

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2023



Hoffman, Philipp, & Martell, PLLC

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2023**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Mike Flemmer ¹	Mayor	December 31, 2026
Mike Sharp	Councilmember	December 31, 2024
Mark Kemper	Councilmember	December 31, 2024
Andrea Froeber	Councilmember	December 31, 2026
James Rader	Councilmember	December 31, 2026
Appointed		
Stephanie Poegel	Administrator	Indefinite

¹ Resigned June 26, 2024. Mike Sharp appointed interim mayor until the November election.

FINANCIAL SECTION



Hoffman, Philipp, & Martell, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Frazee

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, as of December 31, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frazee's basic financial statements. The accompanying combining nonmajor fund financial are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to

the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2024, on our consideration of the City of Frazee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Frazee's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Frazee's internal control over financial reporting and compliance.

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

Hoffman, Philipp, & Martell, PLLC
July 31, 2024

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, 2023. 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 \$7,598,076, of which \$5,448,401 is the net investment in capital assets, \$1,315,799 is restricted for economic development and debt service, and \$833,876 is unrestricted. The total net position of governmental activities increased by \$791,721 for the year ended December 31, 2023, mainly as a result of a state grant received for the purchase of Wannagan Regional Park.

The total net position of business-type activities is \$5,130,347, of which \$4,003,117 is the net investment in capital assets, \$249,463 is restricted for infrastructure replacement, and \$877,767 is unrestricted. The total net position of business-type activities increased by \$175,326 in 2023, as a result of the liquor, sewer, and water enterprise funds all realizing a good operating income.

At the close of 2023, the City's governmental funds reported combined ending fund balances of \$1,591,158, a decrease of \$26,743 from the prior year. Of the total fund balance amount, \$741,528 is legally or contractually restricted, \$335,556 is formally committed for specific purposes, \$56,856 is assigned for sanitation, and \$457,218 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are considered regardless of when cash is received or paid.

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

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

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

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

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

Fund Financial Statements

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

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

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

The City reports three governmental fund types: General, Debt Service, and Special Revenue. Information is presented separately in the *Governmental Funds Balance Sheet* and in the *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances* for the General Fund, the Wannagan Regional Park Special Revenue Fund, the Lake Street Debt Service Fund, and the Southeast Area and Main Avenue West Debt

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

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

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

Notes to the Financial Statements

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

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information*, as listed in the table of contents. The City also provides Supplementary and Other Information including combining statements, 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 \$12,728,423 at the close of 2023. The largest portion of the City’s net position (approximately 74 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 12 percent of the City’s net position is restricted, and 14 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$1,711,643 as of December 31, 2023, 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 \$588,223 from the prior year due to the purchase of Wannagan Regional Park. Deferred outflows of resources related to pensions decreased by \$79,332. Total liabilities decreased by \$905,386 from the prior year due the repayment of debt, and deferred inflows of resources related to pensions increased by \$447,230. This resulted in an increased net position of \$967,047 from the prior year.

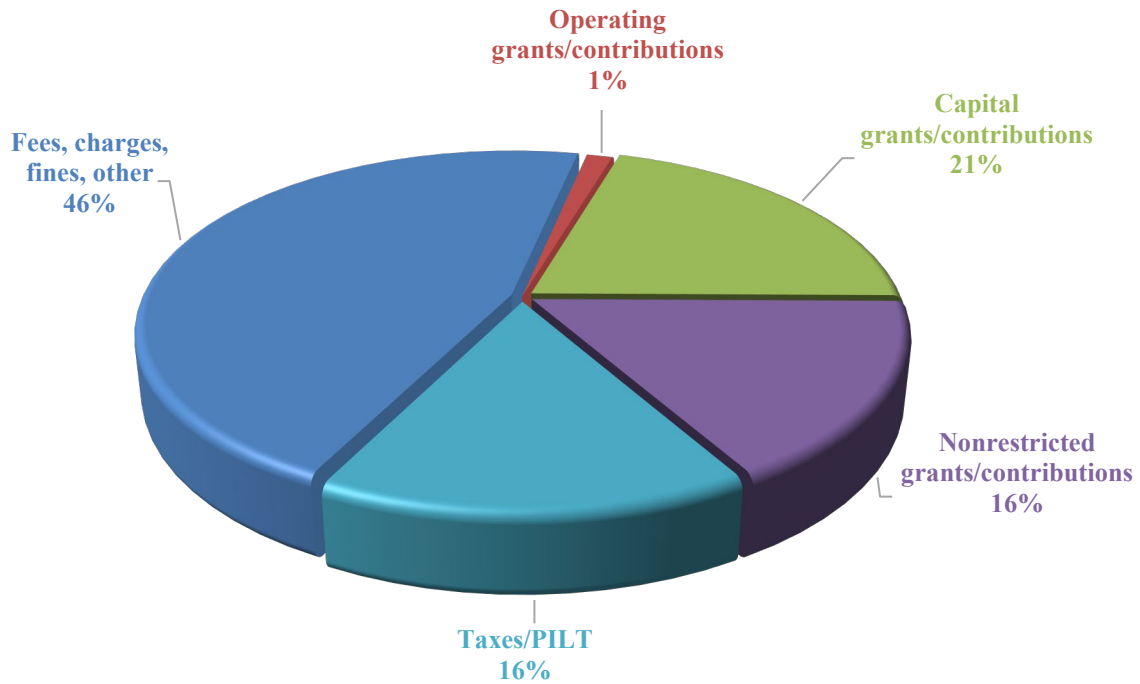
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 2,611,946	\$ 2,751,052	\$ 1,425,926	\$ 1,176,599	\$ 4,037,872	\$ 3,927,651
Capital assets	6,998,274	6,392,024	6,291,966	6,420,214	13,290,240	12,812,238
Total assets	\$ 9,610,220	\$ 9,143,076	\$ 7,717,892	\$ 7,596,813	\$ 17,328,112	\$ 16,739,889
Deferred outflows - pension	\$ 485,323	\$ 534,878	\$ 48,375	\$ 78,152	\$ 533,698	\$ 613,030
Other liabilities	\$ 67,448	\$ 62,338	\$ 51,474	\$ 37,844	\$ 118,922	\$ 100,182
Long-term liabilities outstanding	1,935,384	2,706,906	2,524,752	2,677,356	4,460,136	5,384,262
Total liabilities	\$ 2,002,832	\$ 2,769,244	\$ 2,576,226	\$ 2,715,200	\$ 4,579,058	\$ 5,484,444
Deferred inflows - pension	\$ 494,635	\$ 102,355	\$ 59,694	\$ 4,744	\$ 554,329	\$ 107,099
Net position						
Net investment in capital assets	\$ 5,448,401	\$ 4,603,807	\$ 4,003,117	\$ 4,067,255	\$ 9,451,518	\$ 8,671,062
Restricted	1,315,799	1,118,724	249,463	234,483	1,565,262	1,353,207
Unrestricted	833,876	1,083,824	877,767	653,283	1,711,643	1,737,107
Total net position	\$ 7,598,076	\$ 6,806,355	\$ 5,130,347	\$ 4,955,021	\$ 12,728,423	\$ 11,761,376

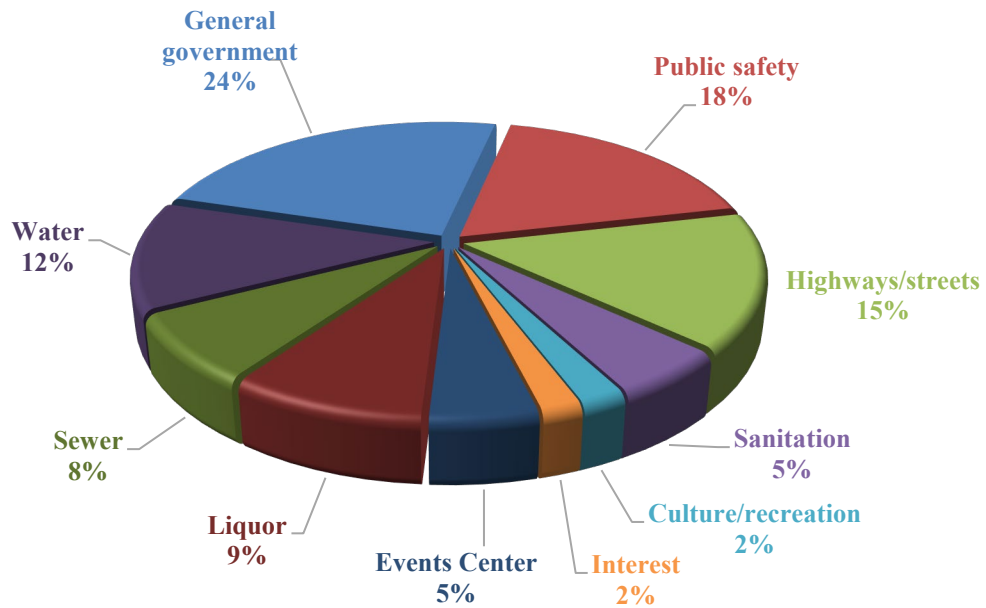
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	\$ 336,131	\$ 407,597	\$ 1,340,912	\$ 1,352,285	\$ 1,677,043	\$ 1,759,882
Operating grants and contributions	48,258	150,321	-	-	48,258	150,321
Capital grants and contributions	751,084	10,212	-	613,016	751,084	623,228
Property taxes	557,143	477,378	-	-	557,143	477,378
Franchise tax	3,013	2,509	-	-	3,013	2,509
Grants and contributions not restricted to specific programs	603,788	538,685	-	25,000	603,788	563,685
Payments in lieu of taxes	19,472	18,151	-	-	19,472	18,151
Investment earnings	44,385	10,146	685	647	45,070	10,793
Transfers	-	(40,000)	-	-	-	(40,000)
Total revenues and transfers	\$ 2,363,274	\$ 1,574,999	\$ 1,341,597	\$ 1,990,948	\$ 3,704,871	\$ 3,565,947
Expenses						
General government	\$ 559,969	\$ 367,462	\$ -	\$ -	\$ 559,969	\$ 367,462
Public safety	426,120	696,985	-	-	426,120	696,985
Highways and streets	363,284	311,940	-	-	363,284	311,940
Sanitation	125,953	130,158	-	-	125,953	130,158
Culture and recreation	49,030	38,070	-	-	49,030	38,070
Conservation of natural resources	3,357	2,016	-	-	3,357	2,016
Interest	43,840	47,231	-	-	43,840	47,231
Events Center	-	-	116,311	73,108	116,311	73,108
Liquor	-	-	581,317	601,391	581,317	601,391
Sewer	-	-	179,758	202,792	179,758	202,792
Water	-	-	288,885	346,878	288,885	346,878
Total expenses	\$ 1,571,553	\$ 1,593,862	\$ 1,166,271	\$ 1,224,169	\$ 2,737,824	\$ 2,818,031
Increase (decrease) in net position	\$ 791,721	\$ (18,863)	\$ 175,326	\$ 766,779	\$ 967,047	\$ 747,916
Net position - January 1, as previously reported	6,806,355	6,825,218	4,955,021	4,188,242	11,761,376	11,013,460
Net position, December 31	\$ 7,598,076	\$ 6,806,355	\$ 5,130,347	\$ 4,955,021	\$ 12,728,423	\$ 11,761,376

