned	615,457	-	(11,940)	-	(38,949)	564,568
Total Fund Balances	\$ 742,876	\$ 964	\$ (11,940)	\$ 91,849	\$ 379,332	\$ 1,203,081
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 818,035	\$ 214,511	\$ 296,346	\$ 610,944	\$ 603,506	\$ 2,543,342

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019**

Fund balances - total governmental funds (Exhibit 3)	\$	1,203,081
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		5,543,450
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.</p>		1,234,728
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable	\$ (25,011)	
Capital notes payable	(29,217)	
General obligation bonds payable (net of discount)	(1,477,583)	(1,531,811)
<p>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:</p>		
Deferred outflows of resources related to pensions	\$ 213,622	
Deferred inflows of resources related to pensions	(284,330)	
Net pension asset	106,377	
Net pension liability	(284,853)	(249,184)
Net position of governmental activities (Exhibit 1)	\$	<u>6,200,264</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service	Southeast Area and and Main Avenue West Debt Service	Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues						
Taxes	\$ 343,662	\$ -	\$ -	\$ -	\$ 97,067	\$ 440,729
Special assessments	-	1,671	9,224	57,602	37,821	106,318
Licenses and permits	25,895	-	-	-	-	25,895
Intergovernmental	780,089	-	-	-	-	780,089
Charges for services	171,916	-	-	-	8,122	180,038
Fines and forfeitures	8,227	-	-	-	-	8,227
Investment earnings	13,730	7	-	-	63	13,800
Gifts and contributions	4,045	-	-	-	-	4,045
Miscellaneous	13,691	-	-	-	10,889	24,580
Total Revenues	\$ 1,361,255	\$ 1,678	\$ 9,224	\$ 57,602	\$ 153,962	\$ 1,583,721
Expenditures						
Current						
General government	\$ 359,927	\$ -	\$ -	\$ -	\$ 7,398	\$ 367,325
Public safety	615,104	-	-	-	-	615,104
Highways and streets	112,556	-	-	-	-	112,556
Sanitation	92,222	-	-	-	-	92,222
Culture and recreation	33,541	-	-	-	-	33,541
Conservation of natural resources	-	-	-	-	2,090	2,090
Economic development	-	-	-	-	1,268	1,268
Debt service						
Principal retirement	2,426	30,000	70,000	30,000	99,000	231,426
Interest	460	1,550	14,650	11,670	18,484	46,814
Capital outlay						
Public safety	28,940	-	-	-	-	28,940
Highways and streets	129,851	-	-	-	-	129,851
Total Expenditures	\$ 1,375,027	\$ 31,550	\$ 84,650	\$ 41,670	\$ 128,240	\$ 1,661,137
Excess of Revenues Over (Under) Expenditures	\$ (13,772)	\$ (29,872)	\$ (75,426)	\$ 15,932	\$ 25,722	\$ (77,416)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 189,763	\$ 223,140	\$ -	\$ 101,603	\$ 514,506
Transfers out	(45,000)	-	-	-	(514,506)	(559,506)
Proceeds from issuance of debt	31,643	-	-	-	-	31,643
Total Other Financing Sources (Uses)	\$ (13,357)	\$ 189,763	\$ 223,140	\$ -	\$ (412,903)	\$ (13,357)
Net Change in Fund Balance	\$ (27,129)	\$ 159,891	\$ 147,714	\$ 15,932	\$ (387,181)	\$ (90,773)
Fund Balance - January 1	770,005	(158,927)	(159,654)	75,917	766,513	1,293,854
Fund Balance - December 31	\$ 742,876	\$ 964	\$ (11,940)	\$ 91,849	\$ 379,332	\$ 1,203,081

**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, 2019**

Net change in fund balance - total governmental funds (Exhibit 5) **\$ (90,773)**

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	\$ 158,791	
Current year depreciation	(203,423)	
Net book value of disposed assets	(14,833)	(59,465)

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	\$ 5,843	
Special assessments receivable	172,788	
Notes receivable	(5,423)	173,208

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	\$ (31,643)	
Principal repayments on debt	231,426	199,783

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		
Unamortized bond discount	\$ (419)	
Compensated absences payable	26,773	26,354

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	\$ (25,214)	
Net pension liability	(2,653)	
Deferred outflows of resources related to pensions	(116,395)	
Deferred inflows of resources related to pensions	148,406	4,144

Change in net position of governmental activities (Exhibit 2) **\$ 253,251**

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>					
Current Assets					
Cash and pooled investments	\$ 73,044	\$ 61,748	\$ 132,216	\$ 159,573	\$ 426,581
Investments	-	-	76,193	50,525	126,718
Special assessments receivable					
Prior	-	-	-	47	47
Accounts receivable	-	-	16,030	15,749	31,779
Inventory	-	40,332	-	-	40,332
Total Current Assets	\$ 73,044	\$ 102,080	\$ 224,439	\$ 225,894	\$ 625,457
Noncurrent Assets					
Capital assets					
Non-depreciable	\$ -	\$ -	\$ -	\$ 191,770	\$ 191,770
Depreciable - net of accumulated depreciation	\$ 325,848	\$ 28,674	\$ 758,027	\$ 1,314,553	\$ 2,427,102
Total Noncurrent Assets	\$ 325,848	\$ 28,674	\$ 758,027	\$ 1,506,323	\$ 2,618,872
Total Assets	\$ 398,892	\$ 130,754	\$ 982,466	\$ 1,732,217	\$ 3,244,329
<u>Deferred Outflows of Resources</u>					
Related to pensions	\$ 1,112	\$ 7,502	\$ 4,168	\$ 10,025	\$ 22,807
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 2,722	\$ 10,732	\$ 3,664	\$ 2,841	\$ 19,959
Salaries payable	384	2,491	2,452	2,635	7,962
Compensated absences payable	-	-	3,474	1,187	4,661
Due to other governments	142	4,518	23	-	4,683
Capital notes payable	-	-	5,971	-	5,971
Bonds payable	-	-	16,500	26,153	42,653
Total Current Liabilities	\$ 3,248	\$ 17,741	\$ 32,084	\$ 32,816	\$ 85,889
Noncurrent Liabilities					
Compensated absences payable	\$ -	\$ -	\$ 9,200	\$ 26,980	\$ 36,180
Net pension liability	11,943	80,610	44,783	47,768	185,104
Capital notes payable	-	-	23,246	-	23,246
Bonds payable	-	-	173,000	390,589	563,589
Total Noncurrent Liabilities	\$ 11,943	\$ 80,610	\$ 250,229	\$ 465,337	\$ 808,119
Total Liabilities	\$ 15,191	\$ 98,351	\$ 282,313	\$ 498,153	\$ 894,008
<u>Deferred Inflows of Resources</u>					
Related to pensions	\$ 2,497	\$ 16,852	\$ 9,362	\$ 9,986	\$ 38,697
<u>Net Position</u>					
Net investment in capital assets	\$ 325,848	\$ 28,674	\$ 539,310	\$ 1,062,695	\$ 1,956,527
Restricted for					
Water Infrastructure Replacement	-	-	-	42,108	42,108
Unrestricted amounts	56,468	(5,621)	155,649	102,414	308,910
Total Net Position	\$ 382,316	\$ 23,053	\$ 694,959	\$ 1,207,217	\$ 2,307,545

