

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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FRAZEE, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Hank Ludtke	Mayor	December 31, 2018
Bonnie Julius	Councilmember	December 31, 2018
Ken Miosek	Councilmember	December 31, 2018
Donna Quart	Councilmember	December 31, 2016
David Jopp II	Councilmember	December 31, 2016
Appointed		
Jonathan Smith	Administrator/Clerk/Treasurer	Indefinite

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Frazee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis of Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Frazee, Minnesota, as of December 31, 2015, and the 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of December 31, 2015, 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.

Emphasis of Matter

As discussed in the Notes to the Financial Statements, the City has adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frazee's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2016, on our consideration of the City of Frazee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hoffman, Philipp, & Knutson, PLLC

May 23, 2016



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, 2015. 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

During the current year, the City of Frazee adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted retrospectively, and therefore, comparative information in this section has been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is \$5,377,369, of which \$980,667 is the net investment in capital assets, \$180,665 is restricted for debt service and general government, and \$4,216,037 is unrestricted. The total net position of governmental activities increased by \$773,220 for the year ended December 31, 2015, as a result of the completion of street and utility improvements in 2015.

The total net position of business-type activities is \$1,375,674, of which \$984,500 is the net investment in capital assets and \$391,174 is unrestricted. The total net position of business-type activities decreased by \$173,923 in 2015, as a result of depreciation of capital assets, and a restatement for net pension liability due to the implementation of GASB 68.

At the close of 2015, the City's governmental funds reported combined ending fund balances of \$1,148,375 an increase of \$291,733, from the prior year. Of the total fund balance amount, \$388,380 is legally or contractually restricted, \$456,285 is formally committed for specific purposes, \$280,039 is assigned for specific purposes, and \$23,671 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

The City reports four governmental fund types: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the 2003 Red Willow Heights I Debt Service Fund, the 2006 Red Willow Heights II Debt Service Fund, the County Road 118 Debt Service Fund, and the Street and Utility Improvements Capital Projects Fund, all of which are considered to be major funds. Data from the other nonmajor governmental

funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Frazee adopts annual budgets for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with its budget.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City’s financial position. The City’s assets exceeded liabilities by \$6,753,043 at the close of 2015. The largest portion of the City’s net position (approximately 29 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 three percent of the City’s net position is restricted and 68 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$4,607,211 as of December 31, 2015, may be used to meet the City’s ongoing obligations to citizens.

The City’s overall financial position decreased from last year. Total assets increased by \$711,931, from the prior year, due to management’s continuing efforts to streamline budgets and improve services without increasing costs. Total liabilities increased by \$170,840, from the prior year, due to the implementation of GASB 68 which recognized net pension liability in 2015. This resulted in an increased net position of \$599,297 from the prior year.

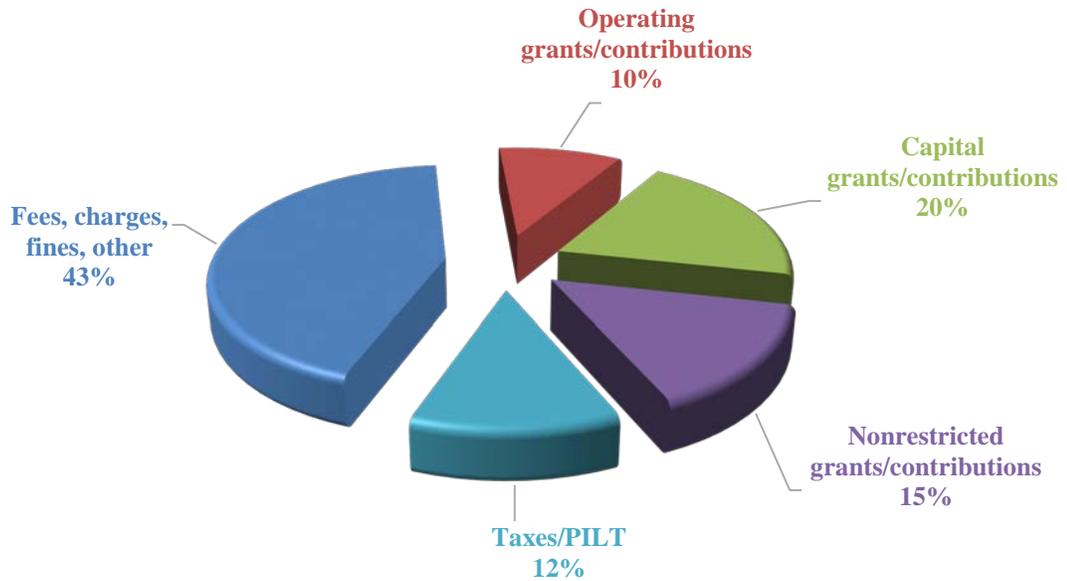
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,342,807	\$ 1,495,176	\$ 647,769	\$ 629,164	\$ 2,990,576	\$ 2,124,340
Capital assets	5,166,805	5,273,131	1,204,500	1,252,479	6,371,305	6,525,610
Total assets	\$ 7,509,612	\$ 6,768,307	\$ 1,852,269	\$ 1,881,643	\$ 9,361,881	\$ 8,649,950
Deferred outflows - pension	\$ 79,385	\$ -	\$ 24,777	\$ -	\$ 104,162	\$ -
Other liabilities	\$ 39,233	\$ 90,189	\$ 56,049	\$ 56,739	\$ 95,282	\$ 146,928
Long-term liabilities outstanding	2,135,511	2,073,969	436,251	275,307	2,571,762	2,349,276
Total liabilities	\$ 2,174,744	\$ 2,164,158	\$ 492,300	\$ 332,046	\$ 2,667,044	\$ 2,496,204
Deferred inflows - pension	\$ 36,884	\$ -	\$ 9,072	\$ -	\$ 45,956	\$ -
Net position						
Net investment in capital assets	\$ 980,667	\$ 3,237,131	\$ 984,500	\$ 1,012,479	\$ 1,965,167	\$ 4,249,610
Restricted	180,665	220,216	-	-	180,665	220,216
Unrestricted	4,216,037	1,146,802	391,174	537,118	4,607,211	1,683,920
Total net position	\$ 5,377,369	\$ 4,604,149	\$ 1,375,674	\$ 1,549,597	\$ 6,753,043	\$ 6,153,746

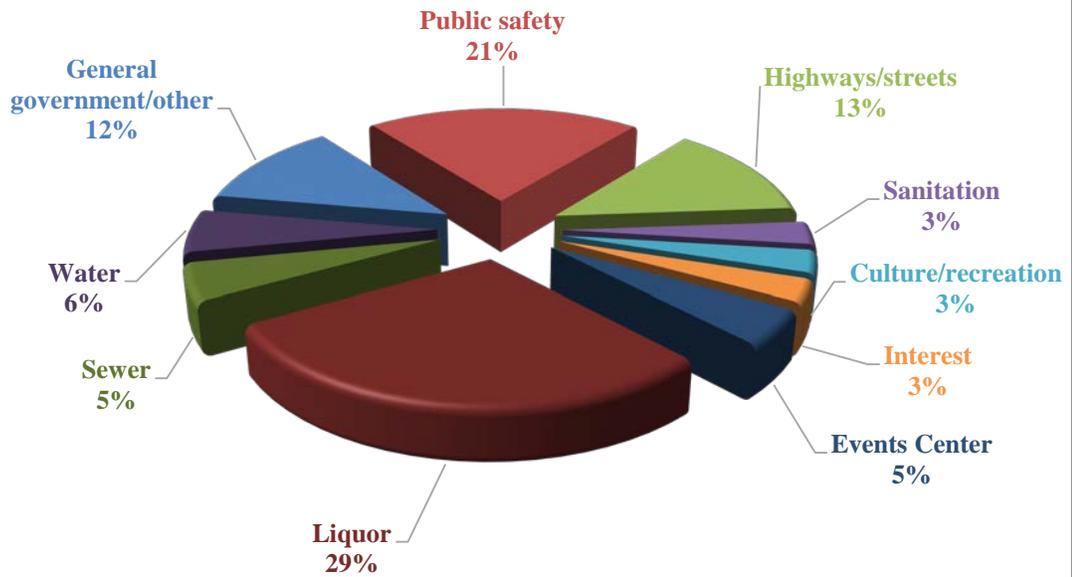
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 353,221	\$ 212,805	\$ 1,037,547	\$ 989,725	\$ 1,390,768	\$ 1,202,530
Operating grants and contributions	322,543	56,123	-	-	322,543	56,123
Capital grants and contributions	636,818	-	902	1,833	637,720	1,833
Property taxes	345,572	218,760	-	-	345,572	218,760
Franchise tax	3,694	2,831	-	-	3,694	2,831
Grants and contributions not restricted to specific programs	484,425	477,796	-	-	484,425	477,796
Payments in lieu of taxes	42,009	18,963	-	-	42,009	18,963
Investment earnings	2,276	1,748	290	689	2,566	2,437
Insurance dividends	17,630	7,517	-	-	17,630	7,517
Transfers	22,680	26,000	(72,680)	(76,000)	(50,000)	(50,000)
Total revenues	\$ 2,230,868	\$ 1,022,543	\$ 966,059	\$ 916,247	\$ 3,196,927	\$ 1,938,790
Expenses						
General government	\$ 260,940	\$ 237,344	\$ -	\$ -	\$ 260,940	\$ 237,344
Public safety	463,742	428,374	-	-	463,742	428,374
Highways and streets	286,918	253,306	-	-	286,918	253,306
Sanitation	68,128	61,107	-	-	68,128	61,107
Culture and recreation	66,568	52,746	-	-	66,568	52,746
Conservation of natural resources	2,310	2,498	-	-	2,310	2,498
Economic development	1,500	70,185	-	-	1,500	70,185
Interest	62,282	76,949	-	-	62,282	76,949
Events Center	-	-	105,146	98,013	105,146	98,013
Liquor	-	-	640,699	620,591	640,699	620,591
Sewer	-	-	110,221	106,691	110,221	106,691
Water	-	-	128,291	197,322	128,291	197,322
Total expenses	\$ 1,212,388	\$ 1,182,509	\$ 984,357	\$ 1,022,617	\$ 2,196,745	\$ 2,205,126
Increase (decrease) in net position	\$ 1,018,480	\$ (159,966)	\$ (18,298)	\$ (106,370)	\$ 1,000,182	\$ (266,336)
Net position - January 1, as previously reported	\$ 4,604,149	\$ -	\$ 1,549,597	\$ -	\$ 6,153,746	\$ -
Prior period adjustment	(245,260)	-	(155,625)	-	(400,885)	-
Net position, January 1, as restated	\$ 4,358,889	\$ 4,764,115	\$ 1,393,972	\$ 1,655,967	\$ 5,752,861	\$ 6,420,082
Net position, December 31	\$ 5,377,369	\$ 4,604,149	\$ 1,375,674	\$ 1,549,597	\$ 6,753,043	\$ 6,153,746

