CITY OF FRAZEE
FRAZEE, MINNESOTA

YEAR ENDED DECEMBER 31, 2025

Hoffman, Philipp, & Martell, PLLC

CITY OF FRAZEE
FRAZEE, MINNESOTA

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INTRODUCTORY SECTION

CITY OF FRAZEE
FRAZEE, MINNESOTA

ORGANIZATION SCHEDULE
DECEMBER 31, 2025

City Council	Position	Term Expires
Elected		
Mike Sharp	Mayor	December 31, 2026
Andrew Daggett	Councilmember	December 31, 2028
Mark Kemper	Councilmember	December 31, 2028
Andrea Froeber	Councilmember	December 31, 2026
James Rader	Councilmember	December 31, 2026
Appointed		
Stephanie Poegel	Administrator	Indefinite

FINANCIAL SECTION

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

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, 2025, 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, 2025, 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 than an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that individually they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Frazee's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used in the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events considered that raise substantial doubt about the City of Frazee's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frazee's basic financial statements. The accompanying combining nonmajor fund financial 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 28, 2026, on our consideration of the City of Frazee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Frazee's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Frazee's internal control over financial reporting and compliance.

Hoffman, Philipp, & Martell

Hoffman, Philipp, & Martell, PLLC
July 28, 2026

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, 2025. 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 $8,766,522 of which $6,899,702 is the net investment in capital assets, $1,340,916 is restricted for economic development and debt service, and $525,904 is unrestricted. The total net position of governmental activities increased by $1,251,276 for the year ended December 31, 2025, mainly as a result of grants and donations for the Wannigan Park Project and for Fire and Rescue Equipment.

The total net position of business-type activities is $6,374,220, of which $4,566,863 is the net investment in capital assets, $356,330 is restricted for infrastructure replacement, and $1,451,027 is unrestricted. The total net position of business-type activities increased by $293,903 in 2025, as a result of above average net income in most of the enterprise funds.

At the close of 2025, the City's governmental funds reported combined ending fund balances of $1,281,721, a decrease of $165,246 from the prior year. Of the total fund balance amount, $579,347 is legally or contractually restricted, $251,259 is formally committed for specific purposes, $48,759 is assigned for public safety, and $402,356 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, 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, water, and storm 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, Special Revenue, and Debt Service. 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 Fire Special Revenue Fund, the Rescue Special Revenue Fund, the Wannigan Park Special Revenue Fund, and the Lake Street

Debt Service Fund, all of which are considered to be major funds. Data from the nonmajor governmental funds including four Special Revenue Funds and six Debt Service 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 and major Special Revenue Funds. *Budgetary Comparison Schedules* have been provided for these fund to demonstrate compliance with budgets.

Proprietary Funds The City of Frazee maintains five 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. (5) The Storm Water Enterprise Fund is used to account for the operations of the City's storm 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. The Events Center, Liquor, Sewer, and Water Enterprise Funds are considered to be major funds. Data from the non-major Storm Water Enterprise Fund has been presented with the 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 $15,140,742 at the close of 2025. The largest portion of the City's net position (approximately 76 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 11 percent of the City's net position is restricted, and 13 percent of the City's net position is unrestricted. The unrestricted net position amount of $1,976,931 as of December 31, 2025, may be used to meet the City's ongoing obligations to citizens.

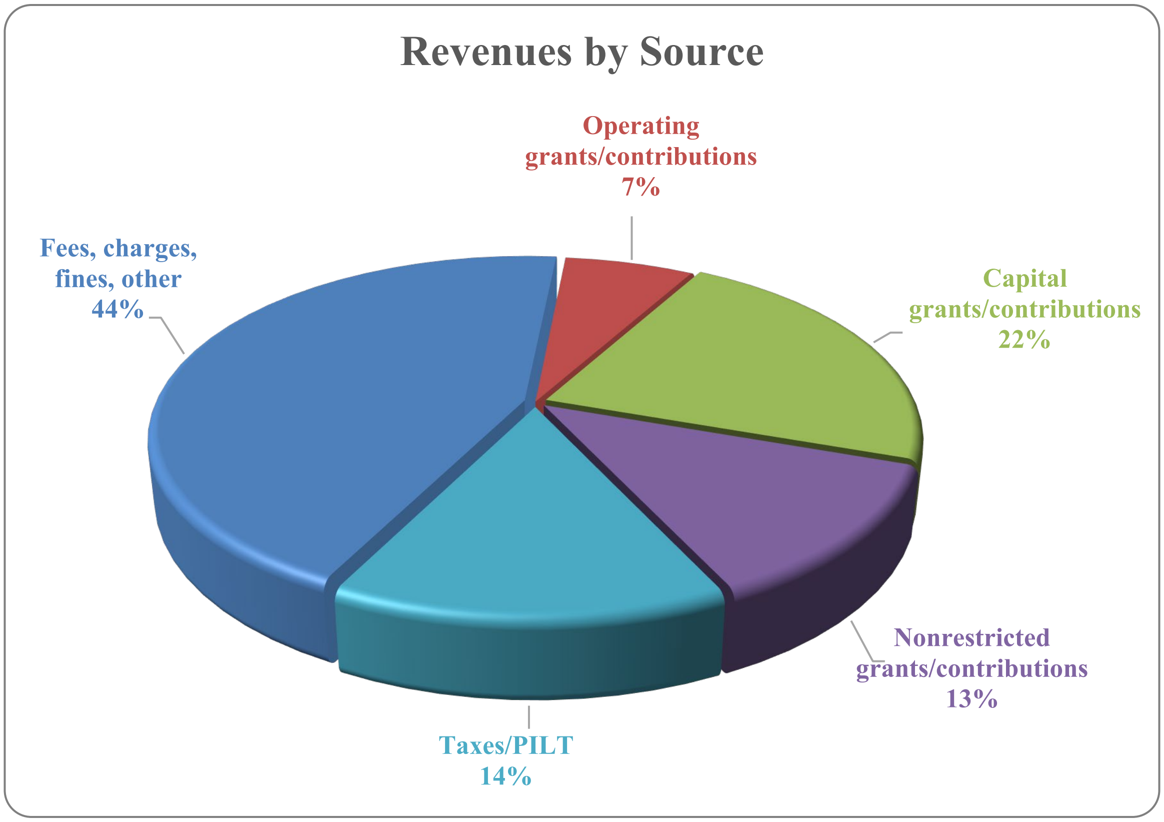
The City's overall financial position increased from last year. Total assets increased by $1,330,688 from the prior year due to construction projects in progress including Wannigan Park, Town Lake Beach, East Main Street, and the Solar Project, and the purchase of Fire and Rescue Equipment. Deferred outflows of resources related to pensions decreased by $46,775. Total liabilities decreased by $340,398 from the prior year due to repayment of debt and deferred inflows of resources related to pensions increased by $79,091. This resulted in an increased net position of $1,545,220 from the prior year.