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Sales and Cost of Goods Sold					
Sales	\$ 26,840	\$ 604,527	\$ -	\$ -	\$ 631,367
Cost of goods sold	(5,644)	(411,683)	-	-	(417,327)
Gross Profit	\$ 21,196	\$ 192,844	\$ -	\$ -	\$ 214,040
Operating Revenues					
Charges for services	-	-	164,765	174,662	339,427
Special assessments	-	-	-	1,150	1,150
Miscellaneous	22,358	4,818	-	-	27,176
Total Gross Profit and Operating Revenues	\$ 43,554	\$ 197,662	\$ 164,765	\$ 175,812	\$ 581,793
Operating Expenses					
Personnel services	\$ 20,403	\$ 131,692	\$ 92,668	\$ 93,038	\$ 337,801
Advertising	4,411	1,562	-	-	5,973
Entertainment	-	5,390	-	-	5,390
Insurance	4,020	9,876	3,215	2,443	19,554
Repairs and maintenance	4,662	9,369	9,722	12,623	36,376
Supplies	6,786	11,395	4,966	8,685	31,832
Utilities	12,256	26,396	18,038	9,553	66,243
Miscellaneous	244	14,335	2,084	5,121	21,784
Depreciation	17,271	2,095	28,753	51,407	99,526
Total Operating Expenses	\$ 70,053	\$ 212,110	\$ 159,446	\$ 182,870	\$ 624,479
Operating Income (Loss)	\$ (26,499)	\$ (14,448)	\$ 5,319	\$ (7,058)	\$ (42,686)
Nonoperating Revenues (Expenses)					
Intergovernmental	\$ -	\$ -	\$ -	\$ 98,943	\$ 98,943
Investment earnings	-	132	883	998	2,013
Interest expense	-	-	(3,587)	(4,536)	(8,123)
Total Nonoperating Revenues (Expenses)	\$ -	\$ 132	\$ (2,704)	\$ 95,405	\$ 92,833
Change in Net Position	\$ (26,499)	\$ (14,316)	\$ 2,615	\$ 88,347	\$ 50,147
Net Position - January 1	408,815	37,369	692,344	1,118,870	2,257,398
Net Position - December 31	\$ 382,316	\$ 23,053	\$ 694,959	\$ 1,207,217	\$ 2,307,545

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019
Increase (Decrease) in Cash and Cash Equivalents**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities					
Receipts from customers	\$ 49,170	\$ 609,156	\$ 163,816	\$ 177,943	\$ 1,000,085
Payments to employees	(19,212)	(131,772)	(91,858)	(99,696)	(342,538)
Payments to suppliers	(38,187)	(485,441)	(35,217)	(39,814)	(598,659)
Net cash provided by (used in) operating activities	\$ (8,229)	\$ (8,057)	\$ 36,741	\$ 38,433	\$ 58,888
Cash Flows from Capital and Related Financing Activities					
Capital grants received	\$ -	\$ -	\$ -	\$ 98,943	\$ 98,943
Purchase of capital assets	-	-	(31,642)	(164,884)	(196,526)
Proceeds from issuance of debt	-	-	29,217	87,742	116,959
Revenue bond payments	-	-	(19,385)	(24,500)	(43,885)
Interest paid	-	-	(3,587)	(4,536)	(8,123)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ (25,397)	\$ (7,235)	\$ (32,632)
Cash Flows from Investing Activities					
Investment earnings received	\$ -	\$ 132	\$ 883	\$ 998	\$ 2,013
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (8,229)	\$ (7,925)	\$ 12,227	\$ 32,196	\$ 28,269
Cash and Cash Equivalents at January 1	81,273	69,673	196,182	177,902	525,030
Cash and Cash Equivalents at December 31	\$ 73,044	\$ 61,748	\$ 208,409	\$ 210,098	\$ 553,299
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (26,499)	\$ (14,448)	\$ 5,319	\$ (7,058)	\$ (42,686)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities					
Depreciation expense	\$ 17,271	\$ 2,095	\$ 28,753	\$ 51,407	\$ 99,526
Decrease (increase) in assets					
Accounts receivable	-	-	(844)	1,187	343
Inventory	-	10,041	-	-	10,041
Increase (decrease) in liabilities					
Accounts payable	837	(3,929)	1,751	204	(1,137)
Salaries payable	384	494	943	912	2,733
Due to other governments	98	(149)	23	(161)	(189)
Compensated absences payable	-	-	(865)	(1,151)	(2,016)
Net pension liability	(320)	(2,161)	1,661	(6,907)	(7,727)
Total adjustments	\$ 18,270	\$ 6,391	\$ 31,422	\$ 45,491	\$ 101,574
Net cash provided by (used in) operating activities	\$ (8,229)	\$ (8,057)	\$ 36,741	\$ 38,433	\$ 58,888

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

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 2003 Red Willow Heights I Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Refunding Bonds of 2010 for the Red Willow Heights I project. Financing is provided by special assessments restricted for debt service.

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 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.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

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.

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, 2019, 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 2019 were \$8,804. Total investment earnings for 2019 were \$15,813.

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.

**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)

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2003 through 2019 and deferred special assessments collectible in 2020 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.

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 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 capitalization value of the assets constructed. During the current period, the City did not have any capitalized interest.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

The City of Frazee has elected to report infrastructure acquired prior to periods ending after June 30, 1980.

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

Assets	Years
Infrastructure	30-40
Buildings and improvements	20-40
Machinery and equipment	5-30

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.