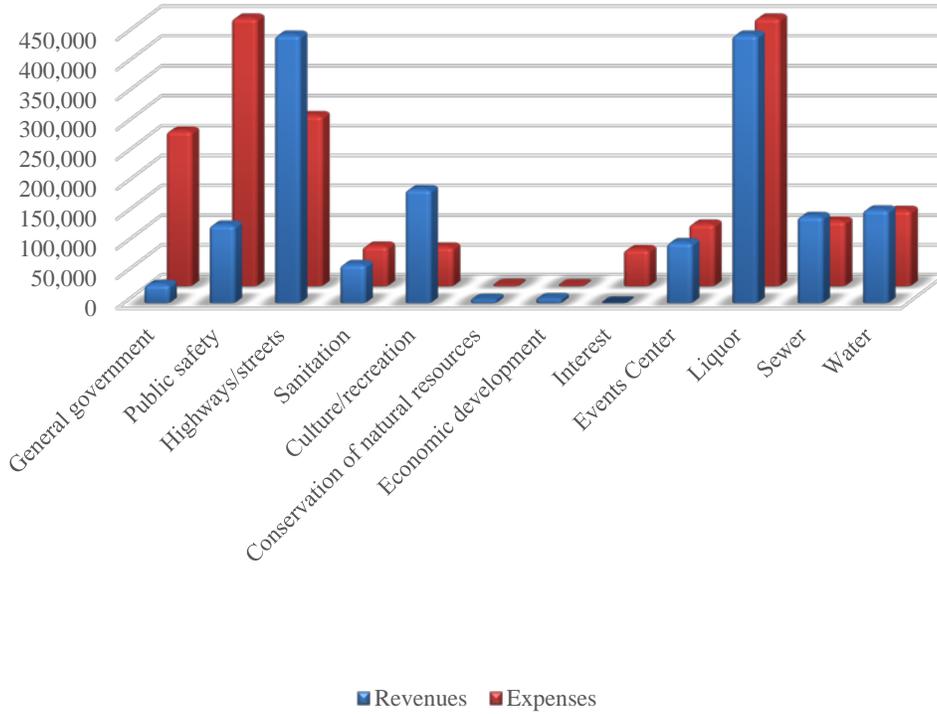
Revenues by Source



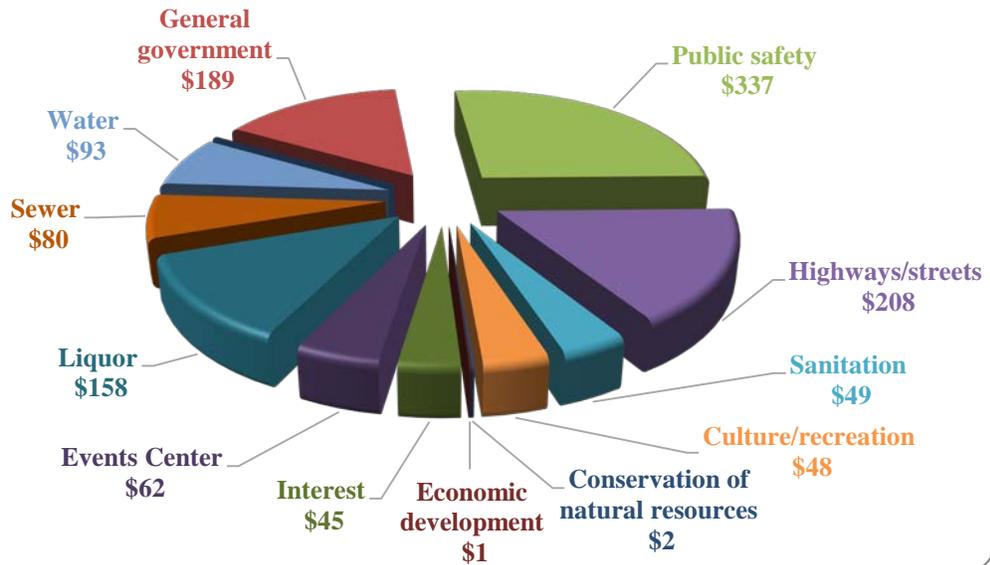
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 1,390 Population as of 2015



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 2015, the City's governmental funds reported combined ending fund balances of \$1,148,375. Of this amount, approximately 34 percent constitutes legally or contractually restricted fund balance, 40 percent constitutes formally committed fund balance, 24 percent constitutes specifically assigned fund balance, and 2 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 \$818,128. The General Fund's committed fund balance was \$430,000 and unassigned fund balance was \$388,128. The General Fund has no restricted fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2015. Total fund balance represents 63 percent of total General Fund expenditures.

In 2015, the fund balance amount in the General Fund decreased by \$62,565, as a result of expenditures for the Safe Routes to Schools project.

The fund balance of the 2003 Red Willow Heights I Debt Service Fund decreased \$30,920 from the prior year, due to debt repayment in excess of special assessments collected.

The fund balance of the 2006 Red Willow Heights II Debt Service Fund decreased \$10,765 from the prior year, due to debt repayment in excess of special assessments collected.

The fund balance of the County Road 118 Debt Service Fund increased \$219,421, due to cost sharing received from Becker County.

The fund balance of the Street and Utility Improvements Capital Projects Fund increased \$148,574, due to collection of insurance proceeds for unscheduled emergency repairs.

Proprietary Funds

The Events Center Enterprise Fund reported an operating loss in 2015 of \$2,909, mainly due to a large amount for depreciation.

The Liquor Enterprise Fund reported an operating loss in 2015 of \$9,008, indicating that it is charging for products and services at a rate below costs.

The Sewer Enterprise Fund reported an operating income in 2015 of \$40,278, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating income in 2015 of \$33,437, indicating that it is collecting fees at a rate higher than current expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2015.

Actual revenues were more than overall final budgeted revenues by \$300,784, with the largest positive variances in intergovernmental revenue due to a cost-share payment received from Becker County. Actual expenditures were more than overall final budgeted expenditures by \$363,462, mainly due to the Safe Routes to Schools project.

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, 2015, amounted to \$6,686,305. The total increase in the City's investment in capital assets for the current fiscal year was approximately four percent. This increase was primarily due to the completion of various street projects added to infrastructure and the Safe Routes to Schools project in progress.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 69,819	\$ 70,204	\$ -	\$ -	\$ 69,819	\$ 70,204
Construction in progress	280,196	783,798	-	-	280,196	783,798
Infrastructure	4,425,171	3,664,264	780,137	790,426	5,205,308	4,454,690
Buildings and improvements	298,339	299,568	414,609	435,770	712,948	735,338
Machinery and equipment	408,280	455,297	9,754	26,283	418,034	481,580
Total capital assets	<u>\$ 5,481,805</u>	<u>\$ 5,273,131</u>	<u>\$ 1,204,500</u>	<u>\$ 1,252,479</u>	<u>\$ 6,686,305</u>	<u>\$ 6,525,610</u>

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

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$2,010,000, net of bond discounts, which is backed by the full faith and credit of the government.