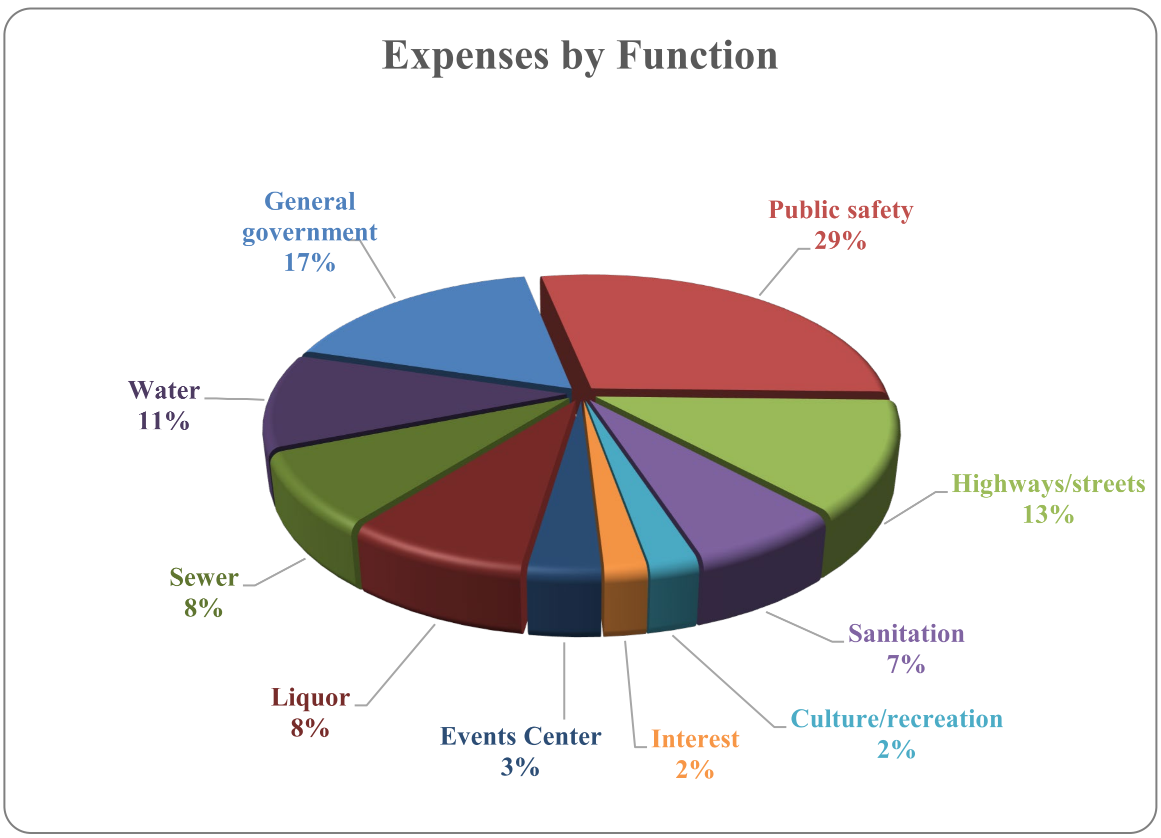
NET POSITION

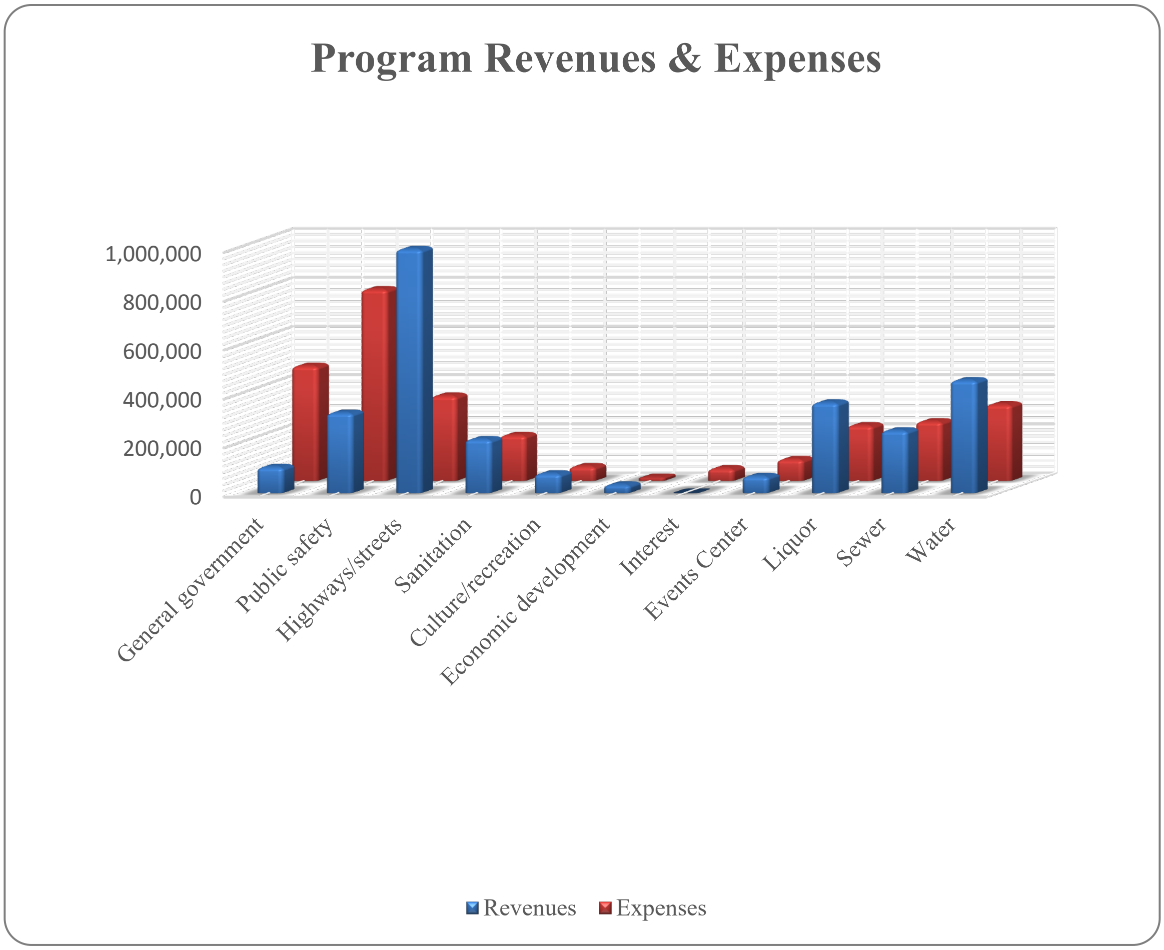
	Governmental Activities		Business-Type Activities		**Total Primary Government**	
	2025	2024	2025	2024	**2025**	**2024**
Current and other assets	$ 2,391,216	$ 2,439,688	$ 2,069,718	$ 1,896,061	**$ 4,460,934**	**$ 4,335,749**
Capital assets	8,473,398	7,239,433	7,133,763	7,162,225	**15,607,161**	**14,401,658**
Total assets	$ 10,864,614	$ 9,679,121	$ 9,203,481	$ 9,058,286	**$ 20,068,095**	**$ 18,737,407**
Deferred outflows - pension	$ 299,579	$ 361,864	$ 51,646	$ 36,136	**$ 351,225**	**$ 398,000**
Other liabilities	$ 65,727	$ 70,147	$ 36,280	$ 52,077	**$ 102,007**	**$ 122,224**
Long-term liabilities outstanding	1,766,780	1,940,317	2,729,027	2,875,671	**4,495,807**	**4,815,988**
Total liabilities	$ 1,832,507	$ 2,010,464	$ 2,765,307	$ 2,927,748	**$ 4,597,814**	**$ 4,938,212**
Deferred inflows - pension	$ 565,164	$ 515,275	$ 115,600	$ 86,398	**$ 680,764**	**$ 601,673**
Net position						
Net investment in capital assets	$ 6,899,702	$ 5,349,485	$ 4,566,863	$ 4,446,673	**$ 11,466,565**	**$ 9,796,158**
Restricted	1,340,916	1,194,362	356,330	300,047	**1,697,246**	**1,494,409**
Unrestricted	525,904	971,399	1,451,027	1,333,556	**1,976,931**	**2,304,955**
Total net position	$ 8,766,522	$ 7,515,246	$ 6,374,220	$ 6,080,276	**$ 15,140,742**	**$ 13,595,522**

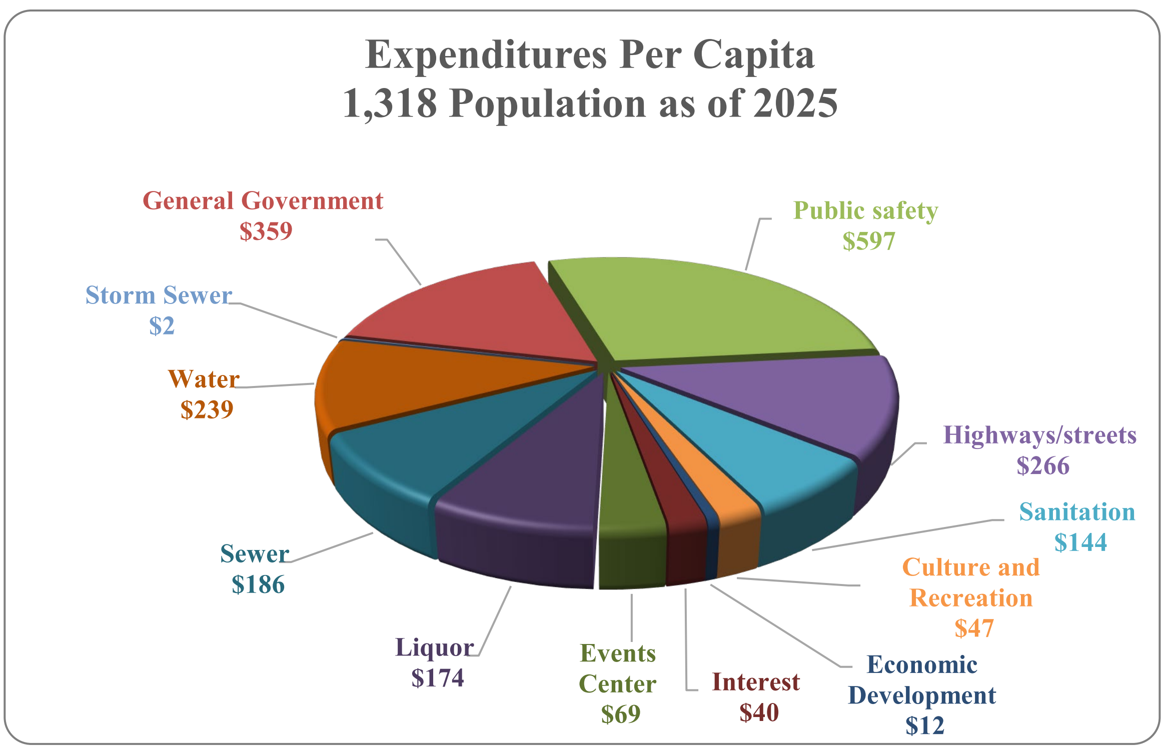
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		**Total Primary Government**	
	2025	2024	2025	2024	**2025**	**2024**
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	$ 539,284	$ 399,302	$ 1,527,740	$ 1,518,608	**$ 2,067,024**	**$ 1,917,910**
Operating grants and contributions	311,263	270,956	-	-	**311,263**	**270,956**
Capital grants and contributions	1,004,974	70,424	35,346	417,622	**1,040,320**	**488,046**
Property taxes	648,331	624,628	-	-	**648,331**	**624,628**
Franchise tax	4,322	1,301	-	-	**4,322**	**1,301**
Grants and contributions not restricted to specific programs	592,236	591,640	-	-	**592,236**	**591,640**
Payments in lieu of taxes	29,860	20,896	-	-	**29,860**	**20,896**
Investment earnings	50,641	31,856	16,767	15,693	**67,408**	**47,549**
Transfers	-	(236,603)	-	236,603	**-**	**-**
Total revenues and transfers	$ 3,180,911	$ 1,774,400	$ 1,579,853	$ 2,188,526	**$ 4,760,764**	**$ 3,962,926**
Expenses						
General government	$ 472,612	$ 348,923	$ -	$ -	**$ 472,612**	**$ 348,923**
Public safety	786,391	671,739	-	-	**786,391**	**671,739**
Highways and streets	350,508	334,438	-	-	**350,508**	**334,438**
Sanitation	189,261	191,761	-	-	**189,261**	**191,761**
Culture and recreation	61,794	59,179	-	-	**61,794**	**59,179**
Conservation of natural resources	-	68,433	-	-	**-**	**68,433**
Economic development	15,995	-	-	-	**15,995**	**-**
Interest	53,074	55,426	-	-	**53,074**	**55,426**
Events Center	-	-	90,405	90,046	**90,405**	**90,046**
Liquor	-	-	632,259	663,498	**632,259**	**663,498**
Sewer	-	-	245,419	196,676	**245,419**	**196,676**
Water	-	-	314,637	286,809	**314,637**	**286,809**
Storm Water	-	-	3,230	1,568	**3,230**	**1,568**
Total expenses	$ 1,929,635	$ 1,729,899	$ 1,285,950	$ 1,238,597	**$ 3,215,585**	**$ 2,968,496**
Increase (decrease) in net position	$ 1,251,276	$ 44,501	$ 293,903	$ 949,929	**$ 1,545,179**	**$ 994,430**
Net position - January 1, as previously reported	$ 7,515,246	$ 7,598,076	$ 6,080,317	$ 5,130,347	**$ 13,595,563**	**$ 12,728,423**
Prior period adjustment	-	(127,331)	-	-	**-**	**(127,331)**
Net position, January 1, as restated	$ 7,515,246	$ 7,470,745	$ 6,080,317	$ 5,130,347	**$ 13,595,563**	**$ 12,601,092**
Net position, December 31	$ 8,766,522	$ 7,515,246	$ 6,374,220	$ 6,080,276	**$ 15,140,742**	**$ 13,595,522**


Revenues by Source
Operating grants/contributions 7%
Capital grants/contributions 22%
Nonrestricted grants/contributions 13%
Taxes/PILT 14%
Fees, charges, fines, other 44%


Expenses by Function
General government 17%
Public safety 29%
Water 11%
Highways/streets 13%
Sewer 8%
Sanitation 7%
Liquor 8%
Events Center 3%
Interest 2%
Culture/recreation 2%


Program Revenues & Expenses
1,000,000
800,000
600,000
400,000
200,000
0
General government
Public safety
Highways/streets
Sanitation
Culture/recreation
Economic development
Interest
Events Center
Liquor
Sewer
Water
Revenues
Expenses


Expenditures Per Capita
1,318 Population as of 2025
General Government $359
Public safety $597
Storm Sewer $2
Water $239
Highways/streets $266
Sanitation $144
Sewer $186
Culture and Recreation $47
Liquor $174
Events Center $69
Interest $40
Economic Development $12

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 2025, the City's governmental funds reported combined ending fund balances of $1,281,721. Of this amount, approximately 45 percent constitutes legally or contractually restricted fund balance, approximately 20 percent constitutes formally committed fund balance, four percent constitutes specifically assigned fund balance, and 31 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 $1,427,107. The General Fund's committed fund balance was $251,259, and the unassigned fund balance was $1,175,848. The General Fund has no restricted or 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 2025. Total fund balance represents 84 percent of total General Fund expenditures. In 2025, the fund balance amount in the General Fund increased by $208,293, mainly due to grant funding for projects.

The fund balance of the Fire Special Revenue Fund was a deficit of $111,464, since this fund was separated from the General Fund, they are now able to see that revenues are not keeping up with expenditures.

The fund balance of the Rescue Special Revenue Fund decreased by $12,387 due to equipment purchases in excess of grant revenues.

The fund balance of the Wannigan Park Special Revenue fund decreased by $249,906 due to project expenditures in excess of grant funding.

The fund balance of the Lake Street Debt Service Fund decreased by $30,267 as a result of debt payments in excess of special assessments received.

Proprietary Funds

The Events Center Enterprise Fund reported an operating loss in 2025 of $19,700, indicating that sales are not sufficient to cover operating costs.

The Liquor Enterprise Fund reported an operating income in 2025 of $142,745, indicating that sales are sufficient to cover operating costs.

The Sewer Enterprise Fund reported an operating income in 2025 of $12,268, indicating that it is collecting fees for services at a rate higher than expenses.

The Water Enterprise Fund reported an operating income in 2025 of $131,180, indicating that it is collecting fees for services at a rate well above expenses.

The non-major Storm Water Enterprise Fund reported an operating income in 2025 of $13,637, indicating that fees for services are adequate to cover the cost of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2025.

Actual revenues were more than overall final budgeted revenues by $344,627, with the largest positive variance in intergovernmental revenue and actual expenditures were more than overall final budgeted expenditures by $258,765 with the largest variance in underbudgeted capital outlay.

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, 2025, amounted to $15,607,161. The total increase in the City's investment in capital assets for the current fiscal year was approximately eight percent. This increase was primarily due to the addition of construction projects for Wannigan Park, Town Lake Beach, East Main Street, and the Solar Project.