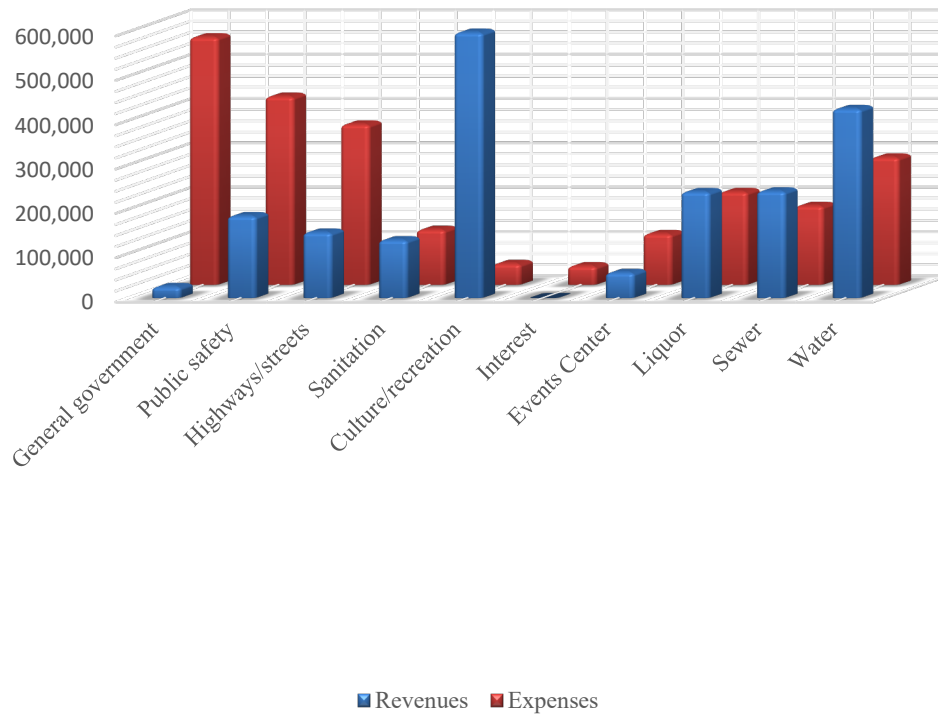
Revenues by Source



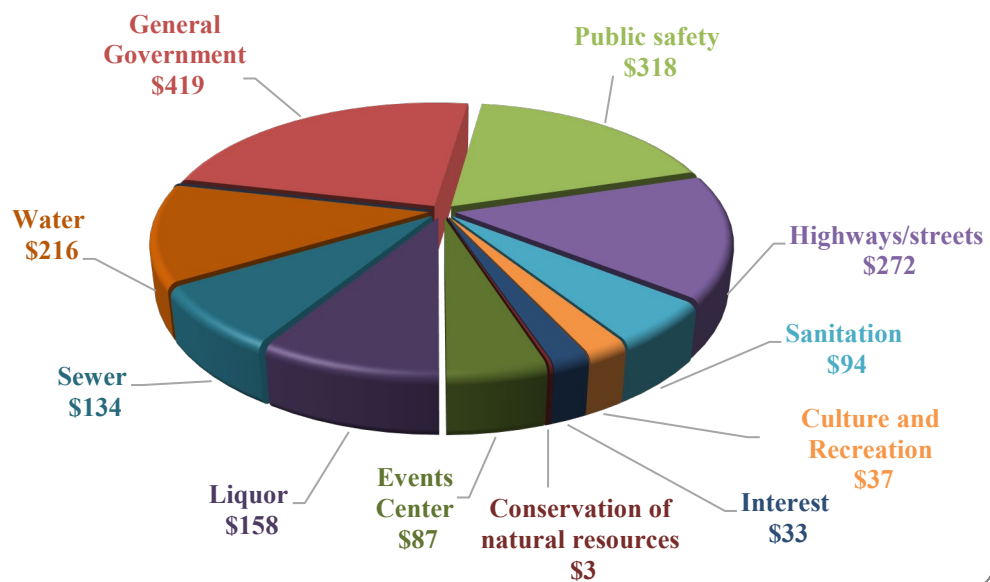
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 1,338 Population as of 2023



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 2023, the City's governmental funds reported combined ending fund balances of \$1,591,158. Of this amount, approximately 47 percent constitutes legally or contractually restricted fund balance, approximately 21 percent constitutes formally committed fund balance, three percent constitutes specifically assigned fund balance, and 29 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$1,207,866. The General Fund had a restricted fund balance of \$129,831, the committed fund balance was \$335,556, and the unassigned fund balance was \$742,479. The General Fund has no assigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2023. Total fund balance represents 78 percent of total General Fund expenditures. In 2023, the fund balance amount in the General Fund decreased by \$41,752, mainly due to fire department equipment purchases in excess of budget.

The fund balance of the Wannagan Regional Park Special Revenue Fund was a deficit of \$62 due to administrative expenses in relation to the land purchase. This deficit will be eliminated with future revenues.

The fund balance of the Lake Street Debt Service Fund was \$15,957, as a result of interest only paid on debt the first year.

The fund balance of the Southeast Area and Main Avenue West Debt Service Fund increased by \$13,221 from the prior year, due to special assessments collected in excess of debt payments.

Proprietary Funds

The Events Center Enterprise Fund reported an operating loss in 2023 of \$57,798, primarily due to unexpected costs for maintenance and repairs.

The Liquor Enterprise Fund reported an operating income in 2023 of \$31,111, indicating that it is collecting funds from sales of liquor at a rate higher than current expenses.

The Sewer Enterprise Fund reported an operating income in 2023 of \$76,335, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating income in 2023 of \$164,228, indicating that it is collecting fees for services at a rate higher than current expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2023.

Actual revenues were more than overall final budgeted revenues by \$163,173, with the largest positive variance in charges for services revenue, and actual expenditures were more than overall final budgeted expenditures by \$243,057, with the largest variance in underbudgeted capital outlay for public safety.

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, 2023, amounted to \$13,290,240. The total increase in the City's investment in capital assets for the current fiscal year was approximately 4 percent. This increase was primarily due to the purchase of Wannagan Regional Park and police and fire equipment.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Land	\$ 674,881	\$ 69,819	\$ -	\$ -	\$ 674,881	\$ 69,819
Construction in progress	778,109	769,063	1,268,854	1,268,854	2,046,963	2,037,917
Infrastructure	4,274,598	4,425,271	4,666,452	4,803,857	8,941,050	9,229,128
Buildings and improvements	186,123	200,150	283,086	300,299	469,209	500,449
Machinery and equipment	1,084,563	927,721	73,574	47,204	1,158,137	974,925
Total capital assets	<u>\$ 6,998,274</u>	<u>\$ 6,392,024</u>	<u>\$ 6,291,966</u>	<u>\$ 6,420,214</u>	<u>\$ 13,290,240</u>	<u>\$ 12,812,238</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 a total debt outstanding of \$3,839,264, net of bond discounts, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
G.O. Bonds	\$ 1,454,000	\$ 1,654,000	\$ -	\$ -	\$ 1,454,000	\$ 1,654,000
MN PFA	-	-	2,215,420	2,251,337	2,215,420	2,251,337
Revenue Bonds	-	-	70,000	91,000	70,000	91,000
Capital Notes	95,873	134,217	3,971	10,622	99,844	144,839
	<u>\$ 1,549,873</u>	<u>\$ 1,788,217</u>	<u>\$ 2,289,391</u>	<u>\$ 2,352,959</u>	<u>\$ 3,839,264</u>	<u>\$ 4,141,176</u>

Minnesota Statutes limit the amount of debt the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2023, 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 3.1 percent as of December 31, 2023. This is higher than the statewide rate of 2.6 percent and lower than the national average rate of 3.5 percent.
- Frazee's 2023 population according to the League of Minnesota Cities was 1,338, an increase of 3 since the 2020 census of 1,335.
- On December 27, 2023, the City of Frazee set its 2024 revenue and expenditure budgets.
- The City continues to work towards future development to accommodate the needs of residents by consistently exploring and working towards more programming and grant opportunities as a best practice.
- To look towards future economic, business, tourism, beautification, arts, and culture opportunities, the City continues to levy for debt associated with reconstruction projects, including the Highway 87 Complete Streets - Shared Use Path Project, the Wannagan Regional Park Project, and the Town Lake Beach Bathhouse Project.

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, 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, 2023**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 994,168	\$ 1,227,590	\$ 2,221,758	\$ 86,124
Investments	627,196	79,178	706,374	386,142
Taxes receivable				
Current	5,827	-	5,827	-
Prior	4,879	-	4,879	-
Special assessments receivable				
Current	1,855	-	1,855	-
Prior	40,762	-	40,762	-
Accounts receivable	18,260	72,326	90,586	-
Due from other governments	576	-	576	-
Inventory	-	49,704	49,704	-
Notes receivable	37,670	-	37,670	65,547
Internal balances	2,872	(2,872)	-	-
Special assessments receivable - noncurrent	700,997	-	700,997	-
Net pension asset	176,884	-	176,884	-
Capital assets				
Non-depreciable	1,452,990	1,268,854	2,721,844	251,421
Depreciable - net of accumulated depreciation	5,545,284	5,023,112	10,568,396	1,205,181
Total Assets	\$ 9,610,220	\$ 7,717,892	\$ 17,328,112	\$ 1,994,415
<u>Deferred Outflows of Resources</u>				
Related to pensions	\$ 485,323	\$ 48,375	\$ 533,698	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 31,679	\$ 20,812	\$ 52,491	\$ 994
Salaries payable	25,995	13,621	39,616	-
Due to other governments	1,922	5,251	7,173	-
Accrued interest payable	7,852	11,790	19,642	20,556
Long-term liabilities				
Due within one year	300,871	164,217	465,088	1,518,000
Due in more than one year	1,310,816	2,173,319	3,484,135	-
Net pension liability	323,697	187,216	510,913	-
Total Liabilities	\$ 2,002,832	\$ 2,576,226	\$ 4,579,058	\$ 1,539,550
<u>Deferred Inflows of Resources</u>				
Related to pensions	\$ 494,635	\$ 59,694	\$ 554,329	\$ -
<u>Net Position</u>				
Net investment in capital assets	\$ 5,448,401	\$ 4,003,117	\$ 9,451,518	\$ (61,398)
Amounts restricted for				
Economic development	291,834	-	291,834	-
Debt service	1,023,965	-	1,023,965	-
Capital project	-	-	-	849,155
Infrastructure Replacement	-	249,463	249,463	-
Unrestricted amounts	833,876	877,767	1,711,643	(332,892)
Total Net Position	\$ 7,598,076	\$ 5,130,347	\$ 12,728,423	\$ 454,865

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Charges, Fines and Other</u>	<u>Operating Grants and Contributions</u>
Primary Government			
Governmental activities			
General government	\$ 559,969	\$ 26,552	\$ -
Public safety	426,120	149,389	36,852
Highways and streets	363,284	4,530	3,031
Sanitation	125,953	132,109	-
Culture and recreation	49,030	14,069	8,375
Conservation of natural resources	3,357	9,482	-
Economic development	-	-	-
Interest	43,840	-	-
Total governmental activities	\$ 1,571,553	\$ 336,131	\$ 48,258
Business-type activities			
Events Center	\$ 116,311	\$ 58,513	\$ -
Liquor	581,317	612,428	-
Sewer	179,758	242,097	-
Water	288,885	427,874	-
Total business-type activities	\$ 1,166,271	\$ 1,340,912	\$ -
Total Primary Government	\$ 2,737,824	\$ 1,677,043	\$ 48,258
Component Unit			
Economic Development Authority	\$ 123,678	\$ 49,984	\$ 513