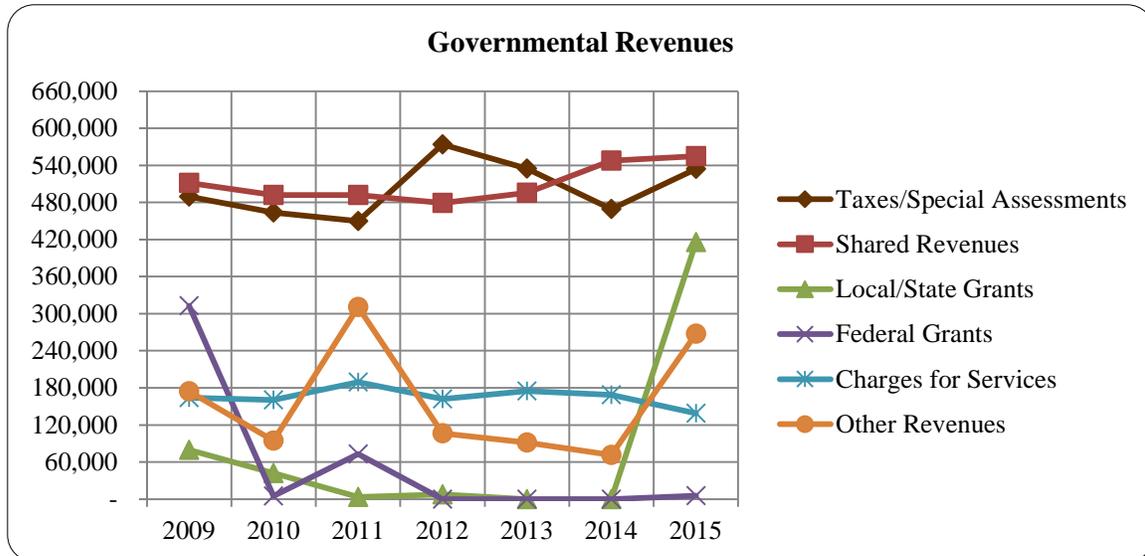
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
G.O. Bonds	\$ 1,790,000	\$ 1,951,000	\$ -	\$ -	\$ 1,790,000	\$ 1,951,000
G.O. Revenue Bonds	-	85,000	-	-	-	85,000
Revenue Bonds	-	-	220,000	240,000	220,000	240,000
	<u>\$ 1,790,000</u>	<u>\$ 2,036,000</u>	<u>\$ 220,000</u>	<u>\$ 240,000</u>	<u>\$ 2,010,000</u>	<u>\$ 2,276,000</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2015, overall debt of the City is below the three percent debt limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The seven-year analysis below focuses on the revenues of the City's governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Specific unemployment statistics for the City of Frazee are not available. However, the unemployment rate for Becker County was 5.1 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and higher than the national average rate of 5.0 percent.
- Frazee's 2015 population was 1,390, an increase of 40 since the 2010 census of 1,350.
- On December 14, 2015 the City of Frazee set its 2016 revenue and expenditure budgets. This budget included specific capital projects to maintain and improve facilities to better serve the public.
- The City of Frazee is optimistic that it will continue to see further development within the City. With several new businesses in the community and new homes popping up every year, there continues to be a progressive and positive community attitude.
- The City of Frazee prides itself in providing the essential services to its citizens, while continually looking for ways to improve and grow. The City continues to apply for and receive assistance from outside agencies to help support ways to accomplish the community's goals.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Frazee for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

BASIC FINANCIAL STATEMENTS

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 391,311	\$ 432,928	\$ 824,239	\$ 46,884
Investments	573,788	122,683	696,471	32,583
Taxes receivable				
Current	5,031	-	5,031	-
Prior	20,338	-	20,338	-
Special assessments receivable				
Current	1,440	127	1,567	-
Prior	26,497	763	27,260	-
Accounts receivable	7,976	30,267	38,243	-
Due from other governments	184,032	-	184,032	-
Inventory	-	57,543	57,543	-
Advances to component unit	24,030	-	24,030	-
Notes receivable	45,681	-	45,681	86,061
Special assessments receivable - noncurrent	747,683	3,458	751,141	-
Capital assets				
Non-depreciable	350,015	-	350,015	81,093
Depreciable - net of accumulated depreciation	5,131,790	1,204,500	6,336,290	138,068
Total Assets	\$ 7,509,612	\$ 1,852,269	\$ 9,361,881	\$ 384,689
<u>Deferred Outflows of Resources</u>				
Related to pensions	\$ 79,385	\$ 24,777	\$ 104,162	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 25,351	\$ 49,419	\$ 74,770	\$ 5,756
Salaries payable	11,536	-	11,536	-
Due to other governments	2,346	6,630	8,976	-
Advance from primary government	-	-	-	24,030
Long-term liabilities				
Due within one year	215,639	22,502	238,141	-
Due in more than one year	1,919,872	413,749	2,333,621	-
Total Liabilities	\$ 2,174,744	\$ 492,300	\$ 2,667,044	\$ 29,786
<u>Deferred Inflows of Resources</u>				
Related to pensions	\$ 36,884	\$ 9,072	\$ 45,956	\$ -
<u>Net Position</u>				
Net investment in capital assets	\$ 980,667	\$ 984,500	\$ 1,965,167	\$ 195,131
Amounts restricted for				
Debt service	167,213	-	167,213	-
General government	13,452	-	13,452	-
Unrestricted amounts	4,216,037	391,174	4,607,211	159,772
Total Net Position	\$ 5,377,369	\$ 1,375,674	\$ 6,753,043	\$ 354,903

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Revenues		
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 260,940	\$ 24,378	\$ 7,500
Public safety	463,742	71,401	60,378
Highways and streets	286,918	182,373	247,196
Sanitation	68,128	65,334	-
Culture and recreation	66,568	-	7,469
Conservation of natural resources	2,310	6,999	-
Economic development	1,500	2,736	-
Interest	62,282	-	-
Total governmental activities	\$ 1,212,388	\$ 353,221	\$ 322,543
Business-type activities			
Events Center	\$ 105,146	\$ 102,237	\$ -
Liquor	640,699	631,691	-
Sewer	110,221	146,195	-
Water	128,291	157,424	-
Total business-type activities	\$ 984,357	\$ 1,037,547	\$ -
Total Primary Government	\$ 2,196,745	\$ 1,390,768	\$ 322,543
Component Unit			
Economic Development Authority	\$ 131,254	\$ 10,174	\$ 2,017

General revenues and transfers

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

Total general revenues and transfers

Change in net position

Net Position - January 1, as previously reported

Prior period adjustment

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (229,062)	\$ -	\$ (229,062)	\$ -
-	(331,963)	-	(331,963)	-
446,976	589,627	-	589,627	-
-	(2,794)	-	(2,794)	-
184,032	124,933	-	124,933	-
-	4,689	-	4,689	-
5,810	7,046	-	7,046	-
-	(62,282)	-	(62,282)	-
\$ 636,818	\$ 100,194	\$ -	\$ 100,194	\$ -
\$ -	\$ -	\$ (2,909)	\$ (2,909)	\$ -
-	-	(9,008)	(9,008)	-
118	-	36,092	36,092	-
784	-	29,917	29,917	-
\$ 902	\$ -	\$ 54,092	\$ 54,092	\$ -
\$ 637,720	\$ 100,194	\$ 54,092	\$ 154,286	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (119,063)</u>
	\$ 345,572	\$ -	\$ 345,572	\$ -
	3,694	-	3,694	-
	484,425	-	484,425	-
	42,009	-	42,009	-
	2,276	290	2,566	53
	17,630	-	17,630	-
	22,680	(72,680)	(50,000)	50,000
	\$ 918,286	\$ (72,390)	\$ 845,896	\$ 50,053
	\$ 1,018,480	\$ (18,298)	\$ 1,000,182	\$ (69,010)
	\$ 4,604,149	\$ 1,549,597	\$ 6,153,746	\$ 423,913
	(245,260)	(155,625)	(400,885)	-
	4,358,889	1,393,972	5,752,861	423,913
	\$ 5,377,369	\$ 1,375,674	\$ 6,753,043	\$ 354,903

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service
<u>Assets</u>			
Assets			
Cash and pooled investments	\$ 91,308	\$ -	\$ 4,187
Investments	569,829	935	-
Taxes receivable			
Current	5,031	-	-
Prior	19,802	-	-
Special assessments receivable			
Current	-	44	-
Prior	-	2,354	20,773
Accounts receivable	7,161	-	-
Due from other governments	184,032	-	-
Advances to component unit	-	-	-
Notes receivable	-	-	-
Special assessments receivable - noncurrent	-	133,312	241,008
	\$ 877,163	\$ 136,645	\$ 265,968
 <u>Liabilities, Deferred Inflows and Fund Balances</u>			
Liabilities			
Cash overdraft	\$ -	\$ 39,713	\$ -
Accounts payable	25,351	-	-
Salaries payable	11,536	-	-
Due to other governments	2,346	-	-
	\$ 39,233	\$ 39,713	\$ -
Deferred Inflows			
Taxes	\$ 19,802	\$ -	\$ -
Notes	-	-	-
Special assessments	-	135,666	261,781
	\$ 19,802	\$ 135,666	\$ 261,781
Fund Balances			
Restricted for			
Debt service	\$ -	\$ -	\$ 4,187
Perpetual care	-	-	-
Committed to			
Becker County Museum	20,000	-	-
Building and grounds	50,000	-	-
Capital equipment	150,000	-	-
Compensated absences	150,000	-	-
Economic development	-	-	-
Streets	60,000	-	-
Assigned to			
Capital projects	-	-	-
Economic development	-	-	-
Sanitation	-	-	-
Unassigned	388,128	(38,734)	-
	\$ 818,128	\$ (38,734)	\$ 4,187
Total Liabilities, Deferred Inflows and Fund Balances	\$ 877,163	\$ 136,645	\$ 265,968

EXHIBIT 3

County Road 118 Debt Service	Street and Utility Improvements Capital Projects	Other Governmental Funds (Statement 1)	Total Governmental Funds
\$ 237,902	\$ -	\$ 423,350	\$ 756,747
-	-	3,024	573,788
-	-	-	5,031
-	-	536	20,338
-	-	1,396	1,440
-	-	3,370	26,497
-	-	815	7,976
-	-	-	184,032
-	-	24,030	24,030
-	-	45,681	45,681
227,499	-	145,864	747,683
\$ 465,401	\$ -	\$ 648,066	\$ 2,393,243
\$ -	\$ 246,433	\$ 79,290	\$ 365,436
-	-	-	25,351
-	-	-	11,536
-	-	-	2,346
\$ -	\$ 246,433	\$ 79,290	\$ 404,669
\$ -	\$ -	\$ 536	\$ 20,338
-	-	45,681	45,681
227,499	-	149,234	774,180
\$ 227,499	\$ -	\$ 195,451	\$ 840,199
\$ 237,902	\$ -	\$ 132,839	\$ 374,928
-	-	13,452	13,452
-	-	-	20,000
-	-	-	50,000
-	-	-	150,000
-	-	-	150,000
-	-	26,285	26,285
-	-	-	60,000
-	-	89,905	89,905
-	-	175,455	175,455
-	-	14,679	14,679
-	(246,433)	(79,290)	23,671
\$ 237,902	\$ (246,433)	\$ 373,325	\$ 1,148,375
\$ 465,401	\$ -	\$ 648,066	\$ 2,393,243