	Governmental Activities		Business-Type Activities		**Total Primary Government**	
	2025	2024	2025	2024	**2025**	**2024**
Land	$ 674,881	$ 674,881	$ -	$ -	**$ 674,881**	**$ 674,881**
Construction in progress	1,778,539	430,981	846,897	675,191	**2,625,436**	**1,106,172**
Infrastructure	4,702,417	4,959,214	5,628,774	5,797,901	**10,331,191**	**10,757,115**
Buildings and improvements	158,069	172,096	589,325	618,285	**747,394**	**790,381**
Machinery and equipment	1,159,492	1,089,484	68,767	70,848	**1,228,259**	**1,160,332**
Total capital assets	$ 8,473,398	$ 7,326,656	$ 7,133,763	$ 7,162,225	**$ 15,607,161**	**$ 14,488,881**

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 $6,131,340, net of bond discounts, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		**Total**	
	2025	2024	2025	2024	**2025**	**2024**
G.O. Bonds	$ 3,563,840	$ 3,161,400	$ -	$ -	**$ 3,563,840**	**$ 3,161,400**
MN PFA	-	-	2,542,500	2,665,552	**2,542,500**	**2,665,552**
Revenue Bonds	-	-	25,000	50,000	**25,000**	**50,000**
Capital Notes	-	58,789	-	-	**-**	**58,789**
	$ 3,563,840	$ 3,220,189	$ 2,567,500	$ 2,715,552	**$ 6,131,340**	**$ 5,935,741**

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 2025, 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 6.0 percent as of December 31, 2025. This is higher than the statewide rate of 4.3 percent and the national average rate of 4.1 percent.

- Frazee's 2025 population according to the League of Minnesota Cities was 1,318, a decrease of 17 since the 2020 census of 1,335.

- On December 10, 2025, the City of Frazee set its 2026 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 East Main Street Project, the Wannigan 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, 2025

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	$ 1,199,023	$ 1,881,602	$ 3,080,625	$ 221,397
Investments	-	81,447	81,447	-
Taxes receivable				
Current	13,410	-	13,410	-
Prior	1,346	-	1,346	-
Special assessments receivable				
Current	4,420	-	4,420	-
Prior	64,281	-	64,281	-
Accounts receivable	61,079	80,676	141,755	1,112
Due from other governments	2,559	-	2,559	-
Inventory	-	73,063	73,063	-
Notes receivable	-	-	-	91,602
Internal balances	47,070	(47,070)	-	-
Special assessments receivable - noncurrent	755,619	-	755,619	-
Net pension asset	242,409	-	242,409	-
Capital assets				
Non-depreciable	2,453,420	846,897	3,300,317	1,002,117
Depreciable - net of accumulated depreciation	6,019,978	6,286,866	12,306,844	1,141,497
Total Assets	**$ 10,864,614**	**$ 9,203,481**	**$ 20,068,095**	**$ 2,457,725**
Deferred Outflows of Resources				
Related to pensions	**$ 299,579**	**$ 51,646**	**$ 351,225**	**$ -**
Liabilities				
Accounts payable	$ 35,910	$ 7,728	$ 43,638	$ 3,369
Salaries payable	8,513	4,451	12,964	-
Due to other governments	1,417	6,909	8,326	-
Accrued interest payable	19,887	17,192	37,079	107,211
Long-term liabilities				
Due within one year	251,897	192,840	444,737	-
Due in more than one year	1,309,142	2,412,268	3,721,410	2,065,000
Net pension liability	205,741	123,919	329,660	-
Total Liabilities	**$ 1,832,507**	**$ 2,765,307**	**$ 4,597,814**	**$ 2,175,580**
Deferred Inflows of Resources				
Related to pensions	**$ 565,164**	**$ 115,600**	**$ 680,764**	**$ -**
Net Position				
Net investment in capital assets	$ 6,899,702	$ 4,566,863	$ 11,466,565	$ 78,614
Amounts restricted for				
Economic development	183,068	-	183,068	-
Debt service	1,157,848	-	1,157,848	-
Infrastructure Replacement	-	356,330	356,330	-
Unrestricted amounts	525,904	1,451,027	1,976,931	203,531
Total Net Position	**$ 8,766,522**	**$ 6,374,220**	**$ 15,140,742**	**$ 282,145**

CITY OF FRAZEE
FRAZEE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

		Program Revenues	
Functions/Programs	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions
Primary Government			
Governmental activities			
General government	$ 472,612	$ 54,570	$ -
Public safety	786,391	206,677	123,160
Highways and streets	350,508	9,766	188,103
Sanitation	189,261	221,702	-
Culture and recreation	61,794	10,988	-
Economic development	15,995	35,581	-
Interest	53,074	-	-
Total governmental activities	**$ 1,929,635**	**$ 539,284**	**$ 311,263**
Business-type activities			
Events Center	$ 90,405	$ 70,705	$ -
Liquor	632,259	771,601	-
Sewer	245,419	257,600	-
Water	314,637	427,834	-
Storm water	3,230	-	-
Total business-type activities	**$ 1,285,950**	**$ 1,527,740**	**$ -**
Total Primary Government	**$ 3,215,585**	**$ 2,067,024**	**$ 311,263**
Component Unit			
Economic Development Authority	**$ 338,619**	**$ 80,941**	**$ 1,971**

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

The notes to the financial statements are an integral part of this statement.

EXHIBIT 2

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Discretely Presented Component Unit
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
$ 53,220	$ (364,822)	$ -	$ (364,822)	$ -
-	(456,554)	-	(456,554)	-
881,394	728,755	-	728,755	-
-	32,441	-	32,441	-
70,360	19,554	-	19,554	-
-	19,586	-	19,586	-
-	(53,074)	-	(53,074)	-
$ 1,004,974	**$ (74,114)**	**$ -**	**$ (74,114)**	**$ -**
$ -	$ -	$ (19,700)	$ (19,700)	$ -
-	-	139,342	139,342	-
-	-	12,181	12,181	-
35,346	-	148,543	148,543	-
-	-	(3,230)	(3,230)	-
$ 35,346	**$ -**	**$ 277,136**	**$ 277,136**	**$ -**
$ 1,040,320	**$ (74,114)**	**$ 277,136**	**$ 203,022**	**$ -**
$ -	**$ -**	**$ -**	**$ -**	**$ (255,707)**
	$ 648,331	$ -	$ 648,331	$ -
	4,322	-	4,322	-
	592,236	-	592,236	40,000
	29,860	-	29,860	-
	50,641	16,767	67,408	64
	$ 1,325,390	**$ 16,767**	**$ 1,342,157**	**$ 40,064**
	$ 1,251,276	**$ 293,903**	**$ 1,545,179**	**$ (215,643)**
	$ 7,515,246	**$ 6,080,317**	**$ 13,595,563**	**$ 497,788**
	$ 8,766,522	**$ 6,374,220**	**$ 15,140,742**	**$ 282,145**

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General	Fire Special Revenue	Rescue Special Revenue	Wannigan Park Special Revenue	Lake Street Debt Service	Nonmajor Other Governmental Funds (Statement 1)	Total Governmental Funds
Assets							
Cash and pooled investments	$ 557,759	$ -	$ 48,759	$ -	$ -	$ 702,727	$ 1,309,245
Taxes receivable							
Current	12,433	-	-	-	-	977	13,410
Prior	1,346	-	-	-	-	-	1,346
Special assessments receivable							
Current	969	-	-	-	646	2,805	4,420
Prior	3,899	-	-	-	2,347	58,035	64,281
Accounts receivable	26,228	10,000	-	24,851	-	-	61,079
Due from other funds	854,835	-	-	-	-	157,292	1,012,127
Due from other governments	2,559	-	-	-	-	-	2,559
Special assessments receivable					-		
Noncurrent	-	-	-	-	290,363	465,256	755,619
Total Assets	**$ 1,460,028**	**$ 10,000**	**$ 48,759**	**$ 24,851**	**$ 293,356**	**$ 1,387,092**	**$ 3,224,086**
Liabilities, Deferred Inflows of Resources, and Fund Balance							
Liabilities							
Accounts payable	$ 17,950	$ 1,965	$ -	$ -	$ -	$ 15,995	$ 35,910
Salaries payable	8,309	204	-	-	-	-	8,513
Due to other funds	-	119,295	-	270,839	37,792	647,353	1,075,279
Due to other governments	1,417	-	-	-	-	-	1,417
Total Liabilities	**$ 27,676**	**$ 121,464**	**$ -**	**$ 270,839**	**$ 37,792**	**$ 663,348**	**$ 1,121,119**
Deferred Inflows of Resources							
Taxes	$ 1,346	$ -	$ -	$ -	$ -	$ -	$ 1,346
Special assessments	3,899	-	-	-	292,710	523,291	819,900
Total Deferred Inflows of Resources	**$ 5,245**	**$ -**	**$ -**	**$ -**	**$ 292,710**	**$ 523,291**	**$ 821,246**
Fund Balance							
Restricted for							
Debt service	$ -	$ -	$ -	$ -	$ -	$ 396,279	$ 396,279
Economic development	-	-	-	-	-	183,068	183,068
Committed to							
General government	150,124	-	-	-	-	-	150,124
Parks	32,167	-	-	-	-	-	32,167
Police equipment	8,608	-	-	-	-	-	8,608
Street equipment	60,360	-	-	-	-	-	60,360
Assigned to					-		
Public safety	-	-	48,759	-	-	-	48,759
Unassigned	1,175,848	(111,464)	-	(245,988)	(37,146)	(378,894)	402,356
Total Fund Balance	**$ 1,427,107**	**$ (111,464)**	**$ 48,759**	**$ (245,988)**	**$ (37,146)**	**$ 200,453**	**$ 1,281,721**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	**$ 1,460,028**	**$ 10,000**	**$ 48,759**	**$ 24,851**	**$ 293,356**	**$ 1,387,092**	**$ 3,224,086**

The notes to the financial statements are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2025

Fund balance - total governmental funds (Exhibit 3)		**$**	**1,281,721**
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.			8,473,398
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			821,246
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Compensated absences payable	$ (62,199)		
Accrued interest payable	(19,887)		
General obligation bonds payable	(1,498,840)		(1,580,926)
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	$ 299,579		
Deferred inflows of resources related to pensions	(565,164)		
Net pension asset	242,409		
Net pension liability	(205,741)		(228,917)
Net position of governmental activities (Exhibit 1)		**$**	**8,766,522**

The notes to the financial statements are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	General	Fire Special Revenue	Rescue Special Revenue	Wannigan Park Special Revenue	Lake Street Debt Service	Nonmajor Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues							
Taxes	$ 534,703	$ -	$ -	$ -	$ -	$ 120,393	$ 655,096
Special assessments	3,691	-	-	-	33,233	79,302	116,226
Licenses and permits	35,185	-	-	-	-	-	35,185
Intergovernmental	860,589	53,626	-	583,777	-	-	1,497,992
Charges for services	243,081	138,889	300	-	-	-	382,270
Fines and forfeitures	3,536	-	-	-	-	-	3,536
Investment earnings	47,618	3,015	-	-	-	8	50,641
Gifts and contributions	54,570	6,527	33,352	61,799	-	-	156,248
Miscellaneous	22,482	995	56,971	-	-	36,481	116,929
Total Revenues	**$ 1,805,455**	**$ 203,052**	**$ 90,623**	**$ 645,576**	**$ 33,233**	**$ 236,184**	**$ 3,014,123**
Expenditures							
Current							
General government	$ 414,453	$ -	$ -	$ -	$ -	$ -	$ 414,453
Public safety	424,000	186,476	22,234	-	-	-	632,710
Highways and streets	161,884	-	-	-	-	-	161,884
Sanitation	189,261	-	-	-	-	-	189,261
Culture and recreation	47,042	-	-	4,326	-	-	51,368
Economic development	-	-	-	-	-	15,995	15,995
Debt service					-		
Principal retirement	-	58,789	-	-	45,000	158,000	261,789
Interest	-	1,933	-	-	18,500	30,771	51,204
Capital outlay					-		
General government	85,151	-	-	-	-	-	85,151
Public safety	11,580	67,231	80,776	-	-	-	159,587
Highways and streets	49,387	-	-	-	-	-	49,387
Culture and recreation	321,864	-	-	891,156	-	-	1,213,020
Total Expenditures	**$ 1,704,622**	**$ 314,429**	**$ 103,010**	**$ 895,482**	**$ 63,500**	**$ 204,766**	**$ 3,285,809**
Excess of Revenues Over (Under) Expenditures	**$ 100,833**	**$ (111,377)**	**$ (12,387)**	**$ (249,906)**	**$ (30,267)**	**$ 31,418**	**$ (271,686)**
Other Financing Sources (Uses)							
Transfers in	$ 1,020	$ -	$ -	$ -	$ -	$ 102,765	$ 103,785
Transfers out	-	-	-	-	-	(103,785)	(103,785)
Total Other Financing Sources (Uses)	**$ 107,460**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (1,020)**	**$ 106,440**
Net Change in Fund Balance	**$ 208,293**	**$ (111,377)**	**$ (12,387)**	**$ (249,906)**	**$ (30,267)**	**$ 30,398**	**$ (165,246)**
Fund Balance - January 1	**$ 1,218,814**	**$ (87)**	**$ 61,146**	**$ 3,918**	**$ (6,879)**	**$ 170,055**	**$ 1,446,967**
Fund Balance - December 31	**$ 1,427,107**	**$ (111,464)**	**$ 48,759**	**$ (245,988)**	**$ (37,146)**	**$ 200,453**	**$ 1,281,721**

The notes to the financial statements are an integral part of this statement.