**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)

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.

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.

**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)

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, 2019.

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.

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, 2019.

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.

**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)

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.

II. Stewardship, Compliance, and Accountability

Deficit Fund Balances

The following debt service funds had deficit fund balances as of December 31, 2019 which will be eliminated with future special assessments:

2006 Red Willow Heights II Debt Service Fund:	\$11,940
2016 Improvements and Refunding Debt Service Fund:	\$ 9,038
Southeast Area Streets and Utilities Debt Service Fund:	\$29,911

Deficit Unrestricted Net Position

The Liquor Enterprise Fund had a deficit unrestricted net position of \$5,621 as of December 31, 2019.

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, 2019, are as follows:

Governmental Activities	
Cash and pooled investments	\$ 518,477
Investments	715,964
	<u>\$ 1,234,441</u>
Business-Type Activities	
Cash and pooled investments	\$ 426,581
Investments	126,718
	<u>\$ 553,299</u>
Component Units	
Cash and pooled investments	\$ 186,677
Investments	10,339
	<u>\$ 197,016</u>
Total Cash and Investments	<u>\$ 1,984,756</u>
Checking Accounts	\$ 1,131,735
Savings Accounts	127,419
Certificates of Deposit	103,273
Municipal Money Market Fund	267,622
Negotiable Certificates of Deposit	354,707
	<u>\$ 1,984,756</u>
Total Deposits and Investments	<u>\$ 1,984,756</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, 2019, 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, 2019, the City's investments in a Minnesota Municipal Money Market Fund with a fair value of \$267,622, and negotiable certificates of deposit with a fair value of \$354,707 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, 2019, is in the nonrated Minnesota Municipal Money Market Fund with a fair value of \$267,622.

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, 2019, 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 14 percent of the City's portfolio, and negotiable certificates of deposit, which constitute 18 percent of the City's portfolio.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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:

- 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, 2019, the City's investment in the Minnesota Municipal Money Market Fund in the amount of \$267,622 were rated as a level 1 investment. At December 31, 2019, the City's investment in negotiable certificates of deposit in the amount of \$354,707 were rated as a level 2 investment, valued using a market approach based on the securities' relationship to benchmark quoted prices. The City had no level 3 investments.

2. Receivables

Receivables as of December 31, 2019, 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>
Governmental Activities		
Taxes	\$ 28,095	\$ -
Special assessments	1,173,550	1,125,649
Accounts	12,986	-
Due from other governments	220	-
Notes	42,171	35,300
	<u>\$ 1,257,022</u>	<u>\$ 1,160,949</u>
Business-Type Activities		
Special assessments	\$ 47	\$ -
Accounts	31,779	-
	<u>\$ 31,826</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, 2019, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 69,819	\$ -	\$ -	\$ 69,819
Construction in progress	-	1,375	-	1,375
Total capital assets not depreciated	<u>\$ 69,819</u>	<u>\$ 1,375</u>	<u>\$ -</u>	<u>\$ 71,194</u>
Capital assets being depreciated				
Infrastructure	\$ 6,074,740	\$ -	\$ -	\$ 6,074,740
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	915,240	157,416	37,081	1,035,575
Total capital assets being depreciated	<u>\$ 7,735,580</u>	<u>\$ 157,416</u>	<u>\$ 37,081</u>	<u>\$ 7,855,915</u>
Less: accumulated depreciation for				
Infrastructure	\$ 1,046,769	\$ 150,675	\$ -	\$ 1,197,444
Buildings and improvements	489,342	14,027	-	503,369
Machinery and equipment	666,373	38,721	22,248	682,846
Total accumulated depreciation	<u>\$ 2,202,484</u>	<u>\$ 203,423</u>	<u>\$ 22,248</u>	<u>\$ 2,383,659</u>
Total capital assets, depreciated, net	<u>\$ 5,533,096</u>	<u>\$ (46,007)</u>	<u>\$ 14,833</u>	<u>\$ 5,472,256</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,602,915</u>	<u>\$ (44,632)</u>	<u>\$ 14,833</u>	<u>\$ 5,543,450</u>
Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 191,770	\$ -	\$ 191,770
Capital assets being depreciated				
Infrastructure	\$ 2,538,403	\$ -	\$ -	\$ 2,538,403
Buildings and equipment	1,137,670	-	-	1,137,670
Machinery and equipment	396,027	31,642	-	427,669
Total capital assets being depreciated	<u>\$ 5,492,201</u>	<u>\$ 31,642</u>	<u>\$ -</u>	<u>\$ 4,103,742</u>
Less: accumulated depreciation for				
Infrastructure	\$ 433,919	\$ 77,722	\$ -	\$ 511,641
Buildings and improvements	776,540	17,718	-	794,258
Machinery and equipment	366,655	4,086	-	370,741
Total accumulated depreciation	<u>\$ 1,577,114</u>	<u>\$ 99,526</u>	<u>\$ -</u>	<u>\$ 1,676,640</u>
Total capital assets, depreciated, net	<u>\$ 3,915,087</u>	<u>\$ (67,884)</u>	<u>\$ -</u>	<u>\$ 2,427,102</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,915,087</u>	<u>\$ 123,886</u>	<u>\$ -</u>	<u>\$ 2,618,872</u>

**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:

Governmental Activities		
General government	\$	3,527
Public safety		30,889
Highways and streets		157,544
Culture and recreation		<u>11,463</u>
Total Depreciation Expense - Governmental Activities	\$	<u>203,423</u>
Business-Type Activities		
Events Center	\$	17,271
Liquor		2,095
Sewer		28,753
Water		<u>51,407</u>
Total Depreciation Expense - Business-Type Activities	\$	<u>99,526</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2019 is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	2006 Red Willow Heights II Debt Service Fund	\$ 11,940	To cover cash deficit
General Fund	2016 Improvements and Refunding Debt Service Fund	10,028	To cover cash deficit
General Fund	Southeast Area Streets and Utilities Debt Service Fund	<u>29,911</u>	To cover cash deficit
Total Due To Other Funds		<u>\$ 51,879</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, 2019, consisted of the following operating transfers:

Transfer to Economic Development Authority Component Unit Fund from General Fund	\$ 45,000	Annual appropriation
Transfer to 2003 Red Willow Heights I Debt Service Fund from TIF 1-3 Red Willow Heights Special Revenue Fund	189,763	TIF assessments for debt service
Transfer to 2006 Red Willow Heights II Debt Service Fund from TIF 1-3 Red Willow Heights Special Revenue Fund	223,140	TIF assessments for debt service
Transfer to SCDP Special Revenue Fund from SCDP Capital Projects Fund	<u>101,603</u>	To reclassify fund
Total Interfund Transfers	<u>\$ 559,506</u>	

C. Liabilities

Compensated Absences

Under the City's personnel policy, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 15 days per year. Sick leave accrual is 12 days per year. Under the City's employment policy, leave may be accumulated to a maximum of 25 days of vacation and 120 days of sick leave for employees hired before April 4, 2006 and 100 days sick leave for employees hired after April 6, 2006. Unvested sick leave, approximately \$27,870 at December 31, 2019, 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 Improvement Refunding Bonds of 2010 represent debt incurred to refund the City's General Obligation Improvement Bonds of 2003. These bonds have an original issue amount of \$465,000. They carry a net interest rate of 2.2936 percent and are due in annual installments from the Red Willow Heights I Debt Service Fund of \$15,000 through February 1, 2020. As a result of the advanced refunding, the City of Frazee realized an economic gain of \$24,199 with a present value of \$21,653. The balance outstanding at December 31, 2019 is \$15,000, net of unamortized bond discount of \$417.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee General Obligation Refunding Bonds, Series 2012A (Rural Water MIDI Loan) represents 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 Services Fund of \$50,000 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, 2019 is \$440,000.

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 \$22,000 to \$40,000 through February 1, 2024. The balance outstanding at December 31, 2019 is \$146,000.

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 \$31,000 to \$39,000 through February 1, 2027. The balance outstanding at December 31, 2019 is \$278,000.

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 \$3,000 to \$34,000 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, 2019 is \$225,000.

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 \$37,000 to \$47,000 through February 1, 2028. The balance outstanding at December 31, 2019 is \$374,000.

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 \$7,982 to \$11,941 through 2024. The balance outstanding from the General Fund at December 31, 2019 is \$29,217.

**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 \$21,000 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, 2019 is \$144,000.

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, 2019 is \$364,500.

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 and carries a net interest rate of 1 percent and is due in annual installments from the Water Enterprise Fund of \$1,653 to \$69,000 through 2022. The balance outstanding at December 31, 2019 is \$87,742.

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 \$7,982 to \$11,941 through 2024. The balance outstanding from the Sewer Enterprise Fund at December 31, 2019 is \$29,217.

Debt Service Requirements

Debt service requirements for governmental activities and business-type activities at December 31, 2019, are as follows:

Year End December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 211,970	\$ 40,245	\$ 48,624	\$ 8,920
2021	220,189	34,180	116,189	7,827
2022	202,416	28,217	64,504	6,361
2023	206,651	22,381	47,651	5,251
2024	200,991	16,546	43,991	4,333
2025-2029	465,000	21,768	157,000	12,335
2030-2034	-	-	112,000	5,665
2035-2037	-	-	45,500	680
	\$ 1,507,217	\$ 163,337	\$ 635,459	\$ 51,372
Less: Bond discount	(417)	-	-	-
Total	\$ 1,506,800	\$ 163,337	\$ 635,459	\$ 51,372

**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, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Improvement Refunding of 2010	\$ 45,000	\$ -	\$ 30,000	\$ 15,000	15,000
Less: Bond discount	(417)	-	-	(417)	-
Refunding, Series 2012A	510,000	-	70,000	440,000	50,000
Improvement of 2013	185,000	-	39,000	146,000	40,000
Improvement of 2014A	308,000	-	30,000	278,000	31,000
Improvement Refunding of 2016A	255,000	-	30,000	225,000	33,000
Improvement of 2017	404,000	-	30,000	374,000	37,000
Capital Notes - installment purchase	-	31,643	2,426	29,217	5,970
Total	\$ 1,706,583	\$ 31,643	\$ 231,426	\$ 1,506,800	\$ 211,970
Compensated Absences	51,783	26,547	53,319	25,011	13,988
Net Pension Liability	282,200	2,652	-	284,852	-
Governmental Activities Long-Term Liabilities	<u>\$ 2,040,566</u>	<u>\$ 60,842</u>	<u>\$ 284,745</u>	<u>\$ 1,816,663</u>	<u>\$ 225,958</u>

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
General Obligation Bonds					
Improvement and Refunding Bonds	\$ 175,000	\$ -	\$ 21,000	\$ 154,000	\$ 21,000
PFA Revolving Loans	384,500	87,742	20,000	452,242	21,653
Capital Notes - installment purchase	-	31,642	2,425	29,217	5,971
Total	\$ 559,500	\$ 119,384	\$ 43,425	\$ 635,459	\$ 48,624
Compensated Absences	42,857	10,865	12,880	40,842	50,168
Net Pension Liability	192,613	-	7,510	185,103	-
Business-Type Activities Long-Term Liabilities	<u>\$ 794,970</u>	<u>\$ 130,249</u>	<u>\$ 63,815</u>	<u>\$ 861,404</u>	<u>\$ 98,792</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, 2019, are summarized below by fund:

	<u>Taxes</u>	<u>Notes Receivable</u>	<u>Special Assessments</u>	<u>Total</u>
Major governmental funds				
General	\$ 21,505	\$ -	\$ -	\$ 21,505
Debt Service Funds				
2003 Red Willow Heights I	-	-	213,547	213,547
2006 Red Willow Heights II	-	-	296,346	296,346
Southeast Area and Main Avenue West	-	-	519,095	519,095
Non-major governmental funds				
Special Revenue Funds				
Revolving Loan Pool	-	13,583	-	13,583
Small Cities Development Project	-	28,588	-	28,588
Debt Service Funds				
2016 Improvements and Refunding	-	-	44,778	44,778
County Road 118	-	-	77,602	77,602
Southeast Area Streets and Utilities	-	-	19,684	19,684
Total Deferred Inflows:	<u>\$ 21,505</u>	<u>\$ 42,171</u>	<u>\$ 1,171,052</u>	<u>\$ 1,234,728</u>

IV. Defined Benefit Pension Plans

A. Plan Descriptions

The City of Frazee participates in the following cost-sharing multiple-employer defined benefit pension plans 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

Eligible 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 Fund

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. 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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be 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 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be 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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

B. Benefits Provided

2. Police and Fire Plan Benefits (Continued)

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.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019. 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, 2019, were \$29,798. 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 member's contribution rates increased from 10.8 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$29,262. 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, 2019, the City of Frazee reported a liability of \$298,554 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 to the fund in 2019. The State of Minnesota 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 \$9,333. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the 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, 2018 through June 30, 2019. At June 30, 2019, The City of Frazee's proportionate share was .0054 percent which was a decrease of .0002 percent from its proportion measured as of June 30, 2018.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

Proportionate share of the net pension liability	\$	298,554
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee		9,333
Total	\$	307,887

There were no provision changes during the measurement period.