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)	\$	1,148,375
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		5,481,805
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.</p>		840,199
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable	\$ (46,290)	
General obligation bonds payable	(1,785,777)	(1,832,067)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
Deferred outflows of resources related to pensions	\$ 79,385	
Deferred inflows of resources related to pensions	(36,884)	
Net pension liability	(303,444)	(260,943)
Net position of governmental activities (Exhibit 1)	\$	<u>5,377,369</u>

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**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service	County Road 118 Debt Service
Revenues				
Taxes	\$ 303,229	\$ -	\$ -	\$ -
Special assessments	-	30,483	28,323	7,392
Licenses and permits	11,449	-	-	-
Intergovernmental	791,831	-	-	226,209
Charges for services	131,695	-	-	-
Fines and forfeitures	13,415	-	-	-
Investment earnings	2,269	7	-	-
Gifts and contributions	14,969	-	-	-
Miscellaneous	29,184	-	-	-
Total Revenues	\$ 1,298,041	\$ 30,490	\$ 28,323	\$ 233,601
Expenditures				
Current				
General government	\$ 244,714	\$ -	\$ -	\$ -
Public safety	389,723	-	-	-
Highways and streets	131,583	-	-	-
Sanitation	68,128	-	-	-
Culture and recreation	42,576	-	-	-
Conservation of natural resources	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal retirement	-	55,000	20,000	-
Interest	-	6,410	19,088	14,180
Capital outlay				
General government	47,115	-	-	-
Public safety	30,950	-	-	-
Highways and streets	51,569	-	-	-
Culture and recreation	304,248	-	-	-
Total Expenditures	\$ 1,310,606	\$ 61,410	\$ 39,088	\$ 14,180
Excess of Revenues Over (Under) Expenditures	\$ (12,565)	\$ (30,920)	\$ (10,765)	\$ 219,421
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	(50,000)	-	-	-
Total Other Financing Sources (Uses)	\$ (50,000)	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ (62,565)	\$ (30,920)	\$ (10,765)	\$ 219,421
Fund Balance - January 1	880,693	(7,814)	14,952	18,481
Fund Balance - December 31	\$ 818,128	\$ (38,734)	\$ 4,187	\$ 237,902

EXHIBIT 5

Street and Utility Improvements Capital Projects	Other Governmental Funds (Statement 2)	Total Governmental Funds
\$ -	\$ 51,374	\$ 354,603
-	71,240	137,438
-	-	11,449
-	-	1,018,040
-	6,999	138,694
-	-	13,415
-	-	2,276
-	-	14,969
168,423	27,843	225,450
\$ 168,423	\$ 157,456	\$ 1,916,334
\$ -	\$ 5,999	\$ 250,713
-	-	389,723
-	-	131,583
-	-	68,128
-	-	42,576
-	2,310	2,310
-	1,500	1,500
-	-	-
-	171,000	246,000
-	21,339	61,017
-	-	47,115
-	-	30,950
19,849	-	71,418
-	-	304,248
\$ 19,849	\$ 202,148	\$ 1,647,281
\$ 148,574	\$ (44,692)	\$ 269,053
\$ -	\$ 72,680	\$ 72,680
-	-	(50,000)
\$ -	\$ 72,680	\$ 22,680
\$ 148,574	\$ 27,988	\$ 291,733
(395,007)	345,337	856,642
\$ (246,433)	\$ 373,325	\$ 1,148,375

**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, 2015**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 291,733

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	\$	489,209	
Current year depreciation		(188,807)	
Net book value of assets disposed		(91,728)	208,674

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

Change in			
Taxes receivable	\$	(5,337)	
Special assessments receivable		309,538	
Notes receivable		(12,347)	291,854

The repayment of the principal of long-term debt consumes the current financial resources
of governmental funds, however, the transaction has no effect on net position.

Principal repayments			
General obligation bonds	\$	161,000	
General obligation revenue bonds		85,000	246,000

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

Change in			
Unamortized bond discount	\$	(1,265)	
Compensated absences payable		(2,833)	(4,098)

Net pensin liability does not represent the impending use of current resources.
Therefore, the change in the liability and the related deferrals are not
reported in the governmental funds.

(15,683)

Change in net position of governmental activities (Exhibit 2) \$ 1,018,480

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>					
Current Assets					
Cash and pooled investments	\$ 81,464	\$ 169,135	\$ 73,078	\$ 109,251	\$ 432,928
Investments	-	-	74,431	48,252	122,683
Special assessments receivable					
Current	-	-	-	127	127
Prior	-	-	-	763	763
Accounts receivable	-	2,805	13,588	13,874	30,267
Inventory	-	57,543	-	-	57,543
Total Current Assets	\$ 81,464	\$ 229,483	\$ 161,097	\$ 172,267	\$ 644,311
Noncurrent Assets					
Special assessments receivable - noncurrent	\$ -	\$ -	\$ 1,729	\$ 1,729	\$ 3,458
Capital assets					
Depreciable - net of accumulated depreciation	384,356	18,909	282,997	518,238	1,204,500
Total Noncurrent Assets	\$ 384,356	\$ 18,909	\$ 284,726	\$ 519,967	\$ 1,207,958
Total Assets	\$ 465,820	\$ 248,392	\$ 445,823	\$ 692,234	\$ 1,852,269
<u>Deferred Outflows</u>					
Related to pensions	\$ 1,599	\$ 10,790	\$ 5,994	\$ 6,394	\$ 24,777
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 2,638	\$ 41,529	\$ 3,511	\$ 1,741	\$ 49,419
Compensated absences payable	-	2,019	2,628	2,855	7,502
Due to other governments	60	5,439	-	1,131	6,630
Revenue bonds payable	-	-	7,500	7,500	15,000
Total Current Liabilities	\$ 2,698	\$ 48,987	\$ 13,639	\$ 13,227	\$ 78,551
Noncurrent Liabilities					
Compensated absences payable	\$ -	\$ 4,041	\$ 5,438	\$ 21,777	\$ 31,256
Net pension Liability	11,609	78,359	43,533	46,436	179,937
Revenue bonds payable	-	-	101,278	101,278	202,556
Total Noncurrent Liabilities	\$ 11,609	\$ 82,400	\$ 150,249	\$ 169,491	\$ 413,749
Total Liabilities	\$ 14,307	\$ 131,387	\$ 163,888	\$ 182,718	\$ 492,300
<u>Deferred Inflows</u>					
Related to pensions	\$ 585	\$ 3,951	\$ 2,195	\$ 2,341	\$ 9,072
<u>Net Position</u>					
Net investment in capital assets	\$ 384,356	\$ 18,909	\$ 172,997	\$ 408,238	\$ 984,500
Unrestricted amounts	68,171	104,935	112,737	105,331	391,174
Total Net Position	\$ 452,527	\$ 123,844	\$ 285,734	\$ 513,569	\$ 1,375,674

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Sales and Cost of Goods Sold					
Sales	\$ 72,150	\$ 622,599	\$ -	\$ -	\$ 694,749
Cost of goods sold	(19,040)	(422,725)	-	-	(441,765)
Gross Profit	\$ 53,110	\$ 199,874	\$ -	\$ -	\$ 252,984
Operating Revenues					
Charges for services	-	-	146,195	157,424	303,619
Miscellaneous	30,087	9,092	-	-	39,179
Total Gross Profit and Operating Revenues	\$ 83,197	\$ 208,966	\$ 146,195	\$ 157,424	\$ 595,782
Operating Expenses					
Personnel services	\$ 25,837	\$ 126,973	\$ 57,688	\$ 68,624	\$ 279,122
Professional services	1,154	5,812	3,506	1,849	12,321
Advertising	6,198	20,060	-	-	26,258
Entertainment	-	7,295	-	-	7,295
Insurance	3,915	9,182	2,424	2,387	17,908
Repairs and maintenance	6,363	10,429	1,089	412	18,293
Supplies	12,081	15,435	1,576	3,398	32,490
Utilities	13,222	16,731	19,629	8,823	58,405
Miscellaneous	726	4,707	3,531	6,376	15,340
Depreciation	16,610	1,350	16,474	32,118	66,552
Total Operating Expenses	\$ 86,106	\$ 217,974	\$ 105,917	\$ 123,987	\$ 533,984
Operating Income (Loss)	\$ (2,909)	\$ (9,008)	\$ 40,278	\$ 33,437	\$ 61,798
Nonoperating Revenues (Expenses)					
Special assessments	\$ -	\$ -	\$ 118	\$ 784	\$ 902
Investment earnings	-	120	147	23	290
Interest expense	-	-	(4,304)	(4,304)	(8,608)
Total Nonoperating Revenues (Expenses)	\$ -	\$ 120	\$ (4,039)	\$ (3,497)	\$ (7,416)
Income (Loss) Before Transfers	\$ (2,909)	\$ (8,888)	\$ 36,239	\$ 29,940	\$ 54,382
Transfers out	-	-	(36,340)	(36,340)	(72,680)
Change in Net Position	\$ (2,909)	\$ (8,888)	\$ (101)	\$ (6,400)	\$ (18,298)
Net Position - January 1, as previously reported	\$ 465,476	\$ 200,504	\$ 323,486	\$ 560,131	\$ 1,549,597
Prior period adjustment	(10,040)	(67,772)	(37,651)	(40,162)	(155,625)
Net Position - January 1, as restated	\$ 455,436	\$ 132,732	\$ 285,835	\$ 519,969	\$ 1,393,972
Net Position - December 31	\$ 452,527	\$ 123,844	\$ 285,734	\$ 513,569	\$ 1,375,674