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, 2025

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (165,246)**
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	$ 1,507,145	
Current year depreciation	(273,180)	1,233,965
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	$ (2,443)	
Special assessments receivable	167,867	165,424
The issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, neither transaction has any effect on net position.		
Proceeds from issuance of debt	$ (106,440)	
Principal repayment on debt	261,789	155,349
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	$ (1,870)	
Compensated absences payable	(4,051)	(5,921)
Net pension asset and liability do not represent an impending source or use of current resources. Therefore, the change in the asset, liabilty, and related deferrals of resources are not reported in the governmental funds.		
Change in		
Net pension asset	$ (42,360)	
Net pension liability	22,239	
Deferred outflows of resources related to pensions	(62,285)	
Deferred inflows of resources related to pensions	(49,889)	(132,295)
Change in net position of governmental activities (Exhibit 2)		**$ 1,251,276**

The notes to the financial statements are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Water Enterprise	Total
Assets						
Current Assets						
Cash and pooled investments	$ -	$ 396,114	$ 424,136	$ 980,899	$ 80,453	$ 1,881,602
Investments	-	-	81,447	-	-	81,447
Accounts receivable	2,113	-	28,017	48,938	1,608	80,676
Due from other funds	-	51,591	-	-	-	51,591
Inventory	4,442	68,621	-	-	-	73,063
Total Current Assets	**$ 6,555**	**$ 516,326**	**$ 533,600**	**$ 1,029,837**	**$ 82,061**	**$ 2,168,379**
Noncurrent Assets						
Capital assets						
Non-depreciable	$ -	$ -	$ 335,069	$ 511,828	$ -	$ 846,897
Depreciable - net of accumulated depreciation	440,098	157,848	1,131,823	4,557,097	-	6,286,866
Total Noncurrent Assets	**$ 440,098**	**$ 157,848**	**$ 1,466,892**	**$ 5,068,925**	**$ -**	**$ 7,133,763**
Total Assets	**$ 446,653**	**$ 674,174**	**$ 2,000,492**	**$ 6,098,762**	**$ 82,061**	**$ 9,302,142**
Deferred Outflows of Resources						
Related to pensions	$ 3,332	$ 22,491	$ 12,495	$ 13,328	$ -	$ 51,646
Liabilities						
Current Liabilities						
Accounts payable	$ 363	$ 6,013	$ 675	$ 677	$ -	$ 7,728
Salaries payable	75	2,077	871	1,428	-	4,451
Compensated absences payable	1,035	7,712	1,129	11,964	-	21,840
Due to other funds	51,591	-	23,535	23,535	-	98,661
Due to other governments	150	6,542	-	217	-	6,909
Accrued interest payable	-	4,623	6,184	6,385	-	17,192
Bonds payable	-	-	59,500	111,500	-	171,000
Total Current Liabilities	**$ 53,214**	**$ 26,967**	**$ 91,894**	**$ 155,706**	**$ -**	**$ 327,781**
Noncurrent Liabilities						
Compensated absences payable	$ -	$ 6,229	$ 3,119	$ 6,420	$ -	$ 15,768
Net pension liability	7,995	53,965	29,980	31,979	-	123,919
Bonds payable	-	120,600	882,500	1,393,400	-	2,396,500
Total Noncurrent Liabilities	**$ 7,995**	**$ 180,794**	**$ 915,599**	**$ 1,431,799**	**$ -**	**$ 2,536,187**
Total Liabilities	**$ 61,209**	**$ 207,761**	**$ 1,007,493**	**$ 1,587,505**	**$ -**	**$ 2,863,968**
Deferred Inflows of Resources						
Related to pensions	$ 7,458	$ 50,342	$ 27,968	$ 29,832	$ -	$ 115,600
Net Position						
Net investment in capital assets	$ 440,098	$ 37,848	$ 524,892	$ 3,564,025	$ -	$ 4,566,863
Restricted for						
Infrastructure Replacement	-	-	139,982	216,348	-	356,330
Unrestricted amounts	(58,780)	400,714	312,652	714,380	82,061	1,451,027
Total Net Position	**$ 381,318**	**$ 438,562**	**$ 977,526**	**$ 4,494,753**	**$ 82,061**	**$ 6,374,220**

The notes to the financial statements are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Water Enterprise	Total
Sales and Cost of Goods Sold						
Sales	$ 33,263	$ 771,340	$ -	$ -	$ -	$ 804,603
Cost of goods sold	(12,507)	(399,701)	-	-	-	(412,208)
Gross Profit	**$ 20,756**	**$ 371,639**	**$ -**	**$ -**	**$ -**	**$ 392,395**
Operating Revenues						
Charges for services	-	-	240,588	427,680	16,867	685,135
Rental income	35,680	-	-	-	-	35,680
Miscellaneous	1,762	261	145	154	-	2,322
Total Gross Profit and Operating Revenues	**$ 58,198**	**$ 371,900**	**$ 240,733**	**$ 427,834**	**$ 16,867**	**$ 1,115,532**
Operating Expenses						
Personnel services	$ 14,716	$ 165,702	$ 134,614	$ 108,035	$ -	$ 423,067
Professional services	-	-	3,042	-	-	3,042
Advertising	614	1,266	-	-	-	1,880
Insurance	7,599	11,682	11,002	7,814	-	38,097
Repairs and maintenance	7,734	2,824	15,210	9,589	2,120	37,477
Supplies	8,724	14,180	6,076	14,258	928	44,166
Utilities	13,405	21,448	19,863	10,198	-	64,914
Miscellaneous	2,900	5,757	3,970	9,782	182	22,591
Depreciation	22,206	6,296	34,688	136,978	-	200,168
Total Operating Expenses	**$ 77,898**	**$ 229,155**	**$ 228,465**	**$ 296,654**	**$ 3,230**	**$ 835,402**
Operating Income (Loss)	**$ (19,700)**	**$ 142,745**	**$ 12,268**	**$ 131,180**	**$ 13,637**	**$ 280,130**
Nonoperating Revenues (Expenses)						
Intergovernmental	$ -	$ -	$ -	$ 35,346	$ -	$ 35,346
Investment earnings	549	1,098	1,128	13,992	-	16,767
Interest expense	-	(3,403)	(16,954)	(17,983)	-	(38,340)
Total Nonoperating Revenues (Expenses)	**$ 549**	**$ (2,305)**	**$ (15,826)**	**$ 31,355**	**$ -**	**$ 13,773**
Change in Net Position	**$ (19,151)**	**$ 140,440**	**$ (3,558)**	**$ 162,535**	**$ 13,637**	**$ 293,903**
Net Position - January 1	**400,469**	**298,122**	**981,084**	**4,332,218**	**68,424**	**6,080,317**
Net Position - December 31	**$ 381,318**	**$ 438,562**	**$ 977,526**	**$ 4,494,753**	**$ 82,061**	**$ 6,374,220**

The notes to the financial statements are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025
Increase (Decrease) in Cash and Cash Equivalents

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Water Enterprise	Total
Cash Flows from Operating Activities						
Receipts from customers	$ 68,662	$ 801,094	$ 240,748	$ 435,922	$ 16,563	$ 1,562,989
Payments to employees	(13,317)	(156,200)	(139,860)	(106,626)	-	(416,003)
Payments to suppliers	(55,782)	(510,093)	(58,488)	(52,942)	(3,230)	(680,535)
Net cash provided by (used in) operating activities	**$ (437)**	**$ 134,801**	**$ 42,400**	**$ 276,354**	**$ 13,333**	**$ 466,451**
Cash Flows from Noncapital and Related Financing Activities						
Transfers from other funds	$ 51,591	$ 162,744	$ 25,535	$ 25,535	$ -	$ 265,405
Transfers to other funds	(51,744)	(51,591)	(10,720)	(10,450)	-	(124,505)
Net cash provided by (used in) operating activities	**$ (153)**	**$ 111,153**	**$ 14,815**	**$ 15,085**	**$ -**	**$ 140,900**
Cash Flows from Capital and Related Financing Activities						
Capital grants received	$ -	$ -	$ -	$ 35,346	$ -	$ 35,346
Proceeds from issuance of debt	-	-	8,601	1,350	-	9,951
Purchase of capital assets		-	(71,262)	(100,444)	-	(171,706)
Revenue bond payments	-	-	(51,661)	(106,342)	-	(158,003)
Interest paid	-	-	(17,655)	(19,900)	-	(37,555)
Net cash provided by (used in) capital and related financing activities	**$ -**	**$ -**	**$ (131,977)**	**$ (189,990)**	**$ -**	**$ (321,967)**
Cash Flows from Investing Activities						
Investment earnings received	$ 549	$ 1,098	$ 1,128	$ 13,992	$ -	$ 16,767
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (41)**	**$ 247,052**	**$ (73,634)**	**$ 115,441**	**$ 13,333**	**$ 302,151**
Cash and Cash Equivalents at January 1	**41**	**149,062**	**579,217**	**865,458**	**67,120**	**1,660,898**
Cash and Cash Equivalents at December 31	**$ -**	**$ 396,114**	**$ 505,583**	**$ 980,899**	**$ 80,453**	**$ 1,963,049**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ (19,700)	$ 142,745	$ 12,268	$ 131,180	$ 13,637	$ 280,130
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities						
Depreciation expense	$ 22,206	$ 6,296	$ 34,688	$ 136,978	$ -	$ 200,168
Decrease (increase) in assets						
Accounts receivable	(2,113)	-	160	8,616	(304)	6,359
Inventory	(622)	(14,102)	-	-	-	(14,724)
Increase (decrease) in liabilities						
Accounts payable	(1,677)	(10,570)	(9,289)	(1,977)	-	(23,513)
Salaries payable	2	832	243	337	-	1,414
Due to other funds	-	-	-	-	-	-
Due to other governments	109	1,191	-	217	-	1,517
Compensated absences payable	1,035	6,229	3,119	(288)	-	10,095
Net pension liability	323	2,180	1,211	1,291	-	5,005
Total adjustments	**$ 19,263**	**$ (7,944)**	**$ 30,132**	**$ 145,174**	**$ (304)**	**$ 186,321**
Net cash provided by (used in) operating activities	**$ (437)**	**$ 134,801**	**$ 42,400**	**$ 276,354**	**$ 13,333**	**$ 466,451**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2025

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, economic development, Events Center, Liquor Store, and sewer, water, and storm 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 as required by GASB Pronouncement No. 68 is 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

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 Fire Special Revenue Fund is used to account for and report activities of the Frazee Fire Department. Financing is provided by charges for services, grants, and donations.

The Rescue Special Revenue Fund is used to account for and report activities of the Frazee Rescue Squad. Financing is provided by charges for services, grants, and donations.

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Wannigan Park Special Revenue Fund is used to account for and report the activities of the Wannigan Park Project. Financing is provided by grants and donations.

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 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.

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

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.

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

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 2025, 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 2025 were $45,450. Total investment earnings for 2025 were $67,408.

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 2019 through 2025 and deferred special assessments collectible in 2026 and beyond. Taxes and special assessments receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

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

Notes receivable consist of housing rehabilitation and business development notes of the Economic Development Authority.

I. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

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

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

4. Inventory

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

5. Capital Assets

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

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

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

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

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, and special assessments levied for subsequent years 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 and safe 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.

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

I. Summary of Significant Accounting Policies

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

9. Pensions (Continued)

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, 2025.

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

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

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)

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, 2025.

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.