General revenues

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

Total general revenues

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		
\$ -	\$ (533,417)	\$ -	\$ (533,417)	\$ -	
-	(239,879)	-	(239,879)	-	
141,698	(214,025)	-	(214,025)	-	
-	6,156	-	6,156	-	
608,073	581,487	-	581,487	-	
-	6,125	-	6,125	-	
1,313	1,313	-	1,313	-	
-	(43,840)	-	(43,840)	-	
\$ 751,084	\$ (436,080)	\$ -	\$ (436,080)	\$ -	
\$ -	\$ -	\$ (57,798)	\$ (57,798)	\$ -	
-	-	31,111	31,111	-	
-	-	62,339	62,339	-	
-	-	138,989	138,989	-	
\$ -	\$ -	\$ 174,641	\$ 174,641	\$ -	
\$ 751,084	\$ (436,080)	\$ 174,641	\$ (261,439)	\$ -	
\$ -	\$ -	\$ -	\$ -	\$ (73,181)	
	\$ 557,143	\$ -	\$ 557,143	\$ -	
	3,013	-	3,013	-	
	603,788	-	603,788	-	
	19,472	-	19,472	-	
	44,385	685	45,070	93	
	\$ 1,227,801	\$ 685	\$ 1,228,486	\$ 93	
	\$ 791,721	\$ 175,326	\$ 967,047	\$ (73,088)	
	6,806,355	4,955,021	11,761,376	527,953	
	\$ 7,598,076	\$ 5,130,347	\$ 12,728,423	\$ 454,865	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

						Nonmajor	
						Other	Total
	General	Wannagan Regional Park Special Revenue	Lake Street Debt Service	Southeast Area and Main Avenue West Debt Service		Governmental Funds (Statement 1)	Governmental Funds
Assets							
Cash and pooled investments	\$ 330,216	\$ -	\$ 15,648	\$ 176,413	\$ 471,891	\$ 994,168	
Investments	626,192	-	-	-	1,004	627,196	
Taxes receivable							
Current	5,341	-	-	-	486	5,827	
Prior	4,879	-	-	-	-	4,879	
Special assessments receivable							
Current	-	-	309	1,422	124	1,855	
Prior	-	-	75	7,536	33,151	40,762	
Accounts receivable	16,778	-	-	-	1,482	18,260	
Due from other funds	287,593	-	-	-	-	287,593	
Due from other governments	576	-	-	-	-	576	
Notes receivable	-	-	-	-	37,670	37,670	
Special assessments receivable							
Noncurrent	-	-	345,599	202,909	152,489	700,997	
Total Assets	\$ 1,271,575	\$ -	\$ 361,631	\$ 388,280	\$ 698,297	\$ 2,719,783	
Liabilities, Deferred Inflows of Resources, and Fund Balance							
Liabilities							
Accounts payable	\$ 30,913	\$ -	\$ -	\$ -	\$ 766	\$ 31,679	
Salaries payable	25,995	-	-	-	-	25,995	
Due to other funds	-	62	-	-	284,659	284,721	
Due to other governments	1,922	-	-	-	-	1,922	
Total Liabilities	\$ 58,830	\$ 62	\$ -	\$ -	\$ 285,425	\$ 344,317	
Deferred Inflows of Resources							
Taxes	\$ 4,879	\$ -	\$ -	\$ -	\$ -	\$ 4,879	
Notes	-	-	-	-	37,670	37,670	
Special assessments	-	-	345,674	210,445	185,640	741,759	
Total Deferred Inflows of Resources	\$ 4,879	\$ -	\$ 345,674	\$ 210,445	\$ 223,310	\$ 784,308	
Fund Balance							
Restricted for							
American Rescue Plan	\$ 129,831	\$ -	\$ -	\$ -	\$ -	\$ 129,831	
Debt service	-	-	15,957	177,835	126,071	319,863	
Economic development	-	-	-	-	291,834	291,834	
Committed to							
Fire equipment	161,968	-	-	-	-	161,968	
General government	85,233	-	-	-	-	85,233	
Parks	30,967	-	-	-	-	30,967	
Police equipment	8,658	-	-	-	-	8,658	
Street equipment	48,730	-	-	-	-	48,730	
Assigned to							
Sanitation	-	-	-	-	56,856	56,856	
Unassigned	742,479	(62)	-	-	(285,199)	457,218	
Total Fund Balance	\$ 1,207,866	\$ (62)	\$ 15,957	\$ 177,835	\$ 189,562	\$ 1,591,158	
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,271,575	\$ -	\$ 361,631	\$ 388,280	\$ 698,297	\$ 2,719,783	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2023**

Fund balance - total governmental funds (Exhibit 3)	\$	1,591,158
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		6,998,274
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		784,308
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Long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the governmental funds.

Compensated absences payable	\$ (61,814)	
Accrued interest payable	(7,852)	
Capital notes payable	(95,873)	
General obligation bonds payable	<u>(1,454,000)</u>	(1,619,539)

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

Deferred outflows of resources related to pensions	\$ 485,323	
Deferred inflows of resources related to pensions	(494,635)	
Net pension asset	176,884	
Net pension liability	<u>(323,697)</u>	<u>(156,125)</u>

Net position of governmental activities (Exhibit 1)	\$	<u>7,598,076</u>
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**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

					Nonmajor Other Governmental Funds (Statement 2)	Total Governmental Funds
	General	Wannagan Regional Park Special Revenue	Lake Street Debt Service	Southeast Area and Main Avenue West Debt Service		
Revenues						
Taxes	\$ 451,918	\$ -	\$ -	\$ -	\$ 116,585	\$ 568,503
Special assessments	-	-	36,153	60,421	23,511	120,085
Licenses and permits	17,179	-	-	-	-	17,179
Intergovernmental	678,833	603,000	-	-	-	1,281,833
Charges for services	279,657	-	-	-	9,482	289,139
Fines and forfeitures	4,530	-	-	-	-	4,530
Investment earnings	44,381	-	-	-	4	44,385
Gifts and contributions	9,105	2,000	-	-	-	11,105
Miscellaneous	17,395	-	-	-	22,330	39,725
Total Revenues	\$ 1,502,998	\$ 605,000	\$ 36,153	\$ 60,421	\$ 171,912	\$ 2,376,484
Expenditures						
Current						
General government	\$ 383,972	\$ -	\$ -	\$ -	\$ 7,103	\$ 391,075
Public safety	507,364	-	-	-	-	507,364
Highways and streets	192,479	-	-	-	-	192,479
Sanitation	125,953	-	-	-	-	125,953
Culture and recreation	37,570	-	-	-	-	37,570
Conservation of natural resources	-	-	-	-	3,357	3,357
Debt service						
Principal retirement	38,343	-	-	40,000	160,000	238,343
Interest	3,992	-	20,196	7,200	15,559	46,947
Capital outlay						
Public safety	206,664	-	-	-	-	206,664
Highways and streets	43,413	-	-	-	-	43,413
Culture and recreation	5,000	605,062	-	-	-	610,062
Total Expenditures	\$ 1,544,750	\$ 605,062	\$ 20,196	\$ 47,200	\$ 186,019	\$ 2,403,227
Excess of Revenues Over (Under) Expenditures	\$ (41,752)	\$ (62)	\$ 15,957	\$ 13,221	\$ (14,107)	\$ (26,743)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 100,873	\$ 100,873
Transfers out	-	-	-	-	(100,873)	(100,873)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ (41,752)	\$ (62)	\$ 15,957	\$ 13,221	\$ (14,107)	\$ (26,743)
Fund Balance - January 1	1,249,618	-	-	164,614	203,669	1,617,901
Fund Balance - December 31	\$ 1,207,866	\$ (62)	\$ 15,957	\$ 177,835	\$ 189,562	\$ 1,591,158

**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, 2023**

Net change in fund balance - total governmental funds (Exhibit 5)	\$	(26,743)
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Amounts reported for governmental activities in the
Statement of Activities are different because:

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

Expenditures for general capital assets and infrastructure	\$ 853,148	
Current year depreciation	<u>(246,898)</u>	606,250

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	\$ (8,347)	
Special assessments receivable	8,266	
Notes receivable	<u>(14,242)</u>	(14,323)

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.

Principal repayment on debt		238,344
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Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
governmental funds.

Change in		
Accrued interest payable	\$ 3,106	
Compensated absences payable	<u>(1,902)</u>	1,204

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	\$ (106,256)	
Net pension liability	535,080	
Deferred outflows of resources related to pensions	(49,555)	
Deferred inflows of resources related to pensions	<u>(392,280)</u>	(13,011)

Change in net position of governmental activities (Exhibit 2)	\$	<u><u>791,721</u></u>
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**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2023**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>					
Current Assets					
Cash and pooled investments	\$ -	\$ 238,902	\$ 411,129	\$ 577,559	\$ 1,227,590
Investments	-	-	79,178	-	79,178
Accounts receivable	1,198	811	27,960	42,357	72,326
Due from other funds	-	3,583	-	-	3,583
Inventory	3,984	45,720	-	-	49,704
Total Current Assets	\$ 5,182	\$ 289,016	\$ 518,267	\$ 619,916	\$ 1,432,381
Noncurrent Assets					
Capital assets					
Depreciable - net of accumulated depreciation	261,264	30,172	677,717	4,053,959	5,023,112
Total Assets	\$ 266,446	\$ 319,188	\$ 1,706,698	\$ 5,432,015	\$ 7,724,347
<u>Deferred Outflows of Resources</u>					
Related to pensions	\$ 3,121	\$ 21,066	\$ 11,704	\$ 12,484	\$ 48,375
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 859	\$ 13,680	\$ 2,679	\$ 3,594	\$ 20,812
Salaries payable	-	4,860	4,298	4,463	13,621
Compensated absences payable	-	294	5,979	8,002	14,275
Due to other funds	3,583	2,872	-	-	6,455
Due to other governments	41	5,009	-	201	5,251
Accrued interest payable	-	-	5,072	6,718	11,790
Capital notes payable	-	-	3,971	-	3,971
Bonds payable	-	-	43,971	102,000	145,971
Total Current Liabilities	\$ 4,483	\$ 26,715	\$ 65,970	\$ 124,978	\$ 222,146
Noncurrent Liabilities					
Compensated absences payable	\$ -	\$ 213	\$ 12,707	\$ 16,979	\$ 29,899
Net pension liability	12,078	81,530	45,294	48,314	187,216
Bonds payable	-	-	645,500	1,497,920	2,143,420
Total Noncurrent Liabilities	\$ 12,078	\$ 81,743	\$ 703,501	\$ 1,563,213	\$ 2,360,535
Total Liabilities	\$ 16,561	\$ 108,458	\$ 769,471	\$ 1,688,191	\$ 2,582,681
<u>Deferred Inflows of Resources</u>					
Related to pensions	\$ 3,851	\$ 25,996	\$ 14,442	\$ 15,405	\$ 59,694
<u>Net Position</u>					
Net investment in capital assets	\$ 261,264	\$ 30,172	\$ 498,960	\$ 3,212,721	\$ 4,003,117
Restricted for					
Infrastructure Replacement	-	-	86,548	162,915	249,463
Unrestricted amounts	(12,109)	175,628	348,981	365,267	877,767
Total Net Position	\$ 249,155	\$ 205,800	\$ 934,489	\$ 3,740,903	\$ 5,130,347