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities					
Receipts from customers	\$ 102,297	\$ 635,771	\$ 142,609	\$ 155,060	\$ 1,035,737
Payments to employees	(25,282)	(122,978)	(56,190)	(65,282)	(269,732)
Payments to suppliers	(64,742)	(506,835)	(28,264)	(21,887)	(621,728)
Net cash provided by (used in) operating activities	\$ 12,273	\$ 5,958	\$ 58,155	\$ 67,891	\$ 144,277
Cash Flows from Capital and Related Financing Activities					
Transfers to other funds	\$ -	\$ -	\$ (36,340)	\$ (36,340)	\$ (72,680)
Special assessments received	-	-	464	2,516	2,980
Purchase of capital assets	-	-	(22,403)	-	(22,403)
Revenue bond payment	-	-	(10,000)	(10,000)	(20,000)
Interest paid	-	-	(4,192)	(4,192)	(8,384)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ (72,471)	\$ (48,016)	\$ (120,487)
Cash Flows from Investing Activities					
Investment earnings received	\$ -	\$ 120	\$ 147	\$ 23	\$ 290
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 12,273	\$ 6,078	\$ (14,169)	\$ 19,898	\$ 24,080
Cash and Cash Equivalents at January 1	69,191	163,057	161,678	137,605	531,531
Cash and Cash Equivalents at December 31	\$ 81,464	\$ 169,135	\$ 147,509	\$ 157,503	\$ 555,611
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (2,909)	\$ (9,008)	\$ 40,278	\$ 33,437	\$ 61,798
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities					
Depreciation expense	\$ 16,610	\$ 1,350	\$ 16,474	\$ 32,118	\$ 66,552
Decrease (increase) in assets					
Accounts receivable	-	(1,023)	(3,131)	(2,499)	(6,653)
Inventory	-	10,050	-	-	10,050
Increase (decrease) in liabilities					
Accounts payable	(2,043)	(8,675)	3,036	362	(7,320)
Due to other governments	60	5,439	-	1,131	6,630
Compensated absences payable	-	247	(585)	1,121	783
Net pension liability	555	7,578	2,083	2,221	12,437
Total adjustments	\$ 15,182	\$ 14,966	\$ 17,877	\$ 34,454	\$ 82,479
Net cash provided by (used in) operating activities	\$ 12,273	\$ 5,958	\$ 58,155	\$ 67,891	\$ 144,277

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE 9-MONTH PERIOD ENDED SEPTEMBER 30, 2015

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 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 units for which the City is financially accountable.

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

The 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 following component unit of the City of Frazee is discretely presented:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
Economic Development Authority	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 can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

2. Fund Financial Statements

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

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

The City reports the following major governmental funds:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The County Road 118 is used to account for and report debt associated with General Obligation Improvement Bonds of 2014 for street improvements. Financing is provided by special assessments and cost sharing from Becker County restricted for debt service.

The Street and Utility Improvements Capital Projects Fund is used to account for and report the financial resources of street and utility improvements projects. Financing is provided by special assessments and bond proceeds assigned to capital projects.

The City reports the following major enterprise funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, 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, and Net Position or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, 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 2015 were \$2,269. Total investment earnings for 2015 were \$2,821.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

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 2001 through 2015 and deferred special assessments collectible in 2016 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

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

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

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

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

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

4. Inventory

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

5. Capital Assets

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

Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

5. Capital Assets (Continued)

and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed. During the current period, the City did not have any capitalized interest.

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

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

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

6. Deferred Inflows and Outflows 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 property taxes levied for subsequent years as deferred inflows of resources in both the government-wide and governmental fund financial statements. The City reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Compensated Absences (Continued)

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.

8. Long-Term Obligations

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

9. Pensions

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

10. Net Position and Fund Balance

Certain funds of the City are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial, 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 does not have any non-spendable fund balance as of December 31, 2015.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Net Position and Fund Balance (Continued)

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

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

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

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

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when unforeseen emergencies exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The City does not identify an amount for stabilization at December 31, 2015.

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 inflows and disclosure of contingent amounts at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Change in Accounting Principles

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the City to change the accounting for the pension costs related to the City’s participation in the Public Employees Retirement Association (PERA). In addition, the City will also be recognizing a net pension liability, deferred outflows of resources, and deferred inflows of resources related to the City’s proportionate share of the collective amounts in PERA.

As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of January 1, 2015 as follows:

	Governmental Activities	Events Center Enterprise Fund	Liquor Enterprise Fund	Sewer Enterprise Fund	Water Enterprise Fund
Beginning Net Position	\$ 4,604,149	\$ 465,476	\$ 200,504	\$ 323,486	\$ 560,131
Net Pension Liability at January 1, 2015	(245,260)	(10,040)	(67,772)	(37,651)	(40,162)
Net position - January 1, 2015, as restated	<u>\$ 4,358,889</u>	<u>\$ 455,436</u>	<u>\$ 132,732</u>	<u>\$ 285,835</u>	<u>\$ 519,969</u>

B. Deficit Fund Balances

The 2003 Red Willow Heights I Debt Service Fund had a deficit fund balance of \$38,734 as of December 31, 2015. This deficit will be eliminated with future special assessments.

The Street and Utility Improvement Capital Projects Fund had a deficit fund balance of \$246,433 as of December 31, 2015. This deficit will be eliminated with a transfer from the General Fund.

The 2005 Street Improvements Debt Service Fund had a deficit fund balance of \$79,290 as of December 31, 2015. This deficit will be eliminated with future special assessments.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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, 2015, are as follows:

Primary Government		
Cash and pooled investments	\$	824,239
Investments		696,471
Component Units		
Cash and pooled investments		46,884
Investments		32,583
		675,938
Total Cash and Investments	\$	1,600,177
Deposits	\$	984,319
Petty cash and change funds		10,270
Investments		605,588
		1,600,177
Total Deposits, Cash on Hand, and Investments	\$	1,600,177

Deposits

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

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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 does not have a deposit policy for custodial credit risk. However, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2015, the City's deposits were not exposed to custodial credit risk.

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2015, the City had an investment in a Minnesota Municipal Money Market Fund with a maturity of less than one year and a fair value of \$255,588.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Credit Risk

Generally, a credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute. The City's exposure to credit risk as of December 31, 2015, is in the nonrated Minnesota Municipal Money Market Fund with a fair value of \$255,588.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a policy on custodial credit risk. At December 31, 2015, none of the City's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The City's investments are in a Minnesota Municipal Money Market Fund and are not exposed to concentration of credit risk.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the City’s governmental activities and business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 25,369	\$ -
Special assessments	775,620	747,683
Accounts	7,976	-
Due from other governments	184,032	-
Notes	45,681	12,300
Total Governmental Activities	\$ 1,038,678	\$ 759,983
Business-Type Activities		
Special assessments	\$ 4,348	\$ 3,458
Accounts	30,267	-
Total Business-Type Activities	\$ 34,615	\$ 3,458

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 70,204	\$ 47,115	\$ 47,500	\$ 69,819
Construction in progress	783,798	321,451	825,053	280,196
Total capital assets not depreciated	<u>\$ 854,002</u>	<u>\$ 368,566</u>	<u>\$ 872,553</u>	<u>\$ 350,015</u>
Capital assets being depreciated				
Infrastructure	\$ 4,207,814	\$ 871,965	\$ -	\$ 5,044,033
Buildings and improvements	759,746	21,600	35,746	745,600
Machinery and equipment	886,910	52,131	60,572	878,469
Total capital assets being depreciated	<u>\$ 5,854,470</u>	<u>\$ 945,696</u>	<u>\$ 96,318</u>	<u>\$ 6,668,102</u>
Less: accumulated depreciation for				
Infrastructure	\$ 543,550	\$ 111,058	\$ -	\$ 654,608
Buildings and improvements	460,178	13,307	26,224	447,261
Machinery and equipment	431,613	64,442	25,866	470,189
Total accumulated depreciation	<u>\$ 1,435,341</u>	<u>\$ 188,807</u>	<u>\$ 52,090</u>	<u>\$ 1,572,058</u>
Total capital assets, depreciated, net	<u>\$ 4,419,129</u>	<u>\$ 756,889</u>	<u>\$ 44,228</u>	<u>\$ 5,096,044</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,273,131</u>	<u>\$ 1,125,455</u>	<u>\$ 916,781</u>	<u>\$ 5,481,805</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated				
Infrastructure	\$ 1,095,899	\$ 22,403	\$ -	\$ 1,118,302
Buildings and equipment	1,137,670	-	-	1,137,670
Machinery and equipment	378,284	-	9,572	368,712
Total capital assets being depreciated	<u>\$ 2,611,853</u>	<u>\$ 22,403</u>	<u>\$ 9,572</u>	<u>\$ 2,624,684</u>
Less: accumulated depreciation for				
Infrastructure	\$ 305,473	\$ 32,692	\$ -	\$ 338,165
Buildings and improvements	701,900	21,161	-	723,061
Machinery and equipment	352,001	12,699	5,742	358,958
Total accumulated depreciation	<u>\$ 1,359,374</u>	<u>\$ 66,552</u>	<u>\$ 5,742</u>	<u>\$ 1,420,184</u>
Total capital assets, depreciated, net	<u>\$ 1,252,479</u>	<u>\$ (44,149)</u>	<u>\$ 3,830</u>	<u>\$ 1,204,500</u>
Business-Type Activities				
Capital Assets, Net	<u><u>\$ 1,252,479</u></u>	<u><u>\$ (44,149)</u></u>	<u><u>\$ 3,830</u></u>	<u><u>\$ 1,204,500</u></u>