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position and Fund Balances

The following funds had deficit net position and fund balances as of December 31, 2025, which will be eliminated with future special assessments and revenues:

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position and Fund Balances (Continued)

Fire Special Revenue Fund:	$ 111,464
Wannigan Park Special Revenue Fund:	$ 245,988
Lake Street Debt Service Fund:	$ 37,146
Cemetery Special Revenue Fund:	$ 17,129
East Main Liquor Town Lake Beach:	$ 1,968
2016 Improvements and Refunding Debt Service Fund:	$ 196,247
County Road 118 Debt Service Fund:	$ 11,772
Southeast Area Streets and Utilities Debt Service Fund:	$ 165,518
Events Center Enterprise Fund:	$ 58,780

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, 2025, are as follows:

Governmental Activities	
Cash and pooled investments	$ 1,199,023
Business-Type Activities	
Cash and pooled investments	$ 1,881,602
Investments	81,447
	$ 1,963,049
Component Unit	
Cash and pooled investments	$ 221,397
Total Cash and Investments	$ 3,383,469
Checking Accounts	$ 1,681,310
Savings Accounts	1,264,102
Certificates of Deposit	438,045
4M Fund	12
Total Deposits	$ 3,383,469

Deposits

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

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

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

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, 2025, the City's deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2025, for the City's governmental activities and business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes receivable	$ 14,756	$ -
Special assessments receivable	824,320	755,619
Accounts receivable	61,079	-
Due from other governments	2,559	-
Total Governmental Activities	$ 902,714	$ 755,619
Business-Type Activities		
Accounts receivable	$ 80,676	$ -
Total Business-Type Activities	$ 80,676	$ -

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2025, was as follows:

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 674,881	$ -	$ -	$ 674,881
Construction in progress	430,981	1,347,558	-	1,778,539
Total capital assets not depreciated	$ 1,105,862	$ 1,347,558	$ -	$ 2,453,420
Capital assets being depreciated				
Infrastructure	$ 6,828,620	$ -	$ -	$ 6,828,620
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	1,823,461	159,587	89,919	1,893,129
Total capital assets being depreciated	$ 9,397,681	$ 159,587	$ 89,919	$ 9,467,349
Less: accumulated depreciation for				
Infrastructure	$ 1,956,629	$ 169,574	$ -	$ 2,126,203
Buildings and improvements	573,504	14,027	-	587,531
Machinery and equipment	733,977	89,579	89,919	733,637
Total accumulated depreciation	$ 3,264,110	$ 273,180	$ 89,919	$ 3,447,371
Total capital assets, depreciated, net	$ 6,133,571	$ (113,593)	$ -	$ 6,019,978
Governmental Activities Capital Assets, Net	$ 7,239,433	$ 1,233,965	$ -	$ 8,473,398

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	$ 675,191	$ 171,706	$ -	$ 846,897
Capital assets being depreciated				
Infrastructure	$ 6,860,552	$ -	$ -	$ 6,860,552
Buildings and improvements	1,498,822	-	-	1,498,822
Machinery and equipment	456,055	-	-	456,055
Total capital assets being depreciated	$ 8,815,429	$ -	$ -	$ 8,815,429
Less: accumulated depreciation for				
Infrastructure	$ 1,062,651	$ 169,127	$ -	$ 1,231,778
Buildings and improvements	880,537	28,960	-	909,497
Machinery and equipment	385,207	2,081	-	387,288
Total accumulated depreciation	$ 2,328,395	$ 200,168	$ -	$ 2,528,563
Total capital assets, depreciated, net	$ 6,487,034	$ (200,168)	$ -	$ 6,286,866
Business-Type Activities Capital Assets, Net	$ 7,162,225	$ (28,462)	$ -	$ 7,133,763

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 Activites		
General government	$	6,638
Public safety		68,383
Highways and streets		187,733
Culture and recreation		10,426
Total Depreciation Expense - Governmental Activities	$	273,180
Business-Type Activities		
Events Center	$	22,206
Liquor		6,296
Sewer		34,688
Water		136,978
Total Depreciation Expense - Business-Type Activities	$	200,168

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2025, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Fire Special Revenue Fund	$ 119,295	To cover cash deficits
	Wannigan Park Special Revenue Fund	270,839	To cover cash deficits
	Lake Street Debt Service Fund	37,792	To cover cash deficits
	Cemetery Special Revenue	3,389	To cover cash deficits
	East Main Liquor Town Lake Beach Debt Service Fund	1,968	To cover cash deficits
	2016 Street Improvements Special Revenue Fund	243,317	To cover cash deficits
	County Road 118 Debt Service Fund	12,717	To cover cash deficits
	Southeast Area Streets and Utilities	165,518	To cover cash deficits
	Total Due To General Fund	$ 854,835	
Liquor Enterprise Fund	Event Center Enterprise Fund	$ 51,591	To cover cash deficit
2016 Street Improvements Special Revenue Fund	Water Enterprise Fund	$ 23,535	Debt paid wrong fund
	Sewer Enterprise Fund	23,535	Debt paid wrong fund
	Total Due To 2016 Street Improvements Special Revenue Fund	$ 47,070	
2006 Red Willow Heights II Debt Service Fund	TIF 1-3 Red Willow Heights Special Revenue Fund	$ 110,222	TIF assessments for debt services
	Total Due To/From Other Funds	$ 1,115,462	

Operating Transfers

Interfund transfers for the year ended December 31, 2025, consisted of the following operating transfers:

Transfer to General Fund from 2006 Red Willow Heights II Debt Service Fund	$ 1,020	Certificate of Deposit closed
Transfer to 2006 Red Willow Heights II Debt Service Fund from TIF 1-3 Red Willow Heights Special Revenue Fund	$ 102,765	TIF assessments for debt service
Total Interfund Transfers	$ 103,785	

III. Detailed Notes on All Funds (Continued)

C. Liabilities

Compensated Absences

Under the City's personnel policy, 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. All employees earn sick leave at the rate of 1.38 hours for every 30 hours worked. Sick leave may be accumulated to 800 hours. Sick days unused over 40 days may be sold back to the City in December of any given year or paid out at termination at ½ the compensation rate. Part-time employees may carry over earned sick leave up to 80 hours. Unvested sick leave, approximately $39,827 at December 31, 2025, 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, 2025, is $55,000.

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, 2025, is $77,000.

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Street Improvement Bonds of 2008 and provide for 2017 street improvements. These bonds have an original issue amount of $288,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the 2016 Improvements and Refunding Debt Service Fund of $19,000 to $39,000 through February 1, 2027. As a result of the refunding, the City of Frazee realized an economic gain of $22,834 with a present value of $13,641. The balance outstanding at December 31, 2025, is $39,000.

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, 2025, is $136,000.

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee Capital Note Installment Purchase represent debt incurred for the purchase of a 2021 Freightliner M2 fire truck. This capital note installment purchase had an original issue amount of $199,777 and carries a net interest rate of 2.50 percent and was due in combined annual installments from the General Fund of $31,177 to $68,933 through 2025. This note was paid off in full by the end of 2025.

City of Frazee General Obligation Improvement Bonds of 2022B represent 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, 2025, is $703,000.

City of Frazee Town Lake Beach General Obligation Improvement Bonds of 2024D represent debt issued to provide for the construction of a beach house. These bonds have an original issue amount of $80,400. They carry a net interest rate of 4.60 percent and are due in annual installments from the General Fund of $9,000 to $18,000 through February 1, 2041. The balance outstanding on December 31, 2025, is $80,400.

City of Frazee East Main General Obligation Improvement Bonds of 2024D represent debt issued to provide financing for improvements to East Main Street. These bonds have an original issue amount of $302,000. They carry a net interest rate of 4.60 percent and are due in annual installments from the General Fund of $14,000 to $27,000 through February 1, 2041. The balance outstanding on December 31, 2025, is $302,000.

City of Frazee West Central Initiative Loan of 2025 represents debt issued to provide financing for the installation of a solar array for the City Public Works building, expected to cash flow within four years of installation with a potential savings of $167,318 over 30 years. This loan is interest-free and is due upon receipt of Ottertail Power energy rebates and State funding. The balance outstanding on December 31, 2025, is $106,440.

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, 2025, is $25,000.

City of Frazee Minnesota PFA Clean Water and Drinking Water Revolving Loans of 2017 represent debt incurred for wastewater and drinking water improvements. These loans have an original issue amount of $393,040. They carry a net interest rate of 1 percent and are due in annual installments from

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

the Water and Sewer Enterprise Funds of $20,000 to $23,000 through August 20, 2036. The balance outstanding at December 31, 2025, is $244,500.

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, 2025, is $1,075,000.

City of Frazee Minnesota PFA 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, 2025, is $513,000.

City of Frazee Minnesota PFA Drinking Water Revolving Loans of 2022 represent debt incurred for sewer infrastructure improvements. These loans have an original issue amount of $155,536 with $140,665 received in 2022. They carry a net interest rate of 2.117 percent and are due in annual installments from the Water Enterprise fund of $7,000 to $10,000 through August 20, 2042. The balance outstanding at December 31, 2025, is $138,000.

City of Frazee Minnesota PFA Clean Water Revolving Loans of 2024 represent debt incurred for sewer infrastructure improvements. These loans have an original issue amount of $348,161 with $339,560 received in 2024. They carry a net interest rate of 1.404 percent and are due in annual installments from the Sewer Enterprise fund of $16,000 to $20,000 through August 20, 2044. The balance outstanding at December 31, 2025, is $340,000.

City of Frazee Minnesota PFA Drinking Water Revolving Loans of 2024 represent debt incurred for drinking water infrastructure improvements. These loans have an original issue amount of $113,242 with $111,892 received in 2024. They carry a net interest rate of 1.428 percent and are due in annual installments from the Sewer Enterprise fund of $5,000 to $7,400 through August 20, 2044. The balance outstanding at December 31, 2025, is $111,400.

City of Frazee Minnesota Liquor Store Improvement Bonds of 2024D represent debt incurred for repairs to the liquor store roof and HVAC system. These loans have an original issue amount of $120,600. They carry a net interest rate of 4.600 percent and are due in annual installments from the Liquor Enterprise Fund of $9,000 to $18,000 through February 1, 2041. The balance outstanding at December 31, 2025, is $120,600.

III. Detailed Notes on All Funds

C. Liabilities

Debt Service Requirements

Debt service requirements for governmental activities and business-type activities at December 31, 2025, are as follows:

	Governmental Activities		Business-Type Activities	
Year End December 31	Principal	Interest	Principal	Interest
2026	$ 202,000	$ 39,664	$ 171,000	$ 39,189
2027	275,040	36,270	154,400	36,860
2028	115,000	31,979	155,000	34,654
2029	69,000	29,138	157,000	32,432
2030	71,400	26,944	160,600	30,168
2031-2035	396,200	98,675	840,800	115,372
2036-2040	336,000	33,032	722,500	53,302
2041	34,200	786	206,200	6,904
Total debt service requirements:	$ 1,498,840	$ 296,488	$ 2,567,500	$ 348,881

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Refunding, Series 2012A	$ 115,000	$ -	$ 60,000	$ 55,000	$ 55,000
Improvement of 2014A	113,000	-	36,000	77,000	38,000
Improvement Refunding of 2016A	58,000	-	19,000	39,000	19,000
Improvement of 2017	179,000	-	43,000	136,000	44,000
Capital Notes - installment purchases	58,789	-	58,789	-	-
Improvement of 2022	748,000	-	45,000	703,000	46,000
Beach House Bond of 2024D	80,400	-	-	80,400	-
East Main Improvement Bond of 2024D	302,000	-	-	302,000	-
West Central Initiative Loan of 2025	-	106,440	-	106,440	-
Total	$ 1,654,189	$ 106,440	$ 261,789	$ 1,498,840	$ 202,000
Compensated Absences	58,148	4,052	-	62,200	49,897
Net Pension Liability	227,980	-	22,239	205,741	-
Governmental Activities Long-Term Liabilities	$ 1,940,317	$ 110,492	$ 284,028	$ 1,766,781	$ 251,897

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2025, was as follows:

III. Detailed Notes on All Funds

C. Liabilities

Business-Type Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
General Obligation Bonds					
Improvement and Refunding Bonds	$ 50,000	$ -	$ 25,000	$ 25,000	$ 25,000
PFA Revolving Loans	2,544,952	9,951	133,003	2,421,900	146,000
Liquor Store Improvement of 2024D	120,600	-	-	120,600	-
Total	$ 2,715,552	$ 9,951	$ 158,003	$ 2,567,500	$ 171,000
Compensated Absences	27,513	10,094	-	37,607	21,839
Net Pension Liability	132,606	-	8,687	123,919	-
Business-Type Activities Long-Term Liabilities	$ 2,875,671	$ 20,045	$ 166,690	$ 2,729,026	$ 192,839

D. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes and special assessments, not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2025, are summarized below by fund:

	Taxes	Special Assessments	Total
Major governmental funds			
General	$ 1,346	$ 3,899	$ 5,245
Debt Service Funds			
Lake Street	-	292,710	292,710
Non-major governmental funds			
Debt Service Funds			
East Main Liquor Town Lake Beach	-	253,809	253,809
County Road 118	-	15,280	15,280
2006 Red Willow Heights II	-	127,427	127,427
Southeast Area and Main Avenue West	-	126,775	126,775
Total Deferred Inflows of Resources:	$ 1,346	$ 819,900	$ 821,246

IV. Defined Benefit Pension Plans

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). These pan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan’s financial reporting requirements. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) on the Internal Revenue Code.