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Sales and Cost of Goods Sold					
Sales	\$ 37,119	\$ 610,700	\$ -	\$ -	\$ 647,819
Cost of goods sold	(13,914)	(370,070)	-	-	(383,984)
Gross Profit	\$ 23,205	\$ 240,630	\$ -	\$ -	\$ 263,835
Operating Revenues					
Charges for services	-	-	242,091	427,868	669,959
Miscellaneous	21,394	1,718	-	-	23,112
Insurance reimbursement	-	10	6	6	22
Total Gross Profit and Operating Revenues	\$ 44,599	\$ 242,358	\$ 242,097	\$ 427,874	\$ 956,928
Operating Expenses					
Personnel services	\$ 17,164	\$ 120,365	\$ 106,213	\$ 100,384	\$ 344,126
Advertising	712	1,125	-	-	1,837
Entertainment	644	6,124	-	-	6,768
Insurance	7,893	12,362	11,095	7,425	38,775
Repairs and maintenance	31,250	9,452	6,646	2,056	49,404
Supplies	6,830	12,383	691	15,154	35,058
Utilities	16,380	17,873	17,126	11,686	63,065
Miscellaneous	5,895	29,792	2,426	9,272	47,385
Depreciation	15,629	1,771	21,565	117,669	156,634
Total Operating Expenses	\$ 102,397	\$ 211,247	\$ 165,762	\$ 263,646	\$ 743,052
Operating Income (Loss)	\$ (57,798)	\$ 31,111	\$ 76,335	\$ 164,228	\$ 213,876
Nonoperating Revenues (Expenses)					
Investment earnings	\$ -	\$ -	\$ 685	\$ -	\$ 685
Interest expense	-	-	(13,996)	(25,239)	(39,235)
Total Nonoperating Revenues (Expenses)	\$ -	\$ -	\$ (13,311)	\$ (25,239)	\$ (38,550)
Change in Net Position	\$ (57,798)	\$ 31,111	\$ 63,024	\$ 138,989	\$ 175,326
Net Position - January 1	306,953	174,689	871,465	3,601,914	4,955,021
Net Position - December 31	\$ 249,155	\$ 205,800	\$ 934,489	\$ 3,740,903	\$ 5,130,347

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023
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	\$ 57,354	\$ 621,467	\$ 265,450	\$ 442,022	\$ 1,386,293
Payments to employees	(16,725)	(112,987)	(103,595)	(114,683)	(347,990)
Payments to suppliers	(88,356)	(445,992)	(52,418)	(62,406)	(649,172)
Net cash provided by (used in) operating activities	\$ (47,727)	\$ 62,488	\$ 109,437	\$ 264,933	\$ 389,131
Cash Flows from Noncapital and Related Financing Activities					
Transfers from other funds	\$ 3,583	\$ -	\$ -	\$ -	\$ 3,583
Transfers to other funds		(3,583)	-	-	(3,583)
Net cash provided by (used in) operating activities	\$ 3,583	\$ (3,583)	\$ -	\$ -	\$ -
Cash Flows from Capital and Related Financing Activities					
Capital grants received	\$ -	\$ -	\$ -	\$ 9,817	\$ 9,817
Proceeds from issuance of debt	-	-	62,910	5,791	68,701
Purchase of capital assets	-	-	(14,193)	(14,193)	(28,386)
Special assessments received	-	-	1,079	-	1,079
Revenue bond payments	-	-	(28,124)	(97,494)	(125,618)
Capital note payments	-	-	(6,651)	-	(6,651)
Interest paid	-	-	(13,503)	(25,573)	(39,076)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ 1,518	\$ (121,652)	\$ (120,134)
Cash Flows from Investing Activities					
Investment earnings received	\$ -	\$ -	\$ 685	\$ -	\$ 685
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (44,144)	\$ 58,905	\$ 111,640	\$ 143,281	\$ 269,682
Cash and Cash Equivalents at January 1	44,144	179,997	378,667	434,278	1,037,086
Cash and Cash Equivalents at December 31	\$ -	\$ 238,902	\$ 490,307	\$ 577,559	\$ 1,306,768
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (57,798)	\$ 31,111	\$ 76,335	\$ 164,228	\$ 213,876
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities					
Depreciation expense	\$ 15,629	\$ 1,771	\$ 21,565	\$ 117,669	\$ 156,634
Decrease (increase) in assets					
Accounts receivable	(1,198)	3,598	(1,350)	(1,541)	(491)
Inventory	(3,984)	4,517	-	-	533
Due from other governments	-	-	10,516	-	10,516
Increase (decrease) in liabilities					
Accounts payable	(854)	9,114	(241)	(1,319)	6,700
Salaries payable	-	1,035	293	192	1,520
Due to other funds	-	2,872	-	-	2,872
Due to other governments	41	5,009	-	201	5,251
Compensated absences payable	-	507	679	(16,247)	(15,061)
Net pension liability	437	2,954	1,640	1,750	6,781
Total adjustments	\$ 10,071	\$ 31,377	\$ 33,102	\$ 100,705	\$ 175,255
Net cash provided by (used in) operating activities	\$ (47,727)	\$ 62,488	\$ 109,437	\$ 264,933	\$ 389,131

CITY OF FRAZEE FRAZEE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023

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.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

The Wannagan Regional Park Special Revenue Fund is used to account for the operations of the newly acquired Wannagan Park.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Lake Street Debt Service Fund is used to account for, and report debt associated with the General Obligation Improvement Notes, Series 2022B for public improvements associated with the Lake Street Project.

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers tax and special assessment 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. Cash and cash equivalents are valued at fair value.

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, 2023, 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 2023 were \$44,378. Total investment earnings for 2023 were \$45,070.

3. Receivables and Payables

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

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2017 through 2023 and deferred special assessments collectible in 2024 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.

**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)

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 are capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

6. Deferred Outflows/Inflows of Resources

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

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

7. Compensated Absences

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

8. Long-Term Obligations

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For the governmental activities, the pension liability is liquidated by the General Fund, and for business-type activities, the pension liability is liquidated by the Events Center, Liquor, Sewer, and Water Enterprise Funds.

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

10. Net Position and Fund Balance

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

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

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

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

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

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City reports no non-spendable fund balance at December 31, 2023.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

10. Net Position and Fund Balance (Continued)

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

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

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

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

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when unforeseen emergencies exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The City does not identify an amount for stabilization at December 31, 2023.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

11. Use of Estimates

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

II. Stewardship, Compliance, and Accountability

Deficit Fund Balances

The following funds had deficit fund balances as of December 31, 2023, which will be eliminated with future special assessments and revenues:

Cemetery Special Revenue Fund:	\$ 1,355
Wannagan Regional Park Special Revenue Fund:	\$ 62
2016 Improvements and Refunding Debt Service Fund:	\$140,568
Southeast Area Streets and Utilities Debt Service Fund:	\$143,276

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, 2023, are as follows:

Governmental Activities	
Cash and pooled investments	\$ 994,168
Investments	627,196
	<u>\$ 1,621,364</u>
Business-Type Activities	
Cash and pooled investments	\$ 1,227,590
Investments	79,178
	<u>\$ 1,306,768</u>
Component Unit	
Cash and pooled investments	\$ 86,124
Investments	386,142
	<u>\$ 472,266</u>
Total Cash and Investments	<u><u>\$ 3,400,398</u></u>
Checking Accounts	\$ 1,889,271
Savings Accounts	1,075,057
Certificates of Deposit	436,059
4M Fund	<u>12</u>
Total Deposits	<u><u>\$ 3,400,398</u></u>

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

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, 2023, the City’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2023, 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 receivable	\$ 10,706	\$ -
Special assessments receivable	743,614	700,997
Accounts receivable	18,260	-
Due from other governments	576	-
Notes receivable	37,670	33,322
	<u> </u>	<u> </u>
Total Governmental Activities	<u>\$ 810,826</u>	<u>\$ 734,319</u>
 Business-Type Activities		
Accounts receivable	72,326	-
	<u> </u>	<u> </u>
Total Business-Type Activities	<u>\$ 72,326</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, 2023, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 69,819	\$ 605,062	\$ -	\$ 674,881
Construction in progress	769,063	9,046	-	778,109
Total capital assets not depreciated	\$ 838,882	\$ 614,108	\$ -	\$ 1,452,990
Capital assets being depreciated				
Infrastructure	\$ 6,074,740	\$ -	\$ -	\$ 6,074,740
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	1,783,911	246,031	305,491	1,724,451
Total capital assets being depreciated	\$ 8,604,251	\$ 246,031	\$ 305,491	\$ 8,544,791
Less: accumulated depreciation for				
Infrastructure	\$ 1,649,469	\$ 150,673	\$ -	\$ 1,800,142
Buildings and improvements	545,450	14,027	-	559,477
Machinery and equipment	856,190	82,198	298,500	639,888
Total accumulated depreciation	\$ 3,051,109	\$ 246,898	\$ 298,500	\$ 2,999,507
Total capital assets, depreciated, net	\$ 5,553,142	\$ (867)	\$ 6,991	\$ 5,545,284
Governmental Activities Capital Assets, Net	\$ 6,392,024	\$ 613,241	\$ 6,991	\$ 6,998,274

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 1,268,854	\$ -	\$ -	\$ 1,268,854
Capital assets being depreciated				
Infrastructure	\$ 5,591,698	\$ -	\$ -	\$ 5,591,698
Buildings and improvements	1,146,410	-	-	1,146,410
Machinery and equipment	427,669	28,386	-	456,055
Total capital assets being depreciated	\$ 7,165,777	\$ 28,386	\$ -	\$ 7,194,163
Less: accumulated depreciation for				
Infrastructure	\$ 787,841	\$ 137,405	\$ -	\$ 925,246
Buildings and improvements	846,111	17,213	-	863,324
Machinery and equipment	380,465	2,016	-	382,481
Total accumulated depreciation	\$ 2,014,417	\$ 156,634	\$ -	\$ 2,171,051
Total capital assets, depreciated, net	\$ 5,151,360	\$ (128,248)	\$ -	\$ 5,023,112
Business-Type Activities Capital Assets, Net	\$ 6,420,214	\$ (128,248)	\$ -	\$ 6,291,966

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation Expense

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

Governmental Activities	
General government	\$ 6,639
Public safety	63,457
Highways and streets	165,342
Culture and recreation	<u>11,460</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 246,898</u>
Business-Type Activities	
Events Center	\$ 15,629
Liquor	1,771
Sewer	21,565
Water	<u>117,669</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 156,634</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2023, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Cemetery Special Revenue Fund	\$ 691	To cover cash deficit
	Wannagan Regional Park Special Revenue Fund	62	To cover cash deficit
	2008 Street Improvements Special Revenue Fund	140,692	To cover cash deficit
	Southeast Area Street and Utilities Debt Service Fund	<u>143,276</u>	To cover cash deficit
	Total due to General Fund	<u>\$ 284,721</u>	
Liquor Enterprise Fund	General Fund	\$ 2,872	Reimbursement
	Event Center Enterprise Fund	<u>3,583</u>	To cover cash deficit
	Total due to Liquor Enterprise Fund	<u>\$ 6,455</u>	
Total Due To/From Other Funds		<u>\$ 291,176</u>	

Operating Transfers

Interfund transfers for the year ended December 31, 2023, consisted of the following operating transfers:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Operating Transfers (Continued)

Transfer to 2006 Red Willow Heights II Debt Service Fund
from TIF 1-3 Red Willow Heights Special Revenue Fund

\$	100,873	TIF assessments for debt service
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C. Liabilities

Compensated Absences

Under the City's personnel policy, qualified full-time employees are granted paid time off (personal and sick leave only) of 96 hours (12 days) each year. Earned paid time off has no cash value upon termination or retirement. There is no maximum accumulation of paid time off, however, paid time off not used during the calendar year is forfeited and subsequently 96 hours is added to each employee in the following year. For full-time employees, vacation leave accrual varies from 40-120 hours (5 to 15 days) per year. After one year of service, vacation leave may be used as it is earned. Employees may accrue vacation leave up to a maximum of 280 hours. Vacation leave can only be converted to a cash payment at termination. Unvested sick leave, approximately \$48,631 at December 31, 2023, is available to employees in the event of illness-related absences and is not paid to them at termination. Compensated absences are generally liquidated by the General Fund and the Sewer and Water Enterprise Funds.