Depreciation Expense

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

Governmental Activities	
General government	\$ 3,527
Public safety	53,954
Highways and streets	128,878
Culture and recreation	2,448
Total Depreciation Expense - Governmental Activities	<u>\$ 188,807</u>
Business-Type Activities	
Events Center	\$ 16,610
Liquor	1,350
Sewer	16,474
Water	32,118
Total Depreciation Expense - Business-Type Activities	<u>\$ 66,552</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount	
Other Governmental	Economic Development Authority Component Unit	\$ 24,030	Economic development

This advance will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following operating transfers:

Transfer to Other Governmental from Sewer Enterprise Fund	\$ 36,340	Proprietary funds' share of debt service
Transfer to Other Governmental Fund from Water Enterprise Fund	36,340	Proprietary funds' share of debt service
Transfer to Economic Development Authority Component Unit from General Fund	50,000	Appropriation
Total Interfund Transfers	\$ 122,680	

C. Liabilities

Compensated Absences

Under the City's personnel policy, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 15 days per year. Sick leave accrual is 12 days per year. Under the City's employment policy, leave may be accumulated to a maximum of 25 days vacation and 120 days sick leave for employees hired before April 4, 2006 and 100 days sick leave for employees hired after April 6, 2006. Unvested sick leave, approximately \$30,200 at December 31, 2015, 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, Water, Event Center, and Liquor Enterprise Funds.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

City of Frazee General Obligation Water and Sewer Revenue Refunding Bonds of 2008 represent debt incurred for water and sewer infrastructure. These bonds have an original issue amount of \$555,000. They carry a net interest rate of between 2.4 to 3.5 percent and are due in annual installments of \$85,000 through February 1, 2015. The balance was paid in full at December 31, 2015.

City of Frazee General Obligation Street Improvement Bonds of 2005 represent debt incurred for street improvements. These bonds have an original issue amount of \$236,000. They carry a net interest rate of between 3.0 to 4.2 percent and are due in annual installments of \$10,000 through March 1, 2016. The balance outstanding at December 31, 2015 is \$10,000.

City of Frazee General Obligation Street Improvement Bonds of 2008 represent debt incurred for street improvements. These bonds have an original issue amount of \$315,000. They carry a net interest rate of 4.0129 percent and are due in annual installments of \$20,000 to \$30,000 through March 1, 2024. The balance outstanding at December 31, 2015 is \$210,000, net of unamortized bond discount of \$2,130.

City of Frazee General Obligation Improvement Refunding Bonds of 2010 represent debt incurred to refund the City's General Obligation Improvement Bonds of 2003. These bonds have an original issue amount of \$465,000. They carry a net interest rate of 2.2936 percent and are due in annual installments of \$15,000 to \$60,000 through February 1, 2020. As a result of the advanced refunding, the City of Frazee realized an economic gain of \$24,199 with a present value of \$21,653. The balance outstanding at December 31, 2015 is \$180,000, net of unamortized bond discount of \$2,093.

City of Frazee General Obligation Refunding Bond, Series 2012A (Rural Water MIDI Loan) represents debt incurred to refund the General Obligation Street Improvement Bonds of 2006 and the General Obligation Red Willow Heights Improvement Bonds of 2006. This bond has an original issue amount of \$810,000. It carries a net interest rate of 3.0 percent and is due in annual installments of \$35,000 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, 2015 is \$700,000.

City of Frazee General Obligation Improvement Bonds of 2013 represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$333,000. They carry a net interest rate of 2.20 percent and are due in annual installments of \$21,000 to \$41,000 through February 1, 2024. The balance outstanding at December 31, 2015 is \$297,000.

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 of \$14,000 to \$40,000 through February 1, 2027. The balance outstanding at December 31, 2015 is \$393,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Business-Type Activities

City of Frazee General Obligation Utility Revenue Bonds of 2010 represents debt incurred for improvements to Lake Street (TH 87) and related utility improvements below the railroad crossing. These bonds have an original issue amount of \$285,000. They carry a net interest rate of 3.6888 percent and are due in annual installments of \$15,000 to \$25,000 through February 1, 2026. The balance outstanding at December 31, 2015 is \$220,000, net of unamortized bond discount of \$2,444.

Debt Service Requirements

Debt service requirements at December 31, 2015, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		General Obligation Utility Revenue Bonds of 2010	
	Principal	Interest	Principal	Interest
2016	205,000	51,436	15,000	7,410
2017	195,000	45,471	15,000	6,960
2018	192,000	39,516	20,000	6,435
2019	189,000	33,694	20,000	5,835
2020	161,000	28,382	20,000	5,220
2021-2025	716,000	70,901	105,000	15,585
2026-2029	132,000	3,227	25,000	512
	\$ 1,790,000	\$ 272,626	\$ 220,000	\$ 47,957
Less: Bond discount	(4,223)	-	(2,444)	-
Total	<u>\$ 1,785,777</u>	<u>\$ 272,626</u>	<u>\$ 217,556</u>	<u>\$ 47,957</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Water and Sewer Revenue Refunding Bonds of 2008	\$ 85,000	\$ -	\$ 85,000	\$ -	\$ -
Less: Bond discount	(634)	-	(634)	-	-
Total General Obligation Revenue Bonds	\$ 84,366	\$ -	\$ 84,366	\$ -	\$ -
General Obligation Bonds					
Street Improvement of 2005	\$ 20,000	\$ -	\$ 10,000	\$ 10,000	\$ 10,000
Street Improvement of 2008	230,000	-	20,000	210,000	20,000
Less: Bond discount	(2,343)	-	(213)	(2,130)	-
Improvement Refunding of 2010	235,000	-	55,000	180,000	50,000
Less: Bond discount	(2,511)	-	(419)	(2,092)	-
Refunding, Series 2012A	740,000	-	40,000	700,000	60,000
Improvement of 2013	333,000	-	36,000	297,000	37,000
Improvement of 2014A	393,000	-	-	393,000	28,000
Total General Obligation Bonds	\$ 1,946,146	\$ -	\$ 160,368	\$ 1,785,778	\$ 205,000
Compensated Absences	\$ 43,457	\$ 21,557	\$ 18,723	\$ 46,291	\$ 10,639
Governmental Activities Long-Term Liabilities	\$ 2,073,969	\$ 21,557	\$ 263,457	\$ 1,832,069	\$ 215,639

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Utility Revenue Bonds	\$ 240,000	\$ -	\$ 20,000	\$ 220,000	\$ 15,000
Less: Bond discount	(2,668)	-	(224)	(2,444)	-
Compensated Absences	37,976	13,717	12,935	38,758	7,501
Business-Type Activities Long-Term Liabilities	\$ 275,308	\$ 13,717	\$ 32,711	\$ 256,314	\$ 22,501

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Frazee are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participated in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

A. Plan Description

Benefits Provided

GERF Benefits (Continued)

member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced social security benefits capped at 66.

2. PEPFF Benefits

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

B. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Frazee was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Frazee's contributions to the GERF for the year ended December 31, 2015, were \$21,574. The City of Frazee's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City of Frazee was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City of Frazee's contributions to the PEPFF for the year ended December 31, 2015, were \$25,553. The City of Frazee's contributions were equal to the required contributions as set by state statute.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City of Frazee reported a liability of \$290,221 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of that date. The City of Frazee proportion 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, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, the City of Frazee's proportion share was .0056% which is 0% change from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City of Frazee recognized pension expense of \$38,686 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City of Frazee reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 14,632
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	27,474	-
Changes in proportion	-	-
Contributions paid to PERA subsequent to the measurement date	12,488	-
Total	\$ 39,962	\$ 14,632

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

C. Pension Costs

1. GERF Pension Costs (Continued)

\$12,488 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2016	\$ 1,991
2017	1,991
2018	1,991
2019	6,869

2. PEPFF Pension Costs

At December 31, 2015, The City of Frazee reported a liability of \$193,160 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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 proportion 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, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, the City of Frazee's proportion was .017% which was an increase of .002% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City of Frazee recognized pension expense of \$36,886 for its proportionate share of the PEPFF's pension expense.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

C. Pension Costs

2. PEPPF Pension Costs (Continued)

As of December 31, 2015, the City of Frazee reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 31,324
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	33,655	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	12,544	-
Total	<u>\$ 64,200</u>	<u>\$ 31,324</u>

\$12,544 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2016	\$ (8,028)
2017	(8,028)
2018	(8,028)
2019	8,414

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF and PEPFF, and 2.5% for all years (PECF).

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the PECF, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

F. Pension Liability Sensitivity

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

City of Frazee's	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the GERS net pension liability	\$ 456,331	\$ 290,221	\$ 153,040
Proportionate share of the PEPFF net pension liability	\$ 376,470	\$ 193,160	\$ 41,713

G. 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; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651)296-7460 or 1-800-652-9026.