For the year ended December 31, 2019, the City of Frazee recognized pension expense of \$23,600 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional \$699 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, 2019, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,212	\$ -
Changes in actuarial assumptions	-	19,912
Net collective difference between projected and actual investment earnings investment earnings	-	30,122
Changes in proportion	9,576	12,380
Contributions paid to PERA subsequent to the measurement date	14,678	-
Total	\$ 32,466	\$ 62,414

\$14,678 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount:
2020	\$ (16,421)
2021	\$ (20,906)
2022	\$ (7,780)
2023	\$ 481
2024	\$ -

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2019, The City of Frazee reported a liability of \$171,401 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2019, the City of Frazee's proportion was .016, an increase of .001 percent from its proportionate share measured as of June 30, 2019. The City of Frazee also recognized \$2,173 for the year ended December 31, 2019, 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. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

There were no provision changes during the measurement period

For the year ended December 31, 2019, the City of Frazee recognized pension expense of \$15,769 for its proportionate share of the Police and Fire Plan's pension expense.

As of December 31, 2019, 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	\$ 6,972	\$ 23,946
Changes in actuarial assumptions	141,352	179,579
Net collective difference between projected and actual investment earnings	-	32,494
Changes in proportion	9,818	23,852
Contributions paid to PERA subsequent to the measurement date	<u>14,603</u>	<u> </u>
Total	<u>\$ 172,745</u>	<u>\$ 259,871</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

\$14,603 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount:
2020	\$ (10,955)
2021	\$ (25,600)
2022	\$ (68,295)
2023	\$ 2,025
2024	\$ 1,097

Total Pension Expense

The total pension expense for all plans recognized by the City of Frazee for the year ended December 31, 2019, was \$53,418.

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the result of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2019:

1. General Employees Fund

Changes in Assumptions

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

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State’s special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2. Police and Fire Fund

Changes in 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

G. 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:

Sensitivity Analysis			Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>			<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
General Employees Fund			Police and Fire Fund		
1% Lower	6.50%	\$ 490,807	1% Lower	6.50%	\$ 374,650
Current Discount Rate	7.50%	\$ 298,554	Current Discount Rate	7.50%	\$ 171,401
1% Higher	8.50%	\$ 139,811	1% Higher	8.50%	\$ 3

H. 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.

V. Defined Benefit Pension Plan – Firefighters Relief Association

A. Plan Description

Firefighters of the City of Frazee are members of the Frazee Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association’s by-laws. As of December 31, 2019, membership includes 27 active participants and 7 deferred members entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association (Continued)

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.

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
<hr/>	
=	Total Contribution Required
<hr/>	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

C. Contributions (Continued)

The Plan is funded in part by Fire State Aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$28,760 in Fire State Aid paid by the City to the Relief Association for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2019, there was no statutorily-required City contribution to the plan.

D. Pension Costs

At December 31, 2019, the City reported an asset of \$106,377 for the Association’s net pension asset. The net pension asset was measured as of December 31, 2018, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. As a result of no requirement to contribute to the Relief Association, the City recognized a net pension expense of \$0 for the year ended December 31, 2019.

As December 31, 2019, the City reported deferred outflows and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability	\$ -	\$ 742
Net difference between projected and actual investment earnings	30,318	-
Total	<u>\$ 30,318</u>	<u>\$ 742</u>

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:
2020	\$ 9,602
2021	4,296
2022	4,861
2023	11,187
2024	(93)
2025	(277)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association (Continued)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2019, 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	1/1/2018
FRA Plan Fiscal Year Beginning	1/1/2018
FRA Plan Fiscal Year Ending	12/31/2018
Employer Fiscal Year Beginning	1/1/2019
Employer Fiscal Year Ending	12/31/2019
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%

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, 2019 are summarized in the following table:

Asset Class	Allocation at December 31, 2018	Long-term Expected Real Rate of Return
Cash and equivalents	17.00%	2.25%
Equities	55.00%	3.80%
Fixed income	28.00%	7.00%
Total	100.00%	5.25%

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association (Continued)

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:

	1% Decrease (4.25%)	Discount Rate (5.25%)	1% Increase (6.25%)
Proportionate share of			
Net Pension Asset	\$ (94,701)	\$ (106,377)	\$ (117,657)

H. Pension Plan Fiduciary Net Position

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board (Continued)

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. Complete financial information can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

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

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, 2019, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2019 were \$144.

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. During the current period, the component units did not have any capitalized interest.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Position

c. Capital Assets (Continued)

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.

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.

C. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Capital Assets

Capital asset activity for the component unit for the year ended December 31, 2019, was as follows:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

C. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land				
Economic Development Authority	\$ 181,697	\$ -	\$ -	\$ 181,697
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 164,932	\$ -	\$ -	\$ 164,932
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 43,367	\$ 5,501	\$ -	\$ 48,868
Total accumulated depreciation	\$ 43,367	\$ 5,501	\$ -	\$ 48,868
Total capital assets, depreciated, net	\$ 121,565	\$ (5,501)	\$ -	\$ 116,064
Total Capital Assets, Net	\$ 303,262	\$ (5,501)	\$ -	\$ 297,761

Depreciation Expense

Depreciation expense of \$5,501 was charged to the Economic Development Authority.