Long-Term Debt

Governmental Activities

City of Frazee General Obligation Refunding Bonds, Series 2012A (Rural Water MIDI Loan) represent debt incurred to refund the General Obligation Street Improvement Bonds of 2006 and the General Obligation Red Willow Heights Improvement Bonds of 2006. These bonds have an original issue amount of \$810,000. They carry a net interest rate of 3.0 percent and are due in annual installments from the Red Willow Heights II Debt Service Fund of \$55,000 to \$70,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$65,333 with a present value of \$72,012. The balance outstanding at December 31, 2023, is \$180,000.

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 \$21,000 to \$22,000 through February 1, 2024. The balance outstanding at December 31, 2023, is \$22,000.

City of Frazee General Obligation Improvement Bonds of 2014A represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$393,000. They carry a net interest rate of 3.10 percent and are due in annual installments from the County Road 118 Debt Service Fund of \$33,000 to \$39,000 through February 1, 2027. The balance outstanding at December 31, 2023, is \$148,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Street Improvement Bonds of 2008 and provide for 2017 street improvements. These bonds have an original issue amount of \$288,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the 2016 Improvements and Refunding Debt Service Fund of \$19,000 to \$39,000 through February 1, 2027. As a result of the refunding, the City of Frazee realized an economic gain of \$22,834 with a present value of \$13,641. The balance outstanding at December 31, 2023, is \$92,000.

City of Frazee General Obligation Improvement Bonds of 2017A represent debt incurred for infrastructure improvements to the Southeast Area and Main Avenue West. These bonds have an original issue amount of \$404,000. They carry a net interest rate of 3 percent and are due in annual installments from the Southeast Area and Main Avenue West Debt Service Fund of \$39,000 to \$47,000 through February 1, 2028. The balance outstanding at December 31, 2023, is \$220,000.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a Massey Ferguson tractor. This capital note installment purchase has an original issue amount of \$63,285 and carries a net interest rate of 3.60 percent and is due in combined annual installments from the General Fund (streets share) and the Sewer Enterprise Fund of \$3,979 to \$6,651 through 2024. The balance outstanding from the General Fund at December 31, 2023, is \$3,971.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a 2021 Freightliner M2 fire truck. This capital note installment purchase has an original issue amount of \$199,777 and carries a net interest rate of 2.50 percent and is due in combined annual installments from the General Fund of \$31,177 to \$68,933 through 2025. The balance outstanding at December 31, 2023, is \$91,902.

City of Frazee General Obligation Improvement Bonds of 2022B represented debt issued to provide for public improvements associated with the 2022 complete street project in collaboration with MNDOT. These bonds have an original issue amount of \$792,000. They carry a net interest rate of 2.55 percent and are due in annual installments from the General Fund of \$44,000 to \$63,000 through February 1, 2038. The balance outstanding on December 31, 2023, is \$792,000.

Business-Type Activities

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Utility Revenue Bonds of 2010. These bonds have an original issue amount of \$215,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$20,000 to \$25,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$12,455 with a present value of \$11,178. The balance outstanding at December 31, 2023, is \$70,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

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, 2023, is \$284,500.

City of Frazee Minnesota PFA Drinking Water Revolving Loans of 2019 represent debt incurred for water infrastructure improvements. This loan has an original issue amount of \$87,742, with an additional \$1,117,589 added in 2020 and \$220,780 in 2022, and carries a net interest rate of 1 percent and is due in annual installments from the Water Enterprise Fund of \$69,000 to \$81,000 through 2039. The balance outstanding at December 31, 2023, is \$1,217,000.

City of Frazee Capital Note Installment Purchase represents debt incurred for the purchase of a Massey Ferguson tractor. This capital note installment purchase has an original issue amount of \$63,285 and carries a net interest rate of 3.60 percent and is due in combined annual installments from the General Fund (streets share) and the Sewer Enterprise Fund of \$3,979 to \$6,416 through 2024. The balance outstanding from the Sewer Enterprise Fund at December 31, 2023, is \$3,971.

City of Frazee Minnesota PGA Clean Water Revolving Loans of 2022 represent debt incurred for sewer infrastructure improvements. These loans have an original issue amount of \$573,624 with \$510,714 received in 2022. They carry a net interest rate of 2.117 percent and are due in annual installments from the Sewer Enterprise fund of \$24,000 to \$36,600 through August 20, 2042. The balance outstanding at December 31, 2023, is \$562,000.

Debt Service Requirements

Debt service requirements for governmental activities and business-type activities at December 31, 2023, are as follows:

Year End December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 278,084	\$ 38,500	\$ 145,971	\$ 31,638
2025	261,789	31,817	148,000	29,463
2026	202,000	24,092	150,000	27,277
2027	151,000	19,084	128,000	25,369
2028	96,000	15,635	659,000	102,252
2029-2033	262,000	55,156	678,500	57,771
2034-2038	299,000	19,445	379,920	17,713
Total debt service requirements:	<u>\$ 1,549,873</u>	<u>\$ 203,729</u>	<u>\$ 2,289,391</u>	<u>\$ 291,483</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Changes in Long-Term Liabilities (Continued)

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Refunding, Series 2012A	\$ 250,000	\$ -	\$ 70,000	\$ 180,000	\$ 65,000
Improvement of 2013	44,000	-	22,000	22,000	22,000
Improvement of 2014A	182,000	-	34,000	148,000	35,000
Improvement Refunding of 2016A	126,000	-	34,000	92,000	34,000
Improvement of 2017	260,000	-	40,000	220,000	41,000
Capital Notes - installment purchases	134,217	-	38,344	95,873	37,084
Improvement of 2022	792,000	-	-	792,000	44,000
Total	\$ 1,788,217	\$ -	\$ 238,344	\$ 1,549,873	\$ 278,084
Compensated Absences	37,302	45,088	20,576	61,814	22,787
Net Pension Liability	858,777	535,080	-	1,393,857	-
Governmental Activities Long-Term Liabilities	<u>\$ 2,684,296</u>	<u>\$ 580,168</u>	<u>\$ 258,920</u>	<u>\$ 3,005,544</u>	<u>\$ 300,871</u>

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
General Obligation Bonds					
Improvement and Refunding Bonds	\$ 91,000	\$ -	\$ 21,000	\$ 70,000	\$ 20,000
PFA Revolving Loans	2,251,337	68,701	104,618	2,215,420	122,000
Capital Notes - installment purchase	10,622	-	6,651	3,971	3,971
Total	\$ 2,352,959	\$ 68,701	\$ 132,269	\$ 2,289,391	\$ 145,971
Compensated Absences	51,746	21,506	29,078	44,174	14,276
Net Pension Liability	265,162	77,946	-	343,108	-
Business-Type Activities Long-Term Liabilities	<u>\$ 2,669,867</u>	<u>\$ 168,153</u>	<u>\$ 161,347</u>	<u>\$ 2,676,673</u>	<u>\$ 160,247</u>

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, 2023, are summarized below by fund:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

D. Deferred Inflows of Resources (Continued)

	Taxes	Notes Receivable	Special Assessments	Total
Major governmental funds				
General	\$ 4,879	\$ -	\$ -	\$ 4,879
Debt Service Funds				
Lake Street	-	-	345,674	345,674
Southeast Area and Main Avenue West	-	-	210,445	210,445
Non-major governmental funds				
Special Revenue Funds				
Small Cities Development Project	-	37,670	-	37,670
Debt Service Funds				
County Road 118	-	-	40,903	40,903
2006 Red Willow Heights II	-	-	144,737	144,737
Total Deferred Inflows of Resources:	<u>\$ 4,879</u>	<u>\$ 37,670</u>	<u>\$ 741,759</u>	<u>\$ 784,308</u>

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

B. Benefits Provided (Continued)

1. General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. 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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

2. Police and Fire Plan Benefits

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

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

C. Contributions

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

C. Contributions (Continued)

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City of Frazee was required to contribute 7.50 percent for Coordinated Plan members. The City of Frazee's contributions to the General Employees Fund for the year ended December 31, 2023, were \$34,554. The City of Frazee's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2023 and the City of Frazee was required to contribute 17.70 percent for Police and Fire Plan members. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2023, were \$26,187. 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, 2023, the City of Frazee reported a liability of \$301,962 for its proportionate share of the General Employees Fund's net pension liability. The City of Frazee's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee totaled \$8,401.

The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .0019 percent at the end of the measurement period and .0017 percent for the beginning of the period.

City of Frazee's proportionate share of the net pension liability	\$	301,962
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee		<u>8,401</u>
Total	\$	<u>310,363</u>

There were no provision changes during the measurement period.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2023, the City of Frazee recognized a pension expense of \$7,953 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional \$38 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, 2023, 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
Difference between expected and actual economic experience	\$ 9,916	\$ 2,081
Changes in actuarial assumption	48,883	82,765
Difference between projected and actual investment earnings	-	11,435
Changes in proportion	1,499	-
Contributions paid to PERA subsequent to the measurement date	17,726	-
Total	<u>\$ 78,024</u>	<u>\$ 96,281</u>

The \$17,726 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2024	\$ 8,774
2025	\$ (45,255)
2026	\$ 7,047
2027	\$ (6,549)
2028	\$ -

2. Police and Fire Fund Pension Costs

At December 31, 2023, the City of Frazee reported a liability of \$208,951 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .0121 percent at the end of the measurement period and .016 percent for the beginning of the period.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2023. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2021. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in direct state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2023, the City of Frazee recognized pension expense of (\$33,763) for its proportionate share of the Police and Fire Plan's pension expense. The City of Frazee recognized (\$507) as grant revenue for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City of Frazee recognized \$1,089 for the year ended December 31, 2023, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

City of Frazee	
proportionate share of the net pension liability	\$ 208,951
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee	<u>8,425</u>
Total	<u>\$ 217,376</u>

There were no provision changes during the measurement period.

At December 31, 2023, 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:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 65,404	\$ -
Changes in actuarial assumptions	320,624	294,168
Difference between projected and actual investment earnings	-	6,137
Changes in proportion	7,174	144,981
Contributions paid to PERA subsequent to the measurement date	13,143	-
Total	<u>\$ 406,345</u>	<u>\$ 445,286</u>

The \$13,143 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, 2024. 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:
2024	\$ 3,222
2025	\$ (6,495)
2026	\$ 59,440
2027	\$ (28,122)
2028	\$ (80,129)

Total Pension Expense

The total pension expense for all plans recognized by the City of Frazee for the year ended December 31, 2023, was (\$46,202).

E. Long-Term Expected Return on Investment

General Employees Fund - Police and Fire Fund

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

E. Long-Term Expected Return on Investment

General Employees Fund - Police and Fire Fund (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100.0%	

F. Actuarial Methods and Assumptions

General Employees Fund – Police and Fire Fund

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary.