IV. Defined Benefit Pension Plans

A. Plan Description (Continued)

General Employees Retirement Plan (General Plan)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than $425 in a month, unless the employee meets exclusion criteria.

Public Employees Police and Fire Plan (Police and Fire Plan)

Membership in the Police & Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in Minnesota Statutes section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police & Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity's governing body. The resolution must state that the position meets plan requirements.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statue 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. When a member is "vested", they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

1. General Employees Plan Benefits

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent of each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989, or at a age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

IV. Defined Benefit Pension Plans

B. Benefits Provided

1. General Employees Plan Benefits (Continued)

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. The 2025 annual increase was 1.25 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 increase will receive a prorated increase

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2010, are 50 percent vested after five years of service and 100 percent vested after ten years. After five years, vesting increase by 10 percent each full year of service until members are 100 percent vested after ten years. Police and Fire Plan members receive 3 percent of highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417 percent each month members are younger than age 55.

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 prorated increase.

C. Contributions

Minnesota Statutes Chapter 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the City of Frazee was required to contribute 7.50 percent for General Plan members. The City of Frazee's contributions to the General Employees Fund for the year ended December 31, 2025, were $38,930. The City of Frazee's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan member's members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2025 and the City of Frazee was required to contribute 17.70 percent

IV. Defined Benefit Pension Plans

C. Contributions

2. Police and Fire Fund Contributions (Continued)

for Police and Fire Plan members. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2025, were $28,928. 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, 2025, the City of Frazee reported a liability of $199,869 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 $4,821.

City of Frazee's proportionate share of the net pension liability	$	199,869
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee		4,821
Total	$	204,690

The net pension liability was measured as of June 30, 2025, 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, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .0060 percent at the end of the measurement period and .0058 percent for the beginning of the period.

There were no provision changes during the measurement period.

For the year ended December 31, 2025, the City of Frazee recognized a pension expense of (7,507) for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional $965 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, 2025, the City of Frazee reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

IV. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 30,523	$ -
Changes in actuarial assumption	-	83,319
Difference between projected and actual investment earnings	-	103,132
Changes in proportion	33,333	-
Contributions paid to PERA subsequent to the measurement date	19,445	-
Total	$ 83,301	$ 186,451

The $19,445 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2026	$ (26,493)
2027	$ (40,087)
2028	$ (36,134)
2029	$ (19,881)

2. Police and Fire Fund Pension Costs

At December 31, 2025, the City of Frazee reported a liability of $129,791 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2025, 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, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City of Frazee's proportionate share was .0111 percent at the end of the measurement period and .0112 percent for the beginning of the period.

The State of Minnesota contributed $18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2025. The contribution consisted of $9 million in direct state aid that meets 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 aid was paid on October 1, 2024. The direct state aid payment will increase by $17.7 million which was paid on October 1, 2025. Thereafter, by October 1 of each year, the state will pay $26.7 million to the Police and Fire Fund until the fund is 110% funded for a minimum of three consecutive years (on an actuarial

IV. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

value of assets basis). The $9 million in supplemental state aid will continue until the fund and the State Patrol Plan (administered by the Minnesota State Retirement System) are 100% funded for three consecutive years (on an actuarial value of assets basis). The State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee totaled $4,499.

City of Frazee's proportionate share of the net pension liability	$	129,791
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee		4,499
Total	$	134,290

For the year ended December 31, 2025, the City of Frazee recognized pension expense of $31,978 for its proportionate share of the Police and Fire Plan's pension expense. The City of Frazee recognized $997 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense for the contribution of $9 million to the Police and Fire Fund special funding situation.

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 $28.4 million in supplemental state aid because this contribution was not considered to mee the definition of a special funding situation. The City of Frazee recognized $2,958 for the year ended December 31, 2025, 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.

There were no provision changes during the measurement period.

At December 31, 2025, the City of Frazee reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 106,835	$ -
Changes in actuarial assumptions	142,162	239,632
Difference between projected and actual investment earnings	-	61,742
Changes in proportion	1,978	134,784
Contributions paid to PERA subsequent to the measurement date	14,788	-
Total	$ 265,763	$ 436,158

IV. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

The $14,788 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, 2026. 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:
2026	$ 24,357
2027	$ (63,205)
2028	$ (115,211)
2029	$ (22,480)
2030	$ (8,644)

Aggregate Pension Expense

The total pension expense for all plans recognized by the City of Frazee for the year ended December 31, 2025, was $4,002.

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:

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

F. Actuarial Methods and Assumptions

General Employees Fund – Police and Fire Fund

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7%

IV. Defined Benefit Pension Plans

F. Actuarial Methods and Assumptions

General Employees Fund – Police and Fire Fund (Continued)

assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

Inflation is assumed to be 2.25 percent for the General Employees Plan and Police & Fire Plan.

Benefit increases after retirement are assumed to be 1.50 percent for the General Employees Plan and 1 percent for the Police & Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% after 27 years of service. In the Police & Fire Plan, salary growth assumptions range in annual increments from 10.75% after one year of service to 3% after 23 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Mortality Table. Mortality rates for the Police & Fire Plan are 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 General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The Police & Fire Plan were reviewed in 2024. The assumption changes were adopted by the board and became effective with the July 1, 2025, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

IV. Defined Benefit Pension Plans

F. Actuarial Methods and Assumptions

General Employees Fund – Police and Fire Fund (Continued)

Police and Fire Fund

Changes in Actuarial Assumptions:

- Assumed rates of salary increases were reduced slightly.
- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70% to 65%.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33% to 13% for vested, terminated members and from 2% to 38% for non-vested, terminated members.

Changes in Plan Provisions:

- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026, benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).
- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 100% funded for a minimum of three consecutive years to 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis).
- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025, through June 30, 2048.
- Join and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 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 and Police and Fire Plans were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

IV. Defined Benefit Pension Plans (Continued)

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:

Sensitivity Analysis
Net Pension Liability (Asset) at Different Discount Rates

	General Employees Fund			Police and Fire Fund		
1% Lower	6.00%	$	485,451	6.00%	$	340,079
Current Discount Rat	7.00%	$	199,869	7.00%	$	129,791
1% Higher	8.00%	$	(31,802)	8.00%	$	(428,889)

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

The Frazee Firefighters Relief Association participates in the Statewide Volunteer Firefighter Retirement Plan (accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2025, the plan covered 22 active firefighters and 8 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

B. Benefits Provided

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

C. Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City of Frazee contributions. The State of Minnesota contributed $40,016 in fire state aid to the fund for the year ended December 31, 2025.

V. Defined Benefit Pension Plan – Firemen's Relief Association (Continued)

D. Pension Costs

At December 31, 2025, the City reported a net pension liability of $536,169 for the Volunteer Firefighter Fund. The net pension liability was measured as of December 31, 2025. The total pension liability used to calculate the net pension liability in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-)-(b)
Balances at January 1, 2025	**$ 423,411**	**$ 708,180**	**$ (284,769)**
Changes from the prior year:			
Service Cost	$ 20,777	$ -	$ 20,777
Interest Cost	27,817	-	27,817
Plan Changes	96,628	-	96,628
Nonemployer Contributions	-	60,016	(60,016)
Projected Investment Return	-	46,927	(46,927)
Gain or Loss	-	17,670	(17,670)
Benefit Payments	(32,464)	(32,464)	-
Total Net Changes	$ 112,758	$ 92,149	$ 20,609
Balances at December 31, 2025	**$ 536,169**	**$ 800,329**	**$ (264,160)**

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2025, the City of Frazee recognized pension expense of $26,176.

At December 31, 2025, the City of Frazee reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability	$ -	$ 37,792
Change of assumptions	-	12,987
Net difference between projected and actual investment earnings	9,457	-
Total	$ 9,457	$ 50,779

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

V. Defined Benefit Pension Plan – Firefighters Relief Association

D. Pension Costs (Continued)

Year Ended December 31:	Pension Expense Amount:
2026	676
2027	8,002
2028	(18,524)
2029	(11,085)
2030	(7,546)
Thereafter	(12,845)

E. Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

The total pension liability at December 31, 2025, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made at a rate equal to the actuarially determined contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

V. Defined Benefit Pension Plan – Firefighters Relief Association

H. Pension Liability Sensitivity (Continued)

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Proportionate share of Net Pension (Asset) Liability	$ (248,861)	$ (264,160)	$ (278,765)

I. Investment Policy

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

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

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

J. Asset Allocation

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

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

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

K. Significant investment policy changes during the year

The SBI made no significant changes to their investment policy during calendar year 2025 for the Volunteer Firefighter Fund.

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

L. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2024, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org .

VI. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities.

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

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

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board

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

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

Funding is provided by participants in amounts determined by the Board on an annual basis. The City made no contributions in 2025. Complete financial information can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

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

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

2. Basis of Presentation

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

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

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.

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

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

b. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments and are reported at their fair value at December 31, 2025, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Component Unit Investment earnings in 2025 were $64.

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:

Assets	Years
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.

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

e. Use of Estimates

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

B. Detailed Notes

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, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land - Economic Development Authority	$ 251,421	$ -	$ -	$ 251,421
Construction in progress	-	750,696	-	750,696
Total capital assets, not being depreciated	$ 251,421	$ 750,696	$ -	$ 1,002,117
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	$ 1,273,694	$ -	$ -	$ 1,273,694
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	$ 100,355	$ 31,842	$ -	$ 132,197
Total capital assets, depreciated, net	$ 1,173,339	$ (31,842)	$ -	$ 1,141,497
Total Capital Assets, Net	$ 1,424,760	$ 718,854	$ -	$ 2,143,614

Depreciation Expense

Depreciation expense of $31,842 was charged to the Economic Development Authority.

VII. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

Long-Term Debt

City of Frazee Economic Development Authority Temporary General Obligation Tax Increment Bonds, Series 2024A represent debt incurred for repayment of the Temporary General Obligation Tax Increment Bonds, Series 2021A, and for construction of the Downtown Infill Project. These bonds have an original issue amount of $1,566,000. They carry a net interest rate of 6.50 percent and are due in semi-annual interest-only payments of $50,895, with the full principal amount due on February 1, 2027, from the Economic Development Authority Fund. This note was paid off in full as of December 31, 2025.

City of Frazee Economic Development Authority Tax Abatement Bond of 2025A represents debt incurred to finance cost associated with the permanent financing of the Downtown Building now known as East Main Retail. These bonds have an original issue amount of $2,065,000. They carry a net interest rate of 6.176 percent and are due in semi-annual payments of $60,000 to $170,000 through February 1st, 2046, from the EDA Fund. The balance outstanding at December 31, 2025, is $2,065,000.