D. 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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 366,061	\$ 366,061	\$ 343,662	\$ (22,399)
Licenses and permits	19,600	19,600	25,895	6,295
Intergovernmental	583,788	583,788	780,089	196,301
Charges for services	170,049	170,049	171,916	1,867
Fines and forfeitures	9,500	9,500	8,227	(1,273)
Investment earnings	2,000	2,000	13,730	11,730
Gifts and contributions	5,600	5,600	4,045	(1,555)
Miscellaneous	21,200	21,200	13,691	(7,509)
Total Revenues	\$ 1,177,798	\$ 1,177,798	\$ 1,361,255	\$ 183,457
Expenditures				
Current				
General government				
Mayor/council	\$ 17,875	\$ 17,875	\$ 15,012	\$ 2,863
Financial administration	259,758	259,758	305,266	(45,508)
Assessor	-	-	9,000	(9,000)
Planning commission	12,650	12,650	30,649	(17,999)
Total general government	\$ 290,283	\$ 290,283	\$ 359,927	\$ (69,644)
Public safety				
Police	\$ 323,110	\$ 323,110	\$ 318,879	\$ 4,231
Fire	94,700	94,700	261,595	(166,895)
Fire relief association	23,000	23,000	29,501	(6,501)
Rescue squad	3,650	3,650	5,129	(1,479)
Total public safety	\$ 444,460	\$ 444,460	\$ 615,104	\$ (170,644)
Highways and streets				
Street department	\$ 120,095	\$ 120,095	\$ 71,279	\$ 48,816
Snow removal	12,550	12,550	19,933	(7,383)
Street lighting	23,600	23,600	21,344	2,256
Total highways and streets	\$ 156,245	\$ 156,245	\$ 112,556	\$ 43,689
Sanitation				
Recycling	\$ 1,535	\$ 1,535	\$ 2,086	\$ (551)
Solid waste	60,000	60,000	90,136	(30,136)
Total sanitation	\$ 61,535	\$ 61,535	\$ 92,222	\$ (30,687)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Culture and recreation				
Parks	\$ 33,075	\$ 33,075	\$ 29,531	\$ 3,544
Other culture and recreation	4,200	4,200	4,010	190
Total culture and recreation	\$ 37,275	\$ 37,275	\$ 33,541	\$ 3,734
Total current	\$ 989,798	\$ 989,798	\$ 1,213,350	\$ (223,552)
Debt service				
Principal retirement	\$ -	\$ -	\$ 2,426	\$ (2,426)
Interest	-	-	460	(460)
Total debt service	\$ -	\$ -	\$ 2,886	\$ (2,886)
Capital outlay				
Public safety	\$ 55,000	\$ 55,000	\$ 28,940	\$ 26,060
Highways and streets	50,000	50,000	129,851	(79,851)
Culture and recreation	13,000	13,000	-	13,000
Total capital outlay	\$ 118,000	\$ 118,000	\$ 158,791	\$ (40,791)
Total Expenditures	\$ 1,107,798	\$ 1,107,798	\$ 1,375,027	\$ (267,229)
Excess of Revenues Over (Under) Expenditures	\$ 70,000	\$ 70,000	\$ (13,772)	\$ (83,772)
Other Financing Sources (Uses)				
Proceeds from issuance of debt	\$ -	\$ -	\$ 31,643	\$ 31,643
Transfers out	(40,000)	(40,000)	(45,000)	(5,000)
Total other financing sources (uses)	\$ (40,000)	\$ (40,000)	\$ (13,357)	\$ 26,643
Net Change in Fund Balance	\$ 30,000	\$ 30,000	\$ (27,129)	\$ (57,129)
Fund Balance - January 1	770,005	770,005	770,005	-
Fund Balance - December 31	\$ 800,005	\$ 800,005	\$ 742,876	\$ (57,129)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2019**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
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

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2019	\$ 29,262	\$ 29,262	\$ -	\$ 180,630	16.2%
December 31, 2018	\$ 27,330	\$ 27,330	\$ -	\$ 168,704	16.2%
December 31, 2017	\$ 25,156	\$ 25,156	\$ -	\$ 155,040	16.2%
December 31, 2016	\$ 24,940	\$ 24,940	\$ -	\$ 153,951	16.2%
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.2%

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, 2019**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	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	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	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	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0016%	\$ 171,401	\$ 2,173	\$ 173,574	\$ 169,241	101.28%	89.26%
June 30, 2018	0.0015%	\$ 164,148	\$ 1,386	\$ 165,534	\$ 160,606	102.21%	88.84%
June 30, 2017	0.0015%	\$ 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, 2019**

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
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 LIABILITY (ASSET)

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
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, 2019

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, 2019:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Financial administration	\$ 305,266	\$ 259,758	\$ (45,508)
Assessor	9,000	-	(9,000)
Planning commission	30,649	12,650	(17,999)
Public safety			
Fire	261,595	94,700	(166,895)
Fire relief association	29,501	23,000	(6,501)
Rescure squad	5,129	3,650	(1,479)
Highways and streets			
Snow removal	19,933	12,550	(7,383)
Sanitation			
Recycling	2,086	1,535	(551)
Solid waste	90,136	60,000	(30,136)
Debt service			
Principal retirement	2,426	-	(2,426)
Interest	460	-	(460)
Capital outlay			
Highways and streets	129,851	50,000	(79,851)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the City Council. Changes in actuarial assumptions can be found in the notes to the financial statements.

General Employees Fund

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

2017 Changes

Changes in Actuarial Assumptions

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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.

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.

Police and Fire Fund

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

- 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.

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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**

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

The Small Cities Development Program Capital Projects Fund is used to account for and report the financial resources of the Small Cities Development Program. Funding is provided by grants and principal and interest repayments. This fund was closed in 2019 and is reclassified as the Small Cities Development Program (SCDP) Special Revenue Fund.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Assets			
Cash and pooled investments	\$ 262,583	\$ 150,971	\$ 413,554
Investments	3,167	-	3,167
Taxes receivable			
Current	22	-	22
Special assessments receivable			
Current	-	990	990
Prior	-	5,002	5,002
Accounts receivable	1,538	-	1,538
Notes receivable	42,171	-	42,171
Special assessments receivable - noncurrent	-	137,062	137,062
	\$ 309,481	\$ 294,025	\$ 603,506
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Due to other funds	\$ -	\$ 39,939	\$ 39,939
 Deferred Inflows of Resources			
Notes	\$ 42,171	\$ -	\$ 42,171
Special assessments	-	142,064	142,064
	\$ 42,171	\$ 142,064	\$ 184,235
 Fund Balances			
Restricted for			
Debt service	\$ -	\$ 150,971	\$ 150,971
Perpetual care	8,443	-	8,443
Committed to economic development	19,818	-	19,818
Assigned to			
Economic development	208,302	-	208,302
Sanitation	30,747	-	30,747
Unassigned	-	(38,949)	(38,949)
	\$ 267,310	\$ 112,022	\$ 379,332
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 309,481	\$ 294,025	\$ 603,506