An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation. The most recent four-year experience for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

F. Actuarial Methods and Assumptions

General Employees Fund – Police and Fire Fund (Continued)

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.5 percent to 7.00 percent.
- The single discount rate changed from 5.4 percent to 7.0 percent.

Changes in Plan Provisions:

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

G. Discount Rate

General Employees Fund – Police and Fire Fund

The discount rate for the General Employees Plan used to measure the total pension liability in 2023 was 7.0 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 were projected to be available to make all projected future benefit payments of current plan

CITY OF FRAZEE FRAZEE, MINNESOTA

IV. Defined Benefit Pension Plans – Public Employees Retirement Association

G. Discount Rate

General Employees Fund – Police and Fire Fund (Continued)

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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060, and June 30, 2061, respectively. Beginning in fiscal year ended June 30, 2061, for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of assets depletion and 3.69 percent thereafter.

H. Pension Liability Sensitivity

The following presents the City of Frazee's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Frazee 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:

<u>Sensitivity Analysis</u>				
<u>Net Pension Liability (Asset) at Different Discount Rates</u>				
	<u>General Employees Fund</u>		<u>Police and Fire Fund</u>	
1% Lower	6.00%	\$ 534,195	6.00%	\$ 414,584
Current Discount Rat	7.00%	\$ 301,962	7.00%	\$ 208,951
1% Higher	8.00%	\$ 110,941	8.00%	\$ 39,893

I. Pension Plan Fiduciary Net Position

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

V. Defined Benefit Pension Plan – Firemen's 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, 2023, membership includes 26 active participants and 1 inactive member entitled to benefits but not yet receiving them. The Plan issues a stand-alone financial statement.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firemen’s Relief Association

A. Plan Description (Continued)

As described in the GASB 68 standard, a one-year lookback may be used when preparing financial disclosures under GASB 68. The valuation, measurement and reporting dates are:

Valuation date:	January 1, 2022
Plan Fiscal Year Beginning:	January 1, 2022
Plan Fiscal Year Ending:	December 31, 2022
Employer Fiscal Year Beginning:	January 1, 2023
Employer Fiscal Year Ending:	December 31, 2023

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.

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.

Lump Sum Pension: Each member who is at least 50 years of age or has served at least 10 years of active service with such department before retirement shall be entitled to a lump sum service pension. The current lump sum pension is based on \$1,800 per year of service plus a Supplemental Benefit of 10% of the regular lump sum distribution, but not more than \$1,000.

If a member is both age 50 and has completed 10 years of service, but not 20 years of service, the lump sum pension will be reduced by 4% for each year of service less than 20 years.

Deferred Lump Sum Pension: The deferred lump sum pension payable at age 50 is based on the lump sum pension formula and service at date of termination reduced for less than 20 years of service. For members that terminate with at least 20 years of service, money will be set aside in a non-interest-bearing individual account. If a member dies before payment, the benefit will be paid to the participant’s beneficiary.

Disability Lump Sum Pension: The disability pension payable immediately is based on the lump sum pension formula and service at date of disability without regard to vesting. During the time a member is on an early vested pension, they will not be eligible for disability benefits.

Survivor Benefit: Years of service times the lump sum rate in effect at the time of death without regard to vesting, payable to named beneficiary plus a Supplemental Survivor Benefit in the amount of 20% of the total benefit paid, but not more than \$2,000.

B. Contributions

Minnesota Statutes Chapter 424A.092 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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firemen’s Relief Association

B. Contributions (Continued)

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 Plan is funded in part by Fire State Aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$32,022 in Fire State Aid paid by the City to the Relief Association for the year ended December 31, 2023. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2023, there was no statutorily required City contribution to the plan. The plan’s funded status based on the most current valuation is 182.07%.

D. Pension Costs

At December 31, 2023, the City reported a net pension asset of \$176,884 for the Association’s proportionate share. The net pension asset was measured as of December 31, 2022, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date within the one-year look back option used for 2024.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at January 1, 2023	\$ 381,874	\$ 665,014	\$ (283,140)
Changes from the prior year:			
Service Cost	\$ 23,857	\$ -	\$ 23,857
Interest Cost	20,950	-	20,950
Plan Changes	37,345	-	37,345
Nonemployer Contributions	-	72,532	(72,532)
Projected Investment Return	-	36,467	(36,467)
Gain or Loss	-	(133,103)	133,103
Benefit Payments	(13,350)	(13,350)	-
Total Net Changes	\$ 68,802	\$ (37,454)	\$ 106,256
Balances at December 31, 2023	\$ 450,676	\$ 627,560	\$ (176,884)

At December 31, 2023, the City of Frazee reported deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability	\$ -	\$ 12,762
Net difference between projected and actual investment earnings	49,329	-
Total	\$ 49,329	\$ 12,762

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

D. Pension Costs (Continued)

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

<u>December 31:</u>	<u>Amount:</u>
2024	(4,821)
2025	4,796
2026	17,575
2027	24,901
2028	(1,627)
2029	(4,257)

E. Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2021
GASB 67 Measurement & Reporting Date	December 31, 2022
GASB 68 Measurement Date	January 1, 2022
GASB 68 Reporting Date	December 31, 2023
Actuarial Cost Method	GASB Accounting: Entry Age Normal
Asset Valuation Method	Trustee value as of the measurement date
Actuarial Assumptions:	
Discount Rate (net of investment expenses)	3.50%
Expected Long-Term Investment Return	3.50%
Salary Increases	2.50%

Changes in Actuarial Assumptions

Changes in actuarial assumptions since the prior valuation include:

- The Investment return assumption was changed from 6.5 percent to 7.00 percent.
- The single discount rate changed from 5.4 percent to 7.0 percent.

Plan Provisions

Following is a summary of the major plan provisions used to determine the plan's financial position.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

E. Actuarial Assumptions and Plan Provisions

Plan Provisions (Continued)

Effective Date	Plan by-laws in effect on January 1, 2022
Plan Year	Calendar year
Year of Service	12 full months of active service in the Fire Department
Vesting Percentage	60% after 10 years of service, increased by 4% for each additional year of service up to 20.
Eligibility for Retirement Service Pension	Age 50 with 20 years of service
Service Pension Benefit	\$3,000 times years of service
Eligibility for Early Vested Pension	Age 50 with 10 years of service
Early Vested Pension Benefit	Service pension benefit times the vesting percentage
Eligibility of Deferred Service Pension Benefit	20 years of service; payable at age 50
Deferred Service Pension Benefit	Service pension benefit
Ancillary Disability & Death Benefits	Service pension benefit times the vesting percentage, payable immediately
Form of Payment	Lump sum

Changes in Plan Provisions

No changes in plan provisions.

F. Discount Rate

The discount rate used to measure the total pension liability was 3.50 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.

H. 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 (asset) 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 Liability	\$ (161,700)	\$ (176,884)	\$ (191,554)

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Frazee Fire Relief Association Actuarial Valuation Report. This may be requested by contacting the City of Frazee.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

I. Pension Plan Fiduciary Net Position (Continued)

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

	Fiscal Year Ending	
	12/31/2022	12/31/2021
Additions		
Contributions		
State contributions	\$ 32,022	\$ 30,937
Employee Contributions	10	35
Other nonemployer contributions	40,500	1,495
Total contributions	<u>\$ 72,532</u>	<u>\$ 32,467</u>
Investment income		
Return on plan assets	<u>\$ (96,636)</u>	<u>\$ 67,614</u>
Total additions	<u>\$ (24,104)</u>	<u>\$ 100,081</u>
Deductions		
Benefit payments		
Lump sums	<u>\$ (13,350)</u>	<u>\$ (17,416)</u>
Total deductions	<u>\$ (13,350)</u>	<u>\$ (17,416)</u>
Net increase in net pension	<u>\$ (37,454)</u>	<u>\$ 82,665</u>
Net position restricted for pensions		
Beginning of year	<u>\$ 665,014</u>	<u>\$ 582,349</u>
Value at end of year	<u>\$ 627,560</u>	<u>\$ 665,014</u>
Rate of Return for Year:	11.50%	18.60%

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

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

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board

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

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

Funding is provided by participants in amounts determined by the Board on an annual basis. The City made no contributions in 2023. 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).

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

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

2. Basis of Presentation

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

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

3. Measurement Focus and Basis of Accounting

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

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

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, 2023, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2023 were \$93.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

c. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

d. Long-Term Obligations

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

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures (Continued)

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Capital Assets

Capital asset activity for the component unit for the year ended December 31, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land - Economic Development Authority	\$ 211,697	\$ 39,724	\$ -	\$ 251,421
Construction in progress - Downtown East Main	1,041,860	15,653	-	1,057,513
Total capital assets, not being depreciated	<u>\$ 1,253,557</u>	<u>\$ 55,377</u>	<u>\$ -</u>	<u>\$ 1,308,934</u>
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 216,181	\$ 1,057,513	\$ -	\$ 1,273,694
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 63,109	\$ 5,404	\$ -	\$ 68,513
Total accumulated depreciation	<u>\$ 63,109</u>	<u>\$ 5,404</u>	<u>\$ -</u>	<u>\$ 68,513</u>
Total capital assets, depreciated, net	<u>\$ 153,072</u>	<u>\$ 1,052,109</u>	<u>\$ -</u>	<u>\$ 1,205,181</u>
Total Capital Assets, Net	<u><u>\$ 1,406,629</u></u>	<u><u>\$ 1,107,486</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,514,115</u></u>

Depreciation Expense

Depreciation expense of \$5,404 was charged to the Economic Development Authority.

2. Liabilities

Long-Term Debt

City of Frazee Economic Development Authority Temporary General Obligation Tax Increment Bonds, Series 2021A represent debt incurred for construction of the Downtown Infill Project. These bonds have an original issue amount of \$1,518,000. They carry a net interest rate of 3.25 percent and are due in semi-annual interest-only payments of \$24,667, with the full principal amount due on February 1, 2024, from the Economic Development Authority Fund. The balance outstanding at December 31, 2023 is \$1,518,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements the City of Frazee Economic Development Authority at December 31, 2023, are as follows:

Year End December 31	General Obligation Tax Increment Bonds, Series 2021A	
	Principal	Interest
2024	\$ 1,518,000	\$ 26,313

Changes in Long-Term Liabilities

Long-term liability activity for the City of Frazee Economic Development Authority for the year ended December 31, 2023, was as follows:

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

C. Summary of Significant Contingencies and Other Items

Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes	\$ 461,394	\$ 461,394	\$ 451,918	\$ (9,476)
Licenses and permits	30,700	30,700	17,179	(13,521)
Intergovernmental	615,631	615,631	678,833	63,202
Charges for services	203,600	203,600	279,657	76,057
Fines and forfeitures	6,500	6,500	4,530	(1,970)
Investment earnings	4,000	4,000	44,381	40,381
Gifts and contributions	5,500	5,500	9,105	3,605
Miscellaneous	12,500	12,500	17,395	4,895
Total Revenues	\$ 1,339,825	\$ 1,339,825	\$ 1,502,998	\$ 163,173
Expenditures				
Current				
General government				
Mayor/council	\$ 15,800	\$ 15,800	\$ 36,843	\$ (21,043)
Financial administration	402,501	402,501	328,015	74,486
Planning commission	21,200	21,200	19,114	2,086
Total general government	\$ 439,501	\$ 439,501	\$ 383,972	\$ 55,529
Public safety				
Police	\$ 380,917	\$ 380,917	\$ 380,583	\$ 334
Fire	105,650	105,650	120,387	(14,737)
Fire relief association	30,000	30,000	994	29,006
Rescue squad	4,400	4,400	5,400	(1,000)
Total public safety	\$ 520,967	\$ 520,967	\$ 507,364	\$ 13,603
Highways and streets				
Street department	\$ 114,695	\$ 114,695	\$ 159,170	\$ (44,475)
Snow removal	12,000	12,000	11,731	269
Street lighting	21,800	21,800	21,578	222
Total highways and streets	\$ 148,495	\$ 148,495	\$ 192,479	\$ (43,984)
Sanitation				
Recycling	\$ 1,130	\$ 1,130	\$ 300	\$ 830
Solid waste	35,000	35,000	125,653	(90,653)
Total sanitation	\$ 36,130	\$ 36,130	\$ 125,953	\$ (89,823)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Expenditures				
Current (continued)				
Culture and recreation				
Parks	\$ 25,100	\$ 25,100	\$ 32,425	\$ (7,325)
Library	-	-	825	(825)
Other culture and recreation	4,500	4,500	4,320	180
Total culture and recreation	\$ 29,600	\$ 29,600	\$ 37,570	\$ (7,970)
Total current	\$ 1,174,693	\$ 1,174,693	\$ 1,247,338	\$ (72,645)
Debt service				
Principal retirement	\$ -	\$ -	\$ 38,343	\$ (38,343)
Interest	-	-	3,992	(3,992)
Total debt service	\$ -	\$ -	\$ 42,335	\$ (42,335)
Capital outlay				
Public safety	\$ 85,000	\$ 85,000	\$ 206,664	\$ (121,664)
Highways and streets	30,000	30,000	43,413	(13,413)
Culture and recreation	12,000	12,000	5,000	7,000
Total capital outlay	\$ 127,000	\$ 127,000	\$ 255,077	\$ (128,077)
Total Expenditures	\$ 1,301,693	\$ 1,301,693	\$ 1,544,750	\$ (243,057)
Excess of Revenues Over (Under)				
Expenditures	\$ 38,132	\$ 38,132	\$ (41,752)	\$ (79,884)
Fund Balance - January 1	1,249,618	1,249,618	1,249,618	-
Fund Balance - December 31	\$ 1,287,750	\$ 1,287,750	\$ 1,207,866	\$ (79,884)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
WANNAGAN REGIONAL PARK SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Intergovernmental	\$ -	\$ -	\$ 603,000	\$ 603,000
Gifts and contributions	-	-	2,000	2,000
Total Revenues	\$ -	\$ -	\$ 605,000	\$ 605,000
Expenditures				
Capital outlay				
Culture and recreation	-	-	605,062	(605,062)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (62)	\$ (62)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ (62)	\$ (62)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 3

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023	\$ 34,554	\$ 34,554	\$ -	\$ 460,716	7.5%
December 31, 2022	\$ 30,693	\$ 30,693	\$ -	\$ 409,247	7.5%
December 31, 2021	\$ 30,032	\$ 30,032	\$ -	\$ 400,420	7.5%
December 31, 2020	\$ 27,247	\$ 27,247	\$ -	\$ 363,293	7.5%
December 31, 2019	\$ 29,798	\$ 29,798	\$ -	\$ 397,306	7.5%
December 31, 2018	\$ 28,121	\$ 28,121	\$ -	\$ 374,947	7.5%
December 31, 2017	\$ 26,293	\$ 26,293	\$ -	\$ 352,901	7.5%
December 31, 2016	\$ 25,675	\$ 25,675	\$ -	\$ 342,333	7.5%
December 31, 2015	\$ 24,893	\$ 24,893	\$ -	\$ 331,909	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

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, 2023	\$ 26,187	\$ 26,187	\$ -	\$ 147,950	17.70%
December 31, 2022	\$ 33,007	\$ 33,007	\$ -	\$ 186,482	17.70%
December 31, 2021	\$ 32,620	\$ 32,620	\$ -	\$ 184,294	17.70%
December 31, 2020	\$ 32,390	\$ 32,390	\$ -	\$ 182,994	17.70%
December 31, 2019	\$ 29,262	\$ 29,262	\$ -	\$ 172,637	16.95%
December 31, 2018	\$ 27,330	\$ 27,330	\$ -	\$ 168,704	16.20%
December 31, 2017	\$ 25,156	\$ 25,156	\$ -	\$ 155,284	16.20%
December 31, 2016	\$ 24,940	\$ 24,940	\$ -	\$ 153,951	16.20%
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.20%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023	0.0054%	\$ 301,962	\$ 8,401	\$ 310,363	\$ 431,847	69.92%	83.10%
June 30, 2022	0.0054%	\$ 427,682	\$ 12,407	\$ 440,089	\$ 402,768	106.19%	76.67%
June 30, 2021	0.0054%	\$ 230,604	\$ 7,087	\$ 237,691	\$ 382,743	60.25%	87.00%
June 30, 2021	0.0054%	\$ 230,604	\$ 7,087	\$ 237,691	\$ 382,743	60.25%	87.00%
June 30, 2020	0.0053%	\$ 317,759	\$ 9,685	\$ 327,444	\$ 375,679	84.58%	79.06%
June 30, 2019	0.0054%	\$ 298,554	\$ 9,333	\$ 307,887	\$ 378,277	78.92%	80.23%
June 30, 2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 375,270	82.78%	75.93%
June 30, 2017	0.0053%	\$ 338,349	\$ 4,245	\$ 342,594	\$ 350,993	96.40%	75.90%
June 30, 2016	0.0055%	\$ 446,573	\$ 5,862	\$ 452,435	\$ 343,830	129.88%	68.90%
June 30, 2015	0.0056%	\$ 290,221	\$ -	\$ 290,221	\$ 331,609	87.52%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

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, 2023	0.0121%	\$ 208,951	\$ 8,425	\$ 217,376	\$ 159,267	131.20%	86.47%
June 30, 2022	0.0160%	\$ 696,257	\$ 30,418	\$ 726,675	\$ 203,094	342.82%	70.53%
June 30, 2021	0.0160%	\$ 123,503	\$ 5,579	\$ 129,082	\$ 198,006	62.37%	93.66%
June 30, 2020	0.0151%	\$ 199,034	\$ 4,672	\$ 203,706	\$ 170,658	116.63%	87.19%
June 30, 2019	0.0161%	\$ 171,401	\$ 2,173	\$ 173,574	\$ 169,241	101.28%	89.26%
June 30, 2018	0.0150%	\$ 164,148	\$ 1,386	\$ 165,534	\$ 160,606	102.21%	88.84%
June 30, 2017	0.0150%	\$ 202,518	\$ 1,350	\$ 203,868	\$ 159,077	127.31%	85.40%
June 30, 2016	0.0160%	\$ 642,108	\$ 1,440	\$ 643,548	\$ 159,181	403.38%	63.90%
June 30, 2015	0.0170%	\$ 193,160	\$ 1,530	\$ 194,690	\$ 155,181	124.47%	86.60%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5

**VOLUNTEER FIREFIGHTER RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2022	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2021	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2020	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2019	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2018	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2017	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2016	\$ -	\$ -	\$ -	N/A	N/A

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION ASSET

Fiscal Year Ending	Proportion of the Net Pension Asset	Proportionate Share of the Net Pension Asset	Covered- Employee Payroll	Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
January 1, 2023	100%	\$ 176,884	N/A	N/A	139.00%
January 1, 2022	100%	\$ 283,140	N/A	N/A	182.07%
January 1, 2021	100%	\$ 218,394	N/A	N/A	154.00%
January 1, 2020	100%	\$ 162,631	N/A	N/A	154.00%
January 1, 2019	100%	\$ 106,377	N/A	N/A	139.00%
January 1, 2018	100%	\$ 131,591	N/A	N/A	136.00%
January 1, 2017	100%	\$ 114,654	N/A	N/A	136.00%
January 1, 2016	100%	\$ 95,304	N/A	N/A	132.00%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
<i>General government</i>			
Mayor/council	\$ 36,843	\$ 15,800	\$ (21,043)
<i>Public safety</i>			
Fire	120,387	105,650	(14,737)
Rescue squad	5,400	4,400	(1,000)
<i>Highways and streets</i>			
Street department	159,170	114,695	(44,475)
<i>Sanitation</i>			
Solid waste	125,653	35,000	(90,653)
<i>Culture and recreation</i>			
Parks	32,425	25,100	(7,325)
Other culture and recreation	825	-	(825)
<i>Debt service</i>			
Principal retirement	38,343	-	(38,343)
Interest	3,992	-	(3,992)
<i>Capital outlay</i>			
General government	206,664	85,000	(121,664)
Highways and streets	43,413	30,000	(13,413)

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

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. Changes in actuarial assumptions

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

are described in the Notes to the Financial Statements. The assumptions and methods used for this actuarial valuation were recommended by PERA and adopted by the City Council. The following changes were reflected in the valuation performed on behalf of PERA for the fiscal year June 30:

General Employees Fund

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

General Employees Fund

2020 Changes

Changes in Actuarial Assumptions (Continued)

- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees were changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

General Employees Fund

2018 Changes

Changes in Plan Provisions (Continued)

- 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.

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

General Employees Fund (Continued)

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

2023 Changes

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.5 percent to 7.00 percent.
- The single discount rate changed from 5.4 percent to 7.0 percent.

Changes in Plan Provisions:

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The Single discount rate changed from 6.50 percent to 5.40 percent.

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

Police and Fire Fund

2021 Changes

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions

- The 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**

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

Police and Fire Fund

2018 Changes

Changes in Plan Provisions (Continued)

- 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

Police and Fire Fund

2016 Changes (Continued)

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent.
- The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

SUPPLEMENTARY INFORMATION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

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

Debt Service Funds

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Assets			
Cash and pooled investments	\$ 346,824	\$ 125,067	\$ 471,891
Investments	-	1,004	1,004
Taxes receivable			
Current	486	-	486
Special assessments receivable			
Current	-	124	124
Prior	-	33,151	33,151
Accounts receivable	1,482	-	1,482
Notes receivable	37,670	-	37,670
Special assessments receivable - noncurrent	-	152,489	152,489
Total Assets	<u>\$ 386,462</u>	<u>\$ 311,835</u>	<u>\$ 698,297</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 766	\$ -	\$ 766
Due to other funds	691	283,968	284,659
Total Liabilities	<u>\$ 1,457</u>	<u>\$ 283,968</u>	<u>\$ 285,425</u>
Deferred Inflows of Resources			
Notes	\$ 37,670	\$ -	\$ 37,670
Special assessments	-	185,640	185,640
Total Deferred Inflows of Resources	<u>\$ 37,670</u>	<u>\$ 185,640</u>	<u>\$ 223,310</u>
Fund Balance			
Restricted for			
Debt service	\$ -	\$ 126,071	\$ 126,071
Economic development	291,834	-	291,834
Assigned to			
Sanitation	56,856	-	56,856
Unassigned	(1,355)	(283,844)	(285,199)
Total Fund Balance	<u>\$ 347,335</u>	<u>\$ (157,773)</u>	<u>\$ 189,562</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 386,462</u>	<u>\$ 311,835</u>	<u>\$ 698,297</u>