V. 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Summary of Significant Contingencies and Other Items (Continued)

C. Joint Venture

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

VI. 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 Entities

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation

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

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

3. Measurement Focus and Basis of Accounting

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

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

4. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

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

b. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments and are reported at their fair value at December 31, 2015, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2015 were \$290.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Position

c. Capital Assets (Continued)

estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

d. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the component unit activities.

e. Use of Estimates

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Component Unit Disclosures (Continued)

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Capital Assets

Capital asset activity for the component unit for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land				
Economic Development Authority	\$ 81,093	\$ -	\$ -	\$ 81,093
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 164,932	\$ -	\$ -	\$ 164,932
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 21,363	\$ 5,501	\$ -	\$ 26,864
Total accumulated depreciation	\$ 21,363	\$ 5,501	\$ -	\$ 26,864
Total capital assets, depreciated, net	\$ 143,569	\$ (5,501)	\$ -	\$ 138,068
Total Capital Assets, Net	<u>\$ 224,662</u>	<u>\$ (5,501)</u>	<u>\$ -</u>	<u>\$ 219,161</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Depreciation Expense

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

2. Interfund Transfers

Transfer to Economic Development Authority Component Unit from General Fund	\$	50,000	Appropriation
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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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 294,758	\$ 294,758	\$ 303,229	\$ 8,471
Licenses and permits	12,500	12,500	11,449	(1,051)
Intergovernmental	530,424	530,424	791,831	261,407
Charges for services	140,300	140,300	131,695	(8,605)
Fines and forfeitures	7,000	7,000	13,415	6,415
Investment earnings	1,500	1,500	2,269	769
Gifts and contributions	3,800	3,800	14,969	11,169
Miscellaneous	6,975	6,975	29,184	22,209
Total Revenues	\$ 997,257	\$ 997,257	\$ 1,298,041	\$ 300,784
Expenditures				
Current				
General government				
Mayor/council	\$ 14,705	\$ 14,705	\$ 15,434	\$ (729)
Financial administration	198,710	198,710	216,714	(18,004)
Elections	-	-	1,800	(1,800)
Planning commission	11,050	11,050	10,766	284
Total general government	\$ 224,465	\$ 224,465	\$ 244,714	\$ (20,249)
Public safety				
Police	\$ 247,000	\$ 247,000	\$ 263,793	\$ (16,793)
Fire	90,050	90,050	97,926	(7,876)
Fire relief association	-	-	27,032	(27,032)
Rescue squad	2,950	2,950	972	1,978
Total public safety	\$ 340,000	\$ 340,000	\$ 389,723	\$ (49,723)
Highways and streets				
Street department	\$ 107,834	\$ 107,834	\$ 97,009	\$ 10,825
Snow removal	9,000	9,000	6,344	2,656
Street lighting	34,200	34,200	28,230	5,970
Total highways and streets	\$ 151,034	\$ 151,034	\$ 131,583	\$ 19,451

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Sanitation				
Recycling	\$ 1,095	\$ 1,095	\$ 1,033	\$ 62
Solid waste	59,000	59,000	67,095	(8,095)
Total sanitation	\$ 60,095	\$ 60,095	\$ 68,128	\$ (8,033)
Culture and recreation				
Parks	\$ 19,850	\$ 19,850	\$ 21,140	\$ (1,290)
Library	3,300	3,300	2,475	825
Recreational programs	5,425	5,425	15,217	(9,792)
Other culture and recreation	3,975	3,975	3,744	231
Total culture and recreation	\$ 32,550	\$ 32,550	\$ 42,576	\$ (10,026)
Total current	\$ 808,144	\$ 808,144	\$ 876,724	\$ (68,580)
Capital outlay				
General government	10,000	10,000	47,115	(37,115)
Public safety	42,000	42,000	30,950	11,050
Highways and streets	70,000	70,000	51,569	18,431
Culture and recreation	17,000	17,000	304,248	(287,248)
Total capital outlay	\$ 139,000	\$ 139,000	\$ 433,882	\$ (294,882)
Total Expenditures	\$ 947,144	\$ 947,144	\$ 1,310,606	\$ (363,462)
Excess of Revenues Over (Under) Expenditures	\$ 50,113	\$ 50,113	\$ (12,565)	\$ (62,678)
Other Financing Sources (Uses)				
Transfers out	(50,000)	(50,000)	(50,000)	-
Net Change in Fund Balance	\$ 113	\$ 113	\$ (62,565)	\$ (62,678)
Fund Balance - January 1	880,693	880,693	880,693	-
Fund Balance - December 31	\$ 880,806	\$ 880,806	\$ 818,128	\$ (62,678)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ 24,893	\$ 24,893	\$ -	\$ 331,909	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.2%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0056%	\$ 290,221	\$ 331,609	87.52%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0170%	\$ 193,160	\$ 155,181	124.47%	86.60%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

I. Budgetary Information

Budget Policy

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

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

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

II. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Mayor/council	\$ 15,434	\$ 14,705	\$ (729)
Financial administration	216,714	198,710	(18,004)
Elections	1,800	-	(1,800)
Public safety			
Police	263,793	247,000	(16,793)
Fire	97,926	90,050	(7,876)
Fire relief association	27,032	-	(27,032)
Sanitation			
Solid waste	67,095	59,000	(8,095)
Culture and recreation			
Parks	21,140	19,850	(1,290)
Recreational programs	15,217	5,425	(9,792)
Capital outlay			
General government	47,115	10,000	(37,115)
Culture and recreation	304,248	17,000	(287,248)

II. Net Pension Liability

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

SUPPLEMENTARY INFORMATION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

The 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 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.

Debt Service Funds

The 1999 Water and Sewer Debt Service Fund is used to account for and report debt associated with General Obligation Water and Sewer Revenue Bonds of 2008 for water and sewer infrastructure. Financing is provided by a general levy and special assessments restricted for debt service.

The 2005 Street Improvements Debt Service Fund is used to account for and report debt associated with General Obligation Street Improvement Bonds of 2005 for street improvements. Financing is provided by a general levy and special assessments restricted for debt service.

The 2006 Street Improvements Debt Service Fund is used to account for and report debt associated with General Obligation Refunding Street Improvement Bonds of 2012 for street improvements. Financing is provided by a general levy and special assessments restricted for debt service.

The 2008 Street Improvements Debt Service Fund is used to account for and report debt associated with General Obligation Street Improvement Bonds of 2008 for street improvements. Financing is provided by special assessments restricted for debt service.

The Southeast Area Streets and Utilities Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Bonds of 2013 for street and utility improvements. Financing is provided by a general levy and special assessments restricted for debt service.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

The SCDP Grant 2007 Capital Projects Fund is used to account for and report the financial resources of the Small Cities Development Program. Funding is provided by grants and special assessments assigned to capital projects.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	SCDP Grant 2007 Capital Projects Fund	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>				
Assets				
Cash and pooled investments	\$ 226,032	\$ 131,443	\$ 65,875	\$ 423,350
Investments	3,024	-	-	3,024
Taxes receivable				
Prior	536	-	-	536
Special assessments receivable				
Current	-	1,396	-	1,396
Prior	-	3,370	-	3,370
Accounts receivable	815	-	-	815
Advances to component unit	-	-	24,030	24,030
Notes receivable	6,310	-	39,371	45,681
Special assessments receivable - noncurrent	-	145,864	-	145,864
	\$ 236,717	\$ 282,073	\$ 129,276	\$ 648,066
Total Assets	\$ 236,717	\$ 282,073	\$ 129,276	\$ 648,066
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ 79,290	\$ -	\$ 79,290
Deferred Inflows of Resources				
Taxes	\$ 536	\$ -	\$ -	\$ 536
Notes	6,310	-	39,371	45,681
Special assessments	-	149,234	-	149,234
	\$ 6,846	\$ 149,234	\$ 39,371	\$ 195,451
Total Deferred Inflows of Resources	\$ 6,846	\$ 149,234	\$ 39,371	\$ 195,451
Fund Balances				
Restricted for				
Debt service	\$ -	\$ 132,839	\$ -	\$ 132,839
Perpetual care	13,452	-	-	13,452
Committed to economic development	26,285	-	-	26,285
Assigned to				
Capital projects	-	-	89,905	89,905
Economic development	175,455	-	-	175,455
Sanitation	14,679	-	-	14,679
Unassigned	-	(79,290)	-	(79,290)
	\$ 229,871	\$ 53,549	\$ 89,905	\$ 373,325
Total Fund Balances	\$ 229,871	\$ 53,549	\$ 89,905	\$ 373,325
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 236,717	\$ 282,073	\$ 129,276	\$ 648,066

**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, 2015**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	SCDP Grant 2007 Capital Projects Fund	Total NonMajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 51,374	\$ -	\$ -	\$ 51,374
Special assessments	-	71,240	-	71,240
Charges for services	6,999	-	-	6,999
Miscellaneous	9,686	-	18,157	27,843
Total Revenues	\$ 68,059	\$ 71,240	\$ 18,157	\$ 157,456
Expenditures				
Current				
General government	\$ 5,999	\$ -	\$ -	\$ 5,999
Conservation of natural resources	2,310	-	-	2,310
Economic development	1,500	-	-	1,500
Total current	\$ 9,809	\$ -	\$ -	\$ 9,809
Debt service				
Principal retirement	\$ -	\$ 171,000	\$ -	\$ 171,000
Interest	-	21,339	-	21,339
Total debt service	\$ -	\$ 192,339	\$ -	\$ 192,339
Total Expenditures	\$ 9,809	\$ 192,339	\$ -	\$ 202,148
Excess of Revenues Over (Under) Expenditures	\$ 58,250	\$ (121,099)	\$ 18,157	\$ (44,692)
Other Financing Sources				
Transfers in	-	72,680	-	72,680
Net Change in Fund Balance	\$ 58,250	\$ (48,419)	\$ 18,157	\$ 27,988
Fund Balance - January 1	171,621	101,968	71,748	345,337
Fund Balance - December 31	\$ 229,871	\$ 53,549	\$ 89,905	\$ 373,325