Debt Service Requirements

Debt service requirements the City of Frazee Economic Development Authority at December 31, 2025, are as follows:

	Tax Abatement Bond of 2025A	
Year End December 31	Principal	Interest
2026	$ -	$ 138,610
2027	60,000	120,200
2028	60,000	117,188
2029	65,000	114,051
2030	70,000	110,662
2031-2035	400,000	491,895
2036-2040	530,000	359,217
2041-2045	710,000	171,001
2046	170,000	5,364
Total:	$ 2,065,000	$ 1,628,188

Changes in Long-Term Liabilities

Long-term liability activity for the City of Frazee Economic Development Authority for the year ended December 31, 2025, was as follows:

VII. Component Unit Disclosures

B. Detailed Notes

2. Liabilities

Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds					
Tax Increment Bonds, Series 2024A	$ 1,566,000	$ -	$ 1,566,000	$ -	$ -
Tax Abatement Bond 2025A	-	2,065,000	-	2,065,000	-
Economic Development Authority Long-term Liabilities	$ 1,566,000	$ 2,065,000	$ 1,566,000	$ 2,065,000	$ -

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, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes	$ 522,690	$ 522,690	$ 534,703	$ 12,013
Special assessments	-	-	3,691	3,691
Licenses and permits	32,600	32,600	35,185	2,585
Intergovernmental	665,013	665,013	860,589	195,576
Charges for services	188,150	188,150	243,081	54,931
Fines and forfeitures	7,500	7,500	3,536	(3,964)
Investment earnings	4,000	4,000	47,618	43,618
Gifts and contributions	-	-	54,570	54,570
Miscellaneous	40,875	40,875	22,482	(18,393)
Total Revenues	**$ 1,460,828**	**$ 1,460,828**	**$ 1,805,455**	**$ 344,627**
Expenditures				
Current				
General government				
Mayor/council	$ 40,657	$ 40,657	$ 49,873	$ (9,216)
Financial administration	383,661	383,661	330,675	52,986
Cemetery	8,700	8,700	8,005	695
Elections	-	-	50	(50)
Building inspector	21,350	21,350	25,850	(4,500)
Total general government	**$ 454,368**	**$ 454,368**	**$ 414,453**	**$ 39,915**
Public safety				
Police	**$ 448,821**	**$ 448,821**	**$ 424,000**	**$ 24,821**
Highways and streets				
Street department	$ 178,978	$ 178,978	$ 121,882	$ 57,096
Snow removal	58,500	58,500	6,510	51,990
Street lighting	27,425	27,425	33,492	(6,067)
Total highways and streets	**$ 264,903**	**$ 264,903**	**$ 161,884**	**$ 103,019**
Sanitation				
Recycling	$ -	$ -	$ 179	$ (179)
Solid waste	182,100	182,100	189,082	(6,982)
Total sanitation	**$ 182,100**	**$ 182,100**	**$ 189,261**	**$ (7,161)**
Culture and recreation				
Parks	$ 52,265	$ 52,265	$ 24,317	$ 27,948
Library	3,300	3,300	2,475	825
Celebrations	5,100	5,100	5,250	(150)
Recreational programs	15,000	15,000	15,000	-
Total culture and recreation	**$ 75,665**	**$ 75,665**	**$ 47,042**	**$ 28,623**
Total current	**$ 1,425,857**	**$ 1,425,857**	**$ 1,236,640**	**$ 189,217**

The notes to the required supplementary information are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures (Continued)				
Capital outlay				
General government	$ -	$ -	$ 85,151	$ (85,151)
Public safety	20,000	20,000	11,580	8,420
Highways and streets	-	-	49,387	(49,387)
Culture and recreation	-	-	321,864	(321,864)
Total capital outlay	**$ 20,000**	**$ 20,000**	**$ 467,982**	**$ (447,982)**
Total Expenditures	**$ 1,445,857**	**$ 1,445,857**	**$ 1,704,622**	**$ (258,765)**
Excess of Revenues Over (Under) Expenditures	**$ 14,971**	**$ 14,971**	**$ 100,833**	**$ 85,862**
Other Financing Sources (Uses)				
Proceeds from issuance of debt	$ -	$ -	$ 106,440	$ 106,440
Transfers in	-	-	1,020	1,020
Total other financing sources (uses)	**$ -**	**$ -**	**$ 107,460**	**$ 107,460**
Net Change in Fund Balance	**$ 14,971**	**$ 14,971**	**$ 208,293**	**$ 193,322**
Fund Balance - January 1	**1,218,814**	**1,218,814**	**1,218,814**	**-**
Fund Balance - December 31	**$ 1,233,785**	**$ 1,233,785**	**$ 1,427,107**	**$ 193,322**

The notes to the required supplementary information are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Intergovernmental	$ 49,000	$ 49,000	$ 53,626	$ 4,626
Charges for services	141,929	141,929	138,889	(3,040)
Investment earnings	-	-	3,015	3,015
Gifts and contributions	6,500	6,500	6,527	27
Miscellaneous	1,500	1,500	995	(505)
Total Revenues	**$ 198,929**	**$ 198,929**	**$ 203,052**	**$ 4,123**
Expenditures				
Current				
Public safety				
Fire	**$** 122,360	**$** 122,360	**$** 138,822	**$** (16,462)
Fire relief association	30,000	30,000	47,654	(17,654)
Total public safety	**$ 152,360**	**$ 152,360**	**$ 186,476**	**$ (34,116)**
Debt service				
Principal retirement	$ -	$ -	$ 58,789	$ (58,789)
Interest	-	-	1,933	(1,933)
Total debt service	**$ -**	**$ -**	**$ 60,722**	**$ (60,722)**
Capital outlay				
Public safety	$ 65,000	$ 65,000	$ 67,231	$ (2,231)
Total Expenditures	**$ 217,360**	**$ 217,360**	**$ 314,429**	**$ (97,069)**
Excess of Revenues Over (Under) Expenditures	**$ (18,431)**	**$ (18,431)**	**$ (111,377)**	**$ (92,946)**
Fund Balance - January 1	**(87)**	**(87)**	**(87)**	**-**
Fund Balance - December 31	**$ (18,518)**	**$ (18,518)**	**$ (111,464)**	**$ (92,946)**

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
RESCUE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Charges for services	$ 100	$ 100	$ 300	$ 200
Gifts and contributions	8,400	8,400	33,352	24,952
Miscellaneous	-	-	56,971	56,971
Total Revenues	**$ 8,500**	**$ 8,500**	**$ 90,623**	**$ 82,123**
Expenditures				
Current				
Public safety				
Rescue squad	**$** 10,910	**$** 10,910	**$** 22,234	**$** (11,324)
Total public safety	**$ 10,910**	**$ 10,910**	**$ 22,234**	**$ (11,324)**
Capital outlay				
Public safety	1,000	1,000	80,776	(79,776)
Total Expenditures	**$ 11,910**	**$ 11,910**	**$ 103,010**	**$ (91,100)**
Excess of Revenues Over (Under) Expenditures	**$ (3,410)**	**$ (3,410)**	**$ (12,387)**	**$ (8,977)**
Fund Balance - January 1	**61,146**	**61,146**	**61,146**	**-**
Fund Balance - December 31	**$ 57,736**	**$ 57,736**	**$ 48,759**	**$ (8,977)**

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
WANNIGAN PARK SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Intergovernmental	$ -	$ -	$ 583,777	$ 583,777
Gifts and contributions	-	-	61,799	61,799
Total Revenues	**$ -**	**$ -**	**$ 645,576**	**$ 645,576**
Expenditures				
Current				
Culture and recreation				
Parks	$ -	$ -	$ 4,326	$ (4,326)
Capital outlay				
Culture and recreation	-	-	891,156	(891,156)
Total Expenditures	**$ -**	**$ -**	**$ 895,482**	**$ (895,482)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (249,906)**	**$ (249,906)**
Fund Balance - January 1	**3,918**	**3,918**	**3,918**	**-**
Fund Balance - December 31	**$ 3,918**	**$ 3,918**	**$ (245,988)**	**$ (249,906)**

The notes to the required supplementary information are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 5

SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2025

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, 2025	$ 38,930	$ 38,930	$ -	$ 520,454	7.5%
December 31, 2024	$ 40,481	$ 40,481	$ -	$ 539,747	7.5%
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%

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, 2025	$ 28,928	$ 28,928	$ -	$ 163,435	17.70%
December 31, 2024	$ 29,805	$ 29,805	$ -	$ 168,390	17.70%
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%

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2025

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, 2025	0.0060%	$ 199,869	$ 4,821	$ 204,690	$ 551,505	36.24%	90.78%
June 30, 2024	0.0058%	$ 213,880	$ 5,531	$ 219,411	$ 489,784	43.67%	89.08%
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%

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, 2025	0.0111%	$ 129,791	$ 5,592	$ 135,383	$ 150,736	86.10%	91.78%
June 30, 2024	0.0112%	$ 146,706	$ 5,592	$ 152,298	$ 150,736	97.33%	90.17%
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%

The notes to the required supplementary information are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 7

VOLUNTEER FIREFIGHTER RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2025

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, 2025	$ -	$ -	$ -	N/A	N/A
December 31, 2024	$ -	$ -	$ -	N/A	N/A
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, 2025	100%	$ 242,409	N/A	N/A	165.00%
January 1, 2024	100%	$ 284,769	N/A	N/A	167.00%
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%

The notes to the required supplementary information are an integral part of this statement.

CITY OF FRAZEE
FRAZEE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2025

II. 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, 2025:

	Expenditures	Budget	Excess
General Fund			
General government			
Mayor/council	$ 49,873	$ 40,657	$ (9,216)
Elections	50	-	(50)
Building inspector	25,850	21,350	(4,500)
Highways and streets			
Street lighting	33,492	27,425	(6,067)
Sanitation			
Recycling	179	-	(179)
Solid waste	189,082	182,100	(6,982)
Culture and recreation			
Celebrations	5,250	5,100	(150)
Capital outlay			
General government	85,151	-	(85,151)
Highways and streets	49,387	-	(49,387)
Culture and recreation	321,864	-	(321,864)
Fire Special Revenue Fund			
Public safety			
Fire	138,822	122,360	(16,462)
Fire relief association	47,654	30,000	(17,654)

II. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
Fire Special Revenue Fund			
Debt service			
Principal retirement	$ 58,789	$ -	$ (58,789)
Interest	1,933	-	(1,933)
Capital outlay			
Public safety	67,231	65,000	(2,231)
Rescue Special Revenue Fund			
Public safety			
Rescue squad	22,234	10,910	(11,324)
Capital outlay			
Public safety	80,776	1,000	(79,776)
Wannigan Park Special Revenue Fund			
Culture and recreation			
Parks	4,326	-	(4,326)
Capital outlay			
Culture and recreation	891,156	-	(891,156)

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

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

General Employees Fund

2025 Changes
Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status

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

General Employees Fund (Continued)

2024 Changes

Changes in Actuarial Assumptions

The following changes in assumptions are effective with the July 1, 2024, valuation, as recommended in the most recent experience study (dated June 29,2023):

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued used of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

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.

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

General Employees Fund

2021 Changes
Changes in Actuarial Assumptions (Continued)

- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

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

2020 Changes
Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees were changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

General Employees Fund (Continued)

2018 Changes
Changes in Actuarial Assumptions
- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
Changes in Actuarial Assumptions
- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

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.

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

General Employees Fund

2016 Changes
Changes in Actuarial Assumptions (Continued)
- 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.

Police and Fire Fund

2025 Changes
Changes in Actuarial Assumptions
- Assumed rates of salary increases were reduced slightly.
- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70 percent to 65 percent.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33 percent to 13 percent for vested, terminated members and from 2 percent to 38 percent for non-vested, terminated members.

Changes in Plan Provisions
- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026, benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).
- The threshold to end the additional $9 millon annual state aid contribution changed from the earlier of July 1, 2048, or 100% funded for a minimum of three consecutive years to 11% funded for a minimum of three consecutive years (on an actuarial value of assets basis).
- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025, through June 30, 2048.
- Join and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

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

Police and Fire Fund

2024 Changes
Changes in Plan Provisions

- The State contribution of $9.0 million per year will continue until the earlier of 1) both the Police & Fire Plan and the State Patrol Retirement Fund attain 90 percent funded statuses for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90 percent funded status for one year.
- The additional $9.0 million contribution will continue until the Police & Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048, if earlier).

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.
- 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.

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 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.
- 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.

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

Police and Fire Fund

2018 Changes
Changes in Plan Provisions (Continued)

- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019, and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016 Changes
Changes in Actuarial Assumptions

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

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

Police and Fire Fund

2016 Changes
Changes in Actuarial Assumptions (Continued)

- 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.

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 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 East Main Liquor Town Lake Beach Debt Service Fund is used to account for and report the Improvement Bonds of 2024 for improvements to East Main Street, the Liquor Store, and Town Lake Beach. Financing is provided by special assessments restricted for debt service.