**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, 2019**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Small Cities Development Project Capital Projects Fund	Total NonMajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 97,067	\$ -	\$ -	\$ 97,067
Special assessments	-	37,821	-	37,821
Charges for services	8,122	-	-	8,122
Investment earnings	63	-	-	63
Miscellaneous	10,889	-	-	10,889
Total Revenues	\$ 116,141	\$ 37,821	\$ -	\$ 153,962
Expenditures				
Current				
General government	\$ 7,398	\$ -	\$ -	\$ 7,398
Conservation of natural resources	2,090	-	-	2,090
Economic development	1,268	-	-	1,268
Total current	\$ 10,756	\$ -	\$ -	\$ 10,756
Debt service				
Principal retirement	\$ -	\$ 99,000	\$ -	\$ 99,000
Interest	-	18,484	-	18,484
Total debt service	\$ -	\$ 117,484	\$ -	\$ 117,484
Total Expenditures	\$ 10,756	\$ 117,484	\$ -	\$ 128,240
Excess of Revenues Over (Under)				
Expenditures	\$ 105,385	\$ (79,663)	\$ -	\$ 25,722
Other Financing Sources (Uses)				
Transfers in	\$ 101,603	\$ -	\$ -	\$ 101,603
Transfers out	(412,903)	-	(101,603)	(514,506)
Total Other Financing Sources (Uses)	\$ (311,300)	\$ -	\$ (101,603)	\$ (412,903)
Net Change in Fund Balance	\$ (205,915)	\$ (79,663)	\$ (101,603)	\$ (387,181)
Fund Balance - January 1	473,225	191,685	101,603	766,513
Fund Balance - December 31	\$ 267,310	\$ 112,022	\$ -	\$ 379,332

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>Assets</u>	<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 1)</u>
Cash and pooled investments	\$ 5,276	\$ 29,209	\$ 19,818	\$ 105,945	\$ -	\$ 86,464	\$ 15,871	\$ 262,583
Investments	3,167	-	-	-	-	-	-	3,167
Taxes receivable								
Current	-	-	-	-	22	-	-	22
Accounts receivable	-	1,538	-	-	-	-	-	1,538
Notes receivable	-	-	13,583	28,588	-	-	-	42,171
Total Assets	\$ 8,443	\$ 30,747	\$ 33,401	\$ 134,533	\$ 22	\$ 86,464	\$ 15,871	\$ 309,481
<u>Deferred Inflows of Resources and Fund Balances</u>								
Deferred Inflows of Resources								
Notes	\$ -	\$ -	\$ 13,583	\$ 28,588	\$ -	\$ -	\$ -	\$ 42,171
Fund Balances								
Restricted for perpetual care	\$ 8,443	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,443
Committed to economic development	-	-	19,818	-	-	-	-	19,818
Assigned to								
Economic development	-	-	-	105,945	22	86,464	15,871	208,302
Sanitation	-	30,747	-	-	-	-	-	30,747
Total Fund Balances	\$ 8,443	\$ 30,747	\$ 19,818	\$ 105,945	\$ 22	\$ 86,464	\$ 15,871	\$ 267,310
Total Deferred Inflows of Resources and Fund Balances	\$ 8,443	\$ 30,747	\$ 33,401	\$ 134,533	\$ 22	\$ 86,464	\$ 15,871	\$ 309,481

**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, 2019**

	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 2)
Revenues								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 76,349	\$ 12,991	\$ 7,727	\$ 97,067
Charges for services	-	8,122	-	-	-	-	-	8,122
Investment earnings	63	-	-	-	-	-	-	63
Miscellaneous	4,685	-	1,862	4,342	-	-	-	10,889
Total Revenues	\$ 4,748	\$ 8,122	\$ 1,862	\$ 4,342	\$ 76,349	\$ 12,991	\$ 7,727	\$ 116,141
Expenditures								
Current								
General government	\$ 7,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,398
Conservation of natural resources	-	2,090	-	-	-	-	-	2,090
Economic development	-	-	-	-	-	-	1,268	1,268
Total Expenditures	\$ 7,398	\$ 2,090	\$ -	\$ -	\$ -	\$ -	\$ 1,268	\$ 10,756
Excess of Revenues Over (Under) Expenditures	\$ (2,650)	\$ 6,032	\$ 1,862	\$ 4,342	\$ 76,349	\$ 12,991	\$ 6,459	\$ 105,385
Other Financing Sources (Uses)								
Transfers in	\$ -	\$ -	\$ -	\$ 101,603	\$ -	\$ -	\$ -	\$ 101,603
Transfers out	-	-	-	-	(412,903)	-	-	(412,903)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 101,603	\$ (412,903)	\$ -	\$ -	\$ (311,300)
Net Change in Fund Balance	\$ (2,650)	\$ 6,032	\$ 1,862	\$ 105,945	\$ (336,554)	\$ 12,991	\$ 6,459	\$ (205,915)
Fund Balance - January 1	11,093	24,715	17,956	-	336,576	73,473	9,412	473,225
Fund Balance - December 31	\$ 8,443	\$ 30,747	\$ 19,818	\$ 105,945	\$ 22	\$ 86,464	\$ 15,871	\$ 267,310

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>2016 Improvements and Refunding</u>	<u>County Road 118</u>	<u>Southeast Area Streets and Utilities</u>	<u>Total (Statement 1)</u>
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 150,971	\$ -	\$ 150,971
Special assessments receivable				
Current	990	-	-	990
Prior	1,085	2,335	1,582	5,002
Noncurrent	43,693	75,267	18,102	137,062
Total Assets	\$ 45,768	\$ 228,573	\$ 19,684	\$ 294,025
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Due to other funds	\$ 10,028	\$ -	\$ 29,911	\$ 39,939
Deferred Inflows of Resources				
Special assessments	\$ 44,778	\$ 77,602	\$ 19,684	\$ 142,064
Fund Balances				
Restricted for debt service	\$ -	\$ 150,971	\$ -	\$ 150,971
Unassigned	(9,038)	-	(29,911)	(38,949)
Total Fund Balances	\$ (9,038)	\$ 150,971	\$ (29,911)	\$ 112,022
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 45,768	\$ 228,573	\$ 19,684	\$ 294,025