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Assets</u>	<u>Cemetery</u>	<u>Storm Water</u>	<u>Revolving Loan Pool</u>	<u>TIF 1-3 Red Willow Heights</u>	<u>TIF Swift Site</u>	<u>Total (Statement 1)</u>
Cash and pooled investments	\$ 10,428	\$ 13,864	\$ 26,285	\$ 140,545	\$ 34,910	\$ 226,032
Investments	3,024	-	-	-	-	3,024
Taxes receivable						
Prior	-	-	-	438	98	536
Accounts receivable	-	815	-	-	-	815
Notes receivable	-	-	6,310	-	-	6,310
Total Assets	<u>\$ 13,452</u>	<u>\$ 14,679</u>	<u>\$ 32,595</u>	<u>\$ 140,983</u>	<u>\$ 35,008</u>	<u>\$ 236,717</u>
Deferred Inflows of Resources, and Fund Balances						
Deferred Inflows of Resources						
Taxes	\$ -	\$ -	\$ -	\$ 438	\$ 98	\$ 536
Notes	-	-	6,310	-	-	6,310
Total Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,310</u>	<u>\$ 438</u>	<u>\$ 98</u>	<u>\$ 6,846</u>
Fund Balances						
Restricted for perpetual care	\$ 13,452	\$ -	\$ -	\$ -	\$ -	\$ 13,452
Committed to economic development	-	-	26,285	-	-	26,285
Assigned to						
Economic development	-	-	-	140,545	34,910	175,455
Sanitation	-	14,679	-	-	-	14,679
Total Fund Balance	<u>\$ 13,452</u>	<u>\$ 14,679</u>	<u>\$ 26,285</u>	<u>\$ 140,545</u>	<u>\$ 34,910</u>	<u>\$ 229,871</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 13,452</u>	<u>\$ 14,679</u>	<u>\$ 32,595</u>	<u>\$ 140,983</u>	<u>\$ 35,008</u>	<u>\$ 236,717</u>

**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, 2015**

	Cemetery	Storm Water	Revolving Loan Pool	TIF 1-3 Red Willow Heights	TIF Swift Site	Total (Statement 2)
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 36,088	\$ 15,286	\$ 51,374
Charges for services	-	6,999	-	-	-	6,999
Miscellaneous	6,950	-	2,736	-	-	9,686
Total Revenues	\$ 6,950	\$ 6,999	\$ 2,736	\$ 36,088	\$ 15,286	\$ 68,059
Expenditures						
Current						
General government	\$ 5,999	\$ -	\$ -	\$ -	\$ -	\$ 5,999
Conservation of natural resources	-	2,310	-	-	-	2,310
Economic development	-	-	-	1,500	-	1,500
Total Expenditures	\$ 5,999	\$ 2,310	\$ -	\$ 1,500	\$ -	\$ 9,809
Excess of Revenues Over (Under)						
Expenditures	\$ 951	\$ 4,689	\$ 2,736	\$ 34,588	\$ 15,286	\$ 58,250
Fund Balance - January 1	12,501	9,990	23,549	105,957	19,624	171,621
Fund Balance - December 31	\$ 13,452	\$ 14,679	\$ 26,285	\$ 140,545	\$ 34,910	\$ 229,871

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	1999 Water and Sewer	2005 Street Improvements	2006 Street Improvements	2008 Street Improvements	Southeast Area Streets and Utilities	Total (Statement 1)
<u>Assets</u>						
Cash and pooled investments	\$ 2	\$ -	\$ 13,456	\$ 112,236	\$ 5,749	\$ 131,443
Special assessments receivable						
Current	362	-	-	1,034	-	1,396
Prior	2,022	-	-	1,254	94	3,370
Noncurrent	14,774	-	33,659	97,431	-	145,864
Total Assets	\$ 17,160	\$ -	\$ 47,115	\$ 211,955	\$ 5,843	\$ 282,073
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Cash overdraft	\$ -	\$ 79,290	\$ -	\$ -	\$ -	\$ 79,290
Deferred Inflows of Resources						
Special assessments	\$ 16,796	\$ -	\$ 33,659	\$ 98,685	\$ 94	\$ 149,234
Fund Balances						
Restricted for debt service	\$ 364	\$ -	\$ 13,456	\$ 113,270	\$ 5,749	\$ 132,839
Unassigned	-	(79,290)	-	-	-	(79,290)
Total Fund Balances	\$ 364	\$ (79,290)	\$ 13,456	\$ 113,270	\$ 5,749	\$ 53,549
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 17,160	\$ -	\$ 47,115	\$ 211,955	\$ 5,843	\$ 282,073

**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, 2015**

	1999 Water and Sewer	2005 Street Improvements	2006 Street Improvements	2008 Street Improvements	Southeast Area Streets and Utilities	Total (Statement 2)
Revenues						
Special assessments	\$ 13,323	\$ 3,899	\$ 12,572	\$ 23,614	\$ 17,832	\$ 71,240
Expenditures						
Debt service						
Principal retirement	\$ 85,000	\$ 10,000	\$ 20,000	\$ 20,000	\$ 36,000	\$ 171,000
Interest	1,487	875	2,887	9,160	6,930	21,339
Total Expenditures	\$ 86,487	\$ 10,875	\$ 22,887	\$ 29,160	\$ 42,930	\$ 192,339
Excess of Revenues Over (Under) Expenditures	\$ (73,164)	\$ (6,976)	\$ (10,315)	\$ (5,546)	\$ (25,098)	\$ (121,099)
Other Financing Sources						
Transfers in	72,680	-	-	-	-	72,680
Net Change in Fund Balance	\$ (484)	\$ (6,976)	\$ (10,315)	\$ (5,546)	\$ (25,098)	\$ (48,419)
Fund Balance - January 1	848	(72,314)	23,771	118,816	30,847	101,968
Fund Balance - December 31	\$ 364	\$ (79,290)	\$ 13,456	\$ 113,270	\$ 5,749	\$ 53,549

OTHER SCHEDULES

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

Fire Relief Association supplemental benefit	\$ 1,000
Fire state aid	27,032
Local government aid	483,163
PERA rate reimbursement	1,262
Police state aid	21,299
Small Cities Assistance	20,987

Total Shared Revenue **\$ 554,743**

Payments

Payments in lieu of taxes	\$ 42,009
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Grants

Local

Becker County	\$ 410,241
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State

Minnesota Department of

Public Safety	5,558
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Federal

Department of Homeland Security	5,489
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Total Grants **\$ 421,288**

Total Intergovernmental Revenue **\$ 1,018,040**

MANAGEMENT AND COMPLIANCE SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

2006-001 Segregation of Duties

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

Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for the financial information and activity within the City.

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

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

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

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

City Administrator's Response: The City Council is aware of the inability to segregate duties due to the lack of resources. The City staff does everything in their power to identify any risks and involve other employees or Council Members if there is potential for conflict. The City Council receives monthly updates on finances, quarterly budget and actual expenditures, as well as very detailed bill lists monthly.

2006-002 Internal Controls

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**Schedule 5
(Continued)**

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

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

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

Recommendation: We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

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

2008-001 Audit Adjustments

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

Condition: During our audit, we identified material adjustments in several funds. Cash control accounts required adjustments to identify actual cash balances. These adjustments resulted in significant changes to amounts originally reported in the City's financial statements.

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

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

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

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

City Administrator's Response: The City continuously reviews its process for posting transactions in the City's ledgers to increase efficiency. The City has changed its accounting software beginning in 2016 to provide the necessary information in the required format.

ITEM ARISING THIS YEAR

2015-001 Accounting and Financial Reporting for Pensions

Criteria: The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which provides accounting and reporting standards for pensions offered to retirees. GASB Statement 68 was applicable to the City of Frazee for the year ended December 31, 2015.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5
(Continued)

Condition: GASB Statement 68 has not yet been fully implemented by the City of Frazee as required. The City has reported net pension liability for City employees, but this does not include members of the Fire Relief Association. The City Fire Relief Association has not undergone an actuarial study to determine its net pension liability.

Context: The City should encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability for its inclusion in the City's financial statements.

Effect: Because the City of Frazee has not fully complied with the requirements of GASB Statement 68, a qualified opinion is issued on the governmental activities of the City of Frazee.

Cause: The Fire Relief Association has not hired an actuary to determine its net pension liability to meet the requirements for financial reporting under GASB Statement 68.

Recommendation: We recommend the City Council encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability for inclusion in the City's financial statements.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

2008-002 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, 2015, the following funds had deficit cash balances

2005 Street Improvement Debt Service Fund	\$79,290
2003 Red Willow Heights Debt Service Fund	\$39,713
Street and Utility Improvement Projects Capital Projects Fund	\$246,433

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

Effect: Allowing a fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the City and is in noncompliance with Minnesota law.

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 temporary cash balance deficits by transferring from another fund.

City Administrator's Response: The City is aware of the deficit in certain accounts and maintains sound records of all cash balances. The City has made progress by closing the inactive capital projects funds with deficit balances and will continue to strive for resolution of this issue.



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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Frazee as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 23, 2016. The governmental activities had a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

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 (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses, item 2008-001, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as items 2006-001, and 2006-002 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Responses as item 2008-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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



Hoffman, Philipp, & Knutson, PLLC

May 23, 2016