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 Main Avenue West Service Fund is used to account for and report debt associated with the General Obligation Improvement Bonds of 2013. 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, 2025

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
Assets			
Assets			
Cash and pooled investments	$ 418,530	$ 284,197	$ 702,727
Taxes receivable			
Current	977	-	977
Special assessments receivable			
Current	-	2,805	2,805
Prior	-	58,035	58,035
Due from other funds	-	157,292	157,292
Special assessments receivable - noncurrent	-	465,256	465,256
Total Assets	**$ 419,507**	**$ 967,585**	**$ 1,387,092**
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities			
Accounts payable	$ 15,995	$ -	$ 15,995
Due to other funds	223,833	423,520	647,353
Total Liabilities	**$ 239,828**	**$ 423,520**	**$ 663,348**
Deferred Inflows of Resources			
Special assessments	$ -	$ 523,291	$ 523,291
Fund Balance			
Restricted for			
Debt service	$ -	$ 396,279	$ 396,279
Economic development	183,068	-	183,068
Unassigned	(3,389)	(375,505)	(378,894)
Total Fund Balance	**$ 179,679**	**$ 20,774**	**$ 200,453**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	**$ 419,507**	**$ 967,585**	**$ 1,387,092**

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, 2025**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Total NonMajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	$ 120,393	$ -	$ 120,393
Special assessments	-	79,302	79,302
Investment earnings	-	8	8
Miscellaneous	900	35,581	36,481
Total Revenues	**$ 121,293**	**$ 114,891**	**$ 236,184**
Expenditures			
Current			
Economic Development	15,995	-	15,995
Debt service			
Principal retirement	$ -	$ 158,000	$ 158,000
Interest	-	30,771	30,771
Total debt service	**$ -**	**$ 188,771**	**$ 188,771**
Total Expenditures	**$ 15,995**	**$ 188,771**	**$ 204,766**
Excess of Revenues Over (Under) Expenditures	**$ 105,298**	**$ (73,880)**	**$ 31,418**
Other Financing Sources (Uses)			
Transfers in	$ -	$ 102,765	$ 102,765
Transfers out	(102,765)	(1,020)	(103,785)
Total Other Financing Sources (Uses)	**$ (102,765)**	**$ 101,745**	**$ (1,020)**
Net Change in Fund Balance	**$ 2,533**	**$ 27,865**	**$ 30,398**
Fund Balance - January 1	**$ 177,146**	**$ (7,091)**	**$ 170,055**
Fund Balance - December 31	**$ 179,679**	**$ 20,774**	**$ 200,453**

CITY OF FRAZEE
FRAZEE, MINNESOTA

Statement 3

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Cemetery	TIF 1-3 Red Willow Heights	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 1)
Assets					
Cash and pooled investments	$ -	$ 110,222	$ 137,356	$ 60,730	$ 418,530
Taxes receivable					
Current	-	-	-	977	977
Total Assets	**$ -**	**$ 110,222**	**$ 137,356**	**$ 61,707**	**$ 419,507**
Liabilities and Fund Balance					
Liabilities					
Accounts payable	$ -	$ -	$ -	$ 15,995	$ 15,995
Due to other funds	3,389	110,222	-	-	223,833
Total Liabilities	**$ 3,389**	**$ 110,222**	**$ -**	**$ 15,995**	**$ 239,828**
Fund Balance					
Restricted for					
Economic development	$ -	$ -	$ 137,356	$ 45,712	$ 183,068
Unassigned	(3,389)	-	-	-	(3,389)
Total Fund Balance	**$ (3,389)**	**$ -**	**$ 137,356**	**$ 45,712**	**$ 179,679**
Total Liabilities and Fund Balance	**$ -**	**$ 110,222**	**$ 137,356**	**$ 61,707**	**$ 419,507**

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, 2025

	Cemetery	TIF 1-3 Red Willow Heights	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 2)
Revenues					
Taxes	$ -	$ 102,765	$ 8,593	$ 9,035	$ 120,393
Miscellaneous	900	-	-	-	900
Total Revenues	**$ 900**	**$ 102,765**	**$ 8,593**	**$ 9,035**	**$ 121,293**
Expenditures					
Current					
Economic development	$ -	-	-	15,995	15,995
Excess of Revenues Over (Under) Expenditures	**$ 900**	**$ 102,765**	**$ 8,593**	**$ (6,960)**	**$ 105,298**
Other Financing Sources (Uses)					
Transfers out	-	(102,765)	-	-	(102,765)
Net Change in Fund Balance	**$ 900**	**$ -**	**$ 8,593**	**$ (6,960)**	**$ 2,533**
Fund Balance - January 1	**(4,289)**	**-**	**128,763**	**52,672**	**177,146**
Fund Balance - December 31	**$ (3,389)**	**$ -**	**$ 137,356**	**$ 45,712**	**$ 179,679**

CITY OF FRAZEE
FRAZEE, MINNESOTA

Statement 5

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	East Main Liquor Town Lake Beach	2016 Improvements and Refunding	County Road 118	2006 Red Willow Heights II	Southeast Area and Main Avenue West	Southeast Area Streets and Utilities	Total (Statement 1)
Assets							
Cash and pooled investments	$ -	$ -	$ -	$ 102,002	$ 182,195	$ -	$ 284,197
Special assessments receivable	-	-					
Current	-	-	945	-	1,860	-	2,805
Prior	-	-	-	44,586	13,449	-	58,035
Due from other funds	-	47,070	-	110,222	-	-	157,292
Special assessments receivable - noncurrent	253,809	-	15,280	82,841	113,326	-	465,256
Total Assets	**$ 253,809**	**$ 47,070**	**$ 16,225**	**$ 339,651**	**$ 310,830**	**$ -**	**$ 967,585**
Liabilities, Deferred Inflows of Resources, and Fund Balance							
Liabilities							
Due to other funds	$ 1,968	$ 243,317	$ 12,717	$ -	$ -	$ 165,518	$ 423,520
Total Liabilities	**$ 1,968**	**$ 243,317**	**$ 12,717**	**$ -**	**$ -**	**$ 165,518**	**$ 423,520**
Deferred Inflows of Resources							
Special assessments	$ 253,809	$ -	$ 15,280	$ 127,427	$ 126,775	$ -	$ 523,291
Fund Balance							
Restricted for debt service	$ -	$ -	$ -	$ 212,224	$ 184,055	$ -	$ 396,279
Unassigned	(1,968)	(196,247)	(11,772)	-	-	(165,518)	(375,505)
Total Fund Balance	**$ (1,968)**	**$ (196,247)**	**$ (11,772)**	**$ 212,224**	**$ 184,055**	**$ (165,518)**	**$ 20,774**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	**$ 253,809**	**$ 47,070**	**$ 16,225**	**$ 339,651**	**$ 310,830**	**$ -**	**$ 967,585**

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, 2025

	East Main Liquor Town Lake Bach	2016 Improvements and Refunding	County Road 118	2006 Red Willow Heights II	Southeast Area and Main Avenue West	Southeast Area Streets and Utilities	Total (Statement 2)
Revenues							
Special assessments	$ 15,000	$ -	$ 10,003	$ 4,535	$ 49,764	$ -	$ 79,302
Investment earnings	-	-	-	8	-	-	8
Miscellaneous	-	-	-	35,581	-	-	35,581
Total Revenues	**$ 15,000**	**$ -**	**$ 10,003**	**$ 40,124**	**$ 49,764**	**$ -**	**$ 114,891**
Expenditures							
Debt service							
Principal retirement	$ -	$ 19,000	$ 36,000	$ 60,000	$ 43,000	$ -	$ 158,000
Interest	16,968	1,164	4,139	3,775	4,725	-	30,771
Total Expenditures	**$ 16,968**	**$ 20,164**	**$ 40,139**	**$ 63,775**	**$ 47,725**	**$ -**	**$ 188,771**
Excess of Revenues Over (Under) Expenditures	**$ (1,968)**	**$ (20,164)**	**$ (30,136)**	**$ (23,651)**	**$ 2,039**	**$ -**	**$ (73,880)**
Other Financing Sources (Uses)							
Transfers in	$ -	$ -	$ -	$ 102,765	$ -	$ -	$ 102,765
Transfers out	-	-	-	(1,020)	-	-	(1,020)
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ -**	**$ 101,745**	**$ -**	**$ -**	**$ 101,745**
Net Change in Fund Balance	**$ (1,968)**	**$ (20,164)**	**$ (30,136)**	**$ 78,094**	**$ 2,039**	**$ -**	**$ 27,865**
Fund Balance - January 1	**-**	**(176,083)**	**18,364**	**134,130**	**182,016**	**(165,518)**	**(7,091)**
Fund Balance - December 31	**$ (1,968)**	**$ (196,247)**	**$ (11,772)**	**$ 212,224**	**$ 184,055**	**$ (165,518)**	**$ 20,774**

OTHER SCHEDULES

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 8

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2025

Shared Revenue		
State		
Fire Relief Association supplemental benefit	$	1,000
Fire state aid		46,654
Local government aid		592,236
Small cities highway assistance		14,624
Police state aid		29,805
Total Shared Revenue	**$**	**684,319**
Payments		
Payments in lieu of taxes	**$**	**29,860**
Grants		
Local		
Becker County	$	461
Clay County		7,000
Total Local	**$**	**7,461**
State		
Minnesota Department of		
Police Officer Safety Board	$	2,983
Natural Resources		186,220
Public Facilities Authority		35,346
Public Safety		4,472
Transportation		582,677
Total State	**$**	**811,698**
Total Grants	**$**	**819,159**
Total Intergovernmental Revenue	**$**	**1,533,338**

Not included as revenue are $9,951 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, 2025, 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 28, 2026.

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 2025-001, and 2025-002, 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 2025-003. 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

Hoffman, Philipp, & Martell, PLLC
July 28, 2026

CITY OF FRAZEE
FRAZEE, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2025

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2025-001
Prior Year Finding Number(s): 2024-001
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 small size of the City limits the number of personnel available to perform separate duties, however, the City Council is aware of this situation and provides oversight and review. The City does have some written policies and continues to work on improving internal control over financial reporting and compliance, and the documentation of those controls.*

Finding Number: 2025-002
Prior Year Finding Number: 2024-002
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.*

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number: 2025-003
Prior Finding Number: 2024-003
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, 2025, the following funds had deficit cash balances:

Fire Special Revenue Fund	$ 119,295
Wannigan Park Special Revenue Fund	$ 270,839
Lake Street Debt Service Fund	$ 37,792
Cemetery Special Revenue Fund	$ 3,389
East Main Liquor Town Lake Beach Debt Service Fund	$ 1,968
2016 Improvements and Refunding Debt Service Fund	$ 243,317
County Road 118 Debt Service Fund	$ 12,717
Southeast Area Streets and Utilities Debt Service Fund	$ 165,518
Event Center Enterprise Fund	$ 51,591

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 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 feels they are doing the best they can.*

City Of Frazee
MINNESOTA
P.O. Box 387, 222 Main Ave. W., Frazee, MN 56544
Waters Trails Shops Parks
City Phone: 218-334-4991 | City Fax: 218-334-4992

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2025

Finding Number: 2025-001
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, 2026. *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: 2025-002
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, 2026.*

Finding Number: 2025-003
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, 2026.*

City Of Frazee
MINNESOTA
P.O. Box 387, 222 Main Ave. W., Frazee, MN 56544
Waters Trails Shops Parks
City Phone: 218-334-4991 | City Fax: 218-334-4992

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

Finding Number: 2024-001
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 oversite procedures and monitor those procedures to determine if they are still effective.

Status: Not corrected.

Finding Number: 2024-002
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, 2022, 2023, and 2024 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: 2024-003
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, 2024, the following funds had deficit cash balances:

Event Center Enterprise Fund	$ 51,744
Lake Street Debt Service Fund	$ 7,067
Cemetery Special Revenue Fund	$ 4,289
Wannagan Park Special Revenue Fund	$ 944
2016 Improvements and Refunding Debt Service Fund	$ 197,253
Southeast Area Streets and Utilities Debt Service Fund	$ 165,518

Summary of Corrective Action: The City eliminated the cash balance deficits by transferring from another fund for reporting purposes, however, six funds had cash balance deficits at December 31, 2024.

Status: Not corrected.