**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, 2019**

	<u>2016 Improvements and Refunding</u>	<u>County Road 118</u>	<u>Southeast Area Streets and Utilities</u>	<u>Total (Statement 2)</u>
Revenues				
Special assessments	\$ 14,370	\$ 14,488	\$ 8,963	\$ 37,821
Expenditures				
Debt service				
Principal retirement	\$ 30,000	\$ 30,000	\$ 39,000	\$ 99,000
Interest	5,760	9,083	3,641	18,484
Total Expenditures	\$ 35,760	\$ 39,083	\$ 42,641	\$ 117,484
Total Expenditures	\$ 35,760	\$ 39,083	\$ 42,641	\$ 117,484
Excess of Revenues Over (Under) Expenditures	\$ (21,390)	\$ (24,595)	\$ (33,678)	\$ (79,663)
Fund Balance - January 1	12,352	175,566	3,767	191,685
Fund Balance - December 31	\$ (9,038)	\$ 150,971	\$ (29,911)	\$ 112,022

OTHER SCHEDULES

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019**

Shared Revenue

State

Fire Relief Association supplemental benefit	\$	5,012
Fire state aid		24,489
Local government aid		498,592
PERA rate reimbursement		1,261
Police state aid		27,330
		27,330

Total Shared Revenue **\$ 556,684**

Payments

Payments in lieu of taxes	\$	18,712
		18,712

State

**Minnesota Department of
Police Officer Safety Board
Public Safety**

Police Officer Safety Board	\$	2,983
Public Safety		15,229

Total State Grants **\$ 18,212**

Federal

Department of
Homeland Security

Homeland Security	\$	186,481
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Total Federal Grants **\$ 186,481**

Total Grants **\$ 204,693**

Total Intergovernmental Revenue **\$ 780,089**

Not included as revenue are \$98,943 in Public Facilities Authority loans from the Drinking Water Revolving Fund which are recorded as liabilities in the Water Enterprise Fund.

MANAGEMENT AND COMPLIANCE SECTION



Hoffman, Philipp, & Knutson, PLLC

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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*

Independent Auditor's Report

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 aggregate 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Frazee's 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and significant deficiencies.

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.

We consider the deficiency described in the accompanying Schedule of Findings and Responses, item 2019-003, to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as items 2019-001 and 2019-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Frazee's 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, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Responses as item 2019-004. 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.

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 Responses. 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, & Knutson, PLLC
June 15, 2020

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2019-001

Prior Year Audit Finding Number: 2006-001

Finding Title: Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

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. Generally, one person is responsible for the financial information and activity within the City.

Context: The small size and available staffing within the City limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of the City, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the City Council be aware that limited staffing causes inherent risks in safeguarding the City's assets and the proper reporting of financial activity. We recommend the City Council continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

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.*

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Finding Number: 2019-002

Prior Year Audit Finding Number: 2006-002

Finding Title: Internal Controls

Criteria: The financial statements are the responsibility of City 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 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.

Context: Although the City of Frazee has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

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

Recommendation: We recommend the City 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.

City Administrator/Clerk/Treasurer Response: *The City is aware of the need for internal control and continues to be diligent in management oversight of financial information.*

Finding Number: 2019-003

Prior Year Audit Finding Number: 2008-001

Finding Title: Audit Adjustments

Criteria: Each fund of the City is required to have a self-balancing set of accounts to reflect activity throughout the year in accordance with GAAP in the City's annual financial statement.

Condition: During our audit, we identified material adjustments in several funds. Cash accounts required adjustments to identify actual cash balances. These adjustments resulted in significant changes to 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 only as of December 31 each year. By definition, however, independent external auditors cannot be considered part of the government's internal control.

Cause: The accounting software used by the City does not separate cash balances according to individual fund activity, therefore, extensive adjustments are necessary to determine balances for each legally separate fund.

Recommendation: We recommend the City establish internal control procedures for analysis and review of revenue and expenditure classifications to ensure these transactions are reported in accordance with GAAP in the

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

City's annual financial statement.

City Administrator/Clerk/Treasurer Response: *The City continuously reviews its process for posting transactions in the City's ledgers to increase efficiency. The City changed its accounting software beginning in 2017 in an attempt to provide the necessary information in the required format.*

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number: 2019-004

Prior Year Audit Finding Number: 2008-002

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, 2019, the following funds had deficit cash balances:

2006 Red Willow Heights II Debt Service Fund	\$ 11,940
2016 Improvements and Refunding Debt Service Fund	\$ 10,028
Southeast Area Street and Utilities Debt Service Fund	\$ 29,911

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.*



CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2019-001

Prior Year Audit Finding Number: 2006-001

Finding Title: Segregation of Duties

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 issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: *Ongoing. The City Council is aware of the inability to segregate duties due to the lack of resources.*

Finding Number: 2019-002

Prior Year Audit Finding Number: 2006-002

Finding Title: Internal Controls

Name of Contact Person Responsible for Corrective Action: Denise Anderson, City Administrator/Clerk/Treasurer.

Corrective Action Planned: The City will 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.

Anticipated Completion Date: *Ongoing. The City is aware of the need for internal control and continues to be diligent in management oversight of financial information.*

Finding Number: 2019-003

Prior Year Audit Finding Number: 2008-001

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action: Denise Anderson, City Administrator/Clerk/Treasurer.

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

Anticipated Completion Date: *December 31, 2020.*

Finding Number: 2019-004

Prior Year Audit Finding Number: 2008-002

Finding Title: Deficit Cash Balances

Name of Contact Person Responsible for Corrective Action: Denise Anderson, City Administrator/Clerk/Treasurer.

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, 2020.*



SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2019-001

Prior Year Audit Finding Number: 2006-001

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.

Finding Number: 2019-002

Prior Year Audit Finding Number: 2006-002

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.

Finding Number: 2019-003

Prior Year Audit Finding Number: 2008-001

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, and 2019 audits, material adjustments were identified, resulting in significant changes to 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 revenue 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: 2019-004

Prior Year Audit Finding Number: 2008-002

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, 2018, the following funds had deficit cash balances:

2003 Red Willow Heights I Debt Service Fund	\$160,396
2006 Red Willow Heights II Debt Service Fund	\$160,105

Summary of Corrective Action: The City eliminated the cash balance deficits by transferring from the TIF Special Revenue Fund, however, three funds had cash balance deficits at December 31, 2019.

Status: Not fully corrected.