**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, 2023**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Total NonMajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ 116,585	\$ -	\$ 116,585
Special assessments	-	23,511	23,511
Charges for services	9,482	-	9,482
Investment earnings	-	4	4
Miscellaneous	22,330	-	22,330
Total Revenues	\$ 148,397	\$ 23,515	\$ 171,912
Expenditures			
Current			
General government	\$ 7,103	\$ -	\$ 7,103
Conservation of natural resources	3,357	-	3,357
Total current	\$ 10,460	\$ -	\$ 10,460
Debt service			
Principal retirement	\$ -	\$ 160,000	\$ 160,000
Interest	-	15,559	15,559
Total debt service	\$ -	\$ 175,559	\$ 175,559
Total Expenditures	\$ 10,460	\$ 175,559	\$ 186,019
Excess of Revenues Over (Under) Expenditures	\$ 137,937	\$ (152,044)	\$ (14,107)
Other Financing Sources (Uses)			
Transfers out	(100,873)	-	(100,873)
Net Change in Fund Balance	\$ 37,064	\$ (51,171)	\$ (14,107)
Fund Balance - January 1	310,271	(106,602)	203,669
Fund Balance - December 31	\$ 347,335	\$ (157,773)	\$ 189,562

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Cemetery	Storm Water	Revolving Loan Pool	Small Cities Development Project (SCDP)	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 1)
<u>Assets</u>							
Cash and pooled investments	\$ -	\$ 55,476	\$ 19,818	\$ 107,513	\$ 121,441	\$ 42,576	\$ 346,824
Taxes receivable							
Current	-	-	-	-	-	486	486
Accounts receivable	-	1,482	-	-	-	-	1,482
Notes receivable	-	-	-	37,670	-	-	37,670
Total Assets	\$ -	\$ 56,958	\$ 19,818	\$ 145,183	\$ 121,441	\$ 43,062	\$ 386,462
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>							
Liabilities							
Accounts payable	\$ 664	\$ 102	\$ -	\$ -	\$ -	\$ -	\$ 766
Due to other funds	691	-	-	-	-	-	691
Total Liabilities	\$ 1,355	\$ 102	\$ -	\$ -	\$ -	\$ -	\$ 1,457
Deferred Inflows of Resources							
Notes	\$ -	\$ -	\$ -	\$ 37,670	\$ -	\$ -	\$ 37,670
Fund Balance							
Restricted for							
Economic development	\$ -	\$ -	\$ 19,818	\$ 107,513	\$ 121,441	\$ 43,062	\$ 291,834
Assigned to							
Sanitation	-	56,856	-	-	-	-	56,856
Unassigned	(1,355)	-	-	-	-	-	(1,355)
Total Fund Balance	\$ (1,355)	\$ 56,856	\$ 19,818	\$ 107,513	\$ 121,441	\$ 43,062	\$ 347,335
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ -	\$ 56,958	\$ 19,818	\$ 145,183	\$ 121,441	\$ 43,062	\$ 386,462

**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, 2023**

	<u>Cemetery</u>	<u>Storm Water</u>	<u>Revolving Loan Pool</u>	<u>Small Cities Development Project (SCDP)</u>	<u>TIF 1-3 Red Willow Heights</u>	<u>TIF 1-4 Swift Site</u>	<u>TIF 1-5 Downtown Renovations</u>	<u>Total (Statement 2)</u>
Revenues								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 100,873	\$ 7,518	\$ 8,194	\$ 116,585
Charges for services	-	9,482	-	-	-	-	-	9,482
Miscellaneous	6,775	-	-	15,555	-	-	-	22,330
Total Revenues	\$ 6,775	\$ 9,482	\$ -	\$ 15,555	\$ 100,873	\$ 7,518	\$ 8,194	\$ 148,397
Expenditures								
Current								
General government	\$ 7,103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,103
Conservation of natural resources	-	3,357	-	-	-	-	-	3,357
Total Expenditures	\$ 7,103	\$ 3,357	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,460
Excess of Revenues Over (Under) Expenditures	\$ (328)	\$ 6,125	\$ -	\$ 15,555	\$ 100,873	\$ 7,518	\$ 8,194	\$ 137,937
Other Financing Sources (Uses)								
Transfers out	-	-	-	-	(100,873)	-	-	(100,873)
Net Change in Fund Balance	\$ (328)	\$ 6,125	\$ -	\$ 15,555	\$ -	\$ 7,518	\$ 8,194	\$ 37,064
Fund Balance - January 1	(1,027)	50,731	19,818	91,958	-	113,923	34,868	310,271
Fund Balance - December 31	\$ (1,355)	\$ 56,856	\$ 19,818	\$ 107,513	\$ -	\$ 121,441	\$ 43,062	\$ 347,335

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>2016 Improvements and Refunding</u>	<u>County Road 118</u>	<u>2006 Red Willow Heights II</u>	<u>Southeast Area Streets and Utilities</u>	<u>Total (Statement 1)</u>
<u>Assets</u>					
Cash and pooled investments	\$ -	\$ 39,830	\$ 85,237	\$ -	\$ 125,067
Investments	-	-	1,004	-	1,004
Special assessments receivable					
Current	124	-	-	-	124
Prior	-	5,376	27,775	-	33,151
Noncurrent	-	35,527	116,962	-	152,489
Total Assets	\$ 124	\$ 80,733	\$ 230,978	\$ -	\$ 311,835
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>					
Liabilities					
Due to other funds	\$ 140,692	\$ -	\$ -	\$ 143,276	\$ 283,968
Deferred Inflows of Resources					
Special assessments	\$ -	\$ 40,903	\$ 144,737	\$ -	\$ 185,640
Fund Balance					
Restricted for debt service	\$ -	\$ 39,830	\$ 86,241	\$ -	\$ 126,071
Unassigned	(140,568)	-	-	(143,276)	(283,844)
Total Fund Balance	\$ (140,568)	\$ 39,830	\$ 86,241	\$ (143,276)	\$ (157,773)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 124	\$ 80,733	\$ 230,978	\$ -	\$ 311,835

**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, 2023**

	2016 Improvements and Refunding	County Road 118	2006 Red Willow Heights II	Southeast Area Streets and Utilities	Total (Statement 2)
Revenues					
Special assessments	\$ 4,917	\$ 10,461	\$ 8,133	\$ -	\$ 23,511
Investment earnings	-	-	4	-	4
Total Revenues	\$ 4,917	\$ 10,461	\$ 8,137	\$ -	\$ 23,515
Expenditures					
Debt service					
Principal retirement	\$ 34,000	\$ 34,000	\$ 70,000	\$ 22,000	\$ 160,000
Interest	2,868	5,115	6,850	726	15,559
Total Expenditures	\$ 36,868	\$ 39,115	\$ 76,850	\$ 22,726	\$ 175,559
Excess of Revenues Over (Under) Expenditures	\$ (31,951)	\$ (28,654)	\$ (68,713)	\$ (22,726)	\$ (152,044)
Other Financing Sources (Uses)					
Transfers in	-	-	100,873	-	100,873
Net Change in Fund Balance	\$ (31,951)	\$ (28,654)	\$ 32,160	\$ (22,726)	\$ (51,171)
Fund Balance - January 1	\$ (108,617)	\$ 68,484	\$ 54,081	\$ (120,550)	\$ (106,602)
Fund Balance - December 31	\$ (140,568)	\$ 39,830	\$ 86,241	\$ (143,276)	\$ (157,773)

OTHER SCHEDULES

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2023**

Shared Revenue

State

Local government aid	\$ 545,631
Police state aid	28,131
Public safety aid	<u>58,157</u>

Total Shared Revenue	\$ 631,919
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Payments

Payments in lieu of taxes	<u>\$ 19,472</u>
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Grants

Local

Becker County	\$ 73
Clay County	<u>5,000</u>

Total Local	\$ 5,073
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State

Minnesota Department of

Police Officer Safety Board	\$ 3,031
Natural Resources	603,000
Public Safety	5,991
Public Facilities Authority	<u>13,347</u>

Total State Grants	\$ 625,369
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Total Grants	\$ 630,442
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Total Intergovernmental Revenue	<u>\$ 1,281,833</u>
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Not included as revenue are \$68,701 in Minnesota Public Facilities Authority loans from the Environmental Protection Agency's Clean Water and Drinking Water State Revolving Fund which are recorded as liabilities in the Sewer and Water Enterprise Funds.

MANAGEMENT AND COMPLIANCE SECTION

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



Hoffman, Philipp, & Martell, PLLC

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

City Council
City of Frazee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2024.

Report on 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.

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However,

material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2023-001, and 2023-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Frazee'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, we noted that the City of Frazee failed to comply with provisions of the claims and disbursements section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, insofar as they relate to accounting matters described in the Schedule of Findings and Responses as item 2023-003. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Frazee failed to comply with the provisions of the contracting and bidding, conflicts of interest, deposits and investments, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

City of Frazee's Response to Findings

The City's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and 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, & Martell, PLLC
July 31, 2024

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2023-001

Prior Year Finding Number(s): 2022-001

Repeat Finding Since: 2006

Segregation of Duties and Internal Controls

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

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

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

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

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Finding Number: 2023-002

Prior Year Finding Number: 2022-002

Repeat Finding Since: 2008

Finding Title: Audit Adjustments

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

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

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

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

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

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

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

III. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number: 2023-003

Prior Finding Number: 2022-003

Repeat Finding Since: 2008

Finding Title: Deficit Cash Balances

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

Condition: At December 31, 2023, the following funds had deficit cash balances:

Cemetery Special Revenue Fund	\$ 691
Wannagan Park Special Revenue Fund	\$ 62
2016 Improvements and Refunding Debt Service Fund	\$ 140,568
Spruce Avenue Improvement Debt Service Fund	\$ 143,276

Context: City officials are confident that collection of deferred special assessments will be adequate to meet future debt service requirements, and in the event of 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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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, 2023

Finding Number: 2023-001

Finding Title: Segregation of Duties and Internal Controls

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

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

Anticipated Completion Date: December 31, 2024. *The City Council is aware of the inability to segregate duties due to the lack of resources and the need for internal control and they continue to be diligent in management oversight of financial information.*

Finding Number: 2023-002

Finding Title: Audit Adjustments

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

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

Anticipated Completion Date: *December 31, 2024.*

Finding Number: 2023-003

Finding Title: Deficit Cash Balances

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

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

Anticipated Completion Date: *December 31, 2024.*

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

Finding Number: 2022-001

Repeat Finding Since: 2006

Finding Title: Segregation of Duties and Internal Controls

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: 2022-002

Repeat Finding Since: 2008

Finding Title: Audit Adjustments

Summary of Condition: Each Fund of the City is required to have a self-balancing set of accounts to reflect activity of the fund throughout the year in accordance with GAAP in the City's annual financial statement. During 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022, audits and adjustments were identified, resulting in reclassification of amounts originally reported in the City's financial statements.

Summary of Corrective Action: Management is aware the City should establish internal control procedures for analysis and review of receipt and expenditure classifications and journal entries to ensure these transactions are reported in accordance with GAAP in the City's annual financial statement.

Status: Not corrected.

Finding Number: 2022-003

Repeat Finding Since: 2008

Finding Title: Deficit Cash Balances

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

At December 31, 2022, the following funds had deficit cash balances:

Cemetery Special Revenue Fund	\$ 995
2016 Improvements and Refunding Debt Service Fund	\$109,108

Southeast Area Street and Utilities Debt Service Fund

\$120,550

Summary of Corrective Action: The City eliminated the cash balance deficits by transferring from another fund for reporting purposes, however, three funds had cash balance deficits at December 31, 2022.

Status: Not corrected.