

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2017



Hoffman, Philipp, & Knutson, PLLC

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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FRAZEE, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2017**

<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	Vice-Mayor	December 31, 2018
Mike Sharp	Councilmember	December 31, 2020
Mark Flemmer	Councilmember	December 31, 2020
Appointed		
Denise Anderson	Administrator/Clerk/Treasurer	Indefinite

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC
Governmental Audit Services
INDEPENDENT AUDITOR'S REPORT

City Council
City of Frazee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of December 31, 2017, 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 – Change in Accounting Principle

As discussed in the Notes to the Financial Statements, the City has fully adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. 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 August 10, 2018, 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

August 10, 2018



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, 2017. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$5,135,182, of which \$3,732,694 is the net investment in capital assets, \$272,027 is restricted for debt service and general government, and \$1,130,461 is unrestricted. The total net position of governmental activities decreased by \$142,215 for the year ended December 31, 2017, mainly as a result of the purchase of public works equipment, computers, and financial system upgrades for departments, and costs associated with improvement districts.

The total net position of business-type activities is \$2,240,994, of which \$1,688,296 is the net investment in capital assets and \$552,698 is unrestricted. The total net position of business-type activities increased by \$846,935 in 2017, as a result of two grants awarded by the Minnesota PFA for two improvement districts.

At the close of 2017, the City's governmental funds reported combined ending fund balances of \$1,184,586, an increase of \$13,613, from the prior year. Of the total fund balance amount, \$272,027 is legally or contractually restricted, \$31,693 is formally committed for economic development, \$923,327 is assigned for specific purposes, and (\$42,461) is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the City's assets 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 2008 Street Improvements Debt Service Fund, the County Road 118 Debt Service Fund, and the Southeast Area and Main Avenue Improvements 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 \$7,376,176 at the close of 2017. The largest portion of the City's net position (approximately 73 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately four percent of the City's net position is restricted and 23 percent of the City's net position is unrestricted. The unrestricted net position amount of \$1,683,159 as of December 31, 2017, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position increased from last year. Total assets increased by \$1,102,594, from the prior year, mainly due to bonding and grants received for improvement districts. Total liabilities decreased by \$253,668 from the prior year, due to repayment of long term debt. This resulted in an increased net position of \$704,720 from the prior year.

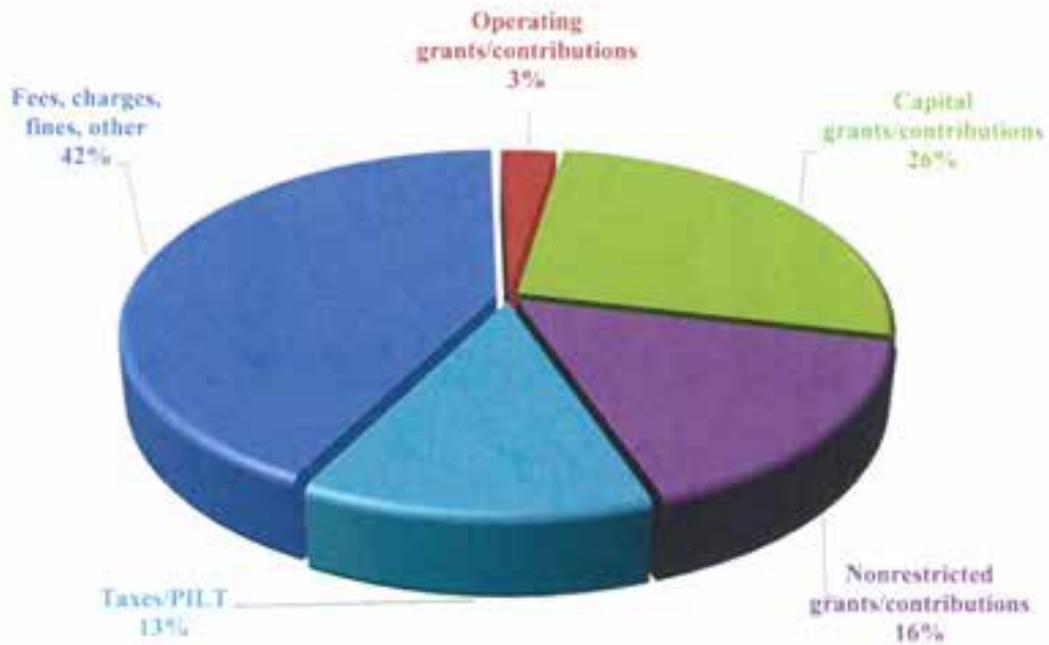
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,890,420	\$ 1,874,705	\$ 821,666	\$ 706,225	\$ 2,712,086	\$ 2,580,930
Capital assets	5,576,694	5,400,941	2,053,190	1,162,202	7,629,884	6,563,143
Total assets	\$ 7,467,114	\$ 7,275,646	\$ 2,874,856	\$ 1,868,427	\$ 10,341,970	\$ 9,144,073
Deferred outflows - pension	\$ 440,988	\$ 569,789	\$ 89,825	\$ 151,177	\$ 530,813	\$ 720,966
Other liabilities	\$ 46,373	\$ 51,850	\$ 43,882	\$ 30,811	\$ 90,255	\$ 82,661
Long-term liabilities outstanding	2,219,936	2,517,790	599,940	563,348	2,819,876	3,081,138
Total liabilities	\$ 2,266,309	\$ 2,569,640	\$ 643,822	\$ 594,159	\$ 2,910,131	\$ 3,163,799
Deferred inflows - pension	\$ 506,611	\$ 93,701	\$ 79,865	\$ 31,386	\$ 586,476	\$ 125,087
Net position						
Net investment in capital assets	\$ 3,732,694	\$ 3,717,941	\$ 1,688,296	\$ 947,202	\$ 5,420,990	\$ 4,665,143
Restricted	272,027	256,047	-	-	272,027	256,047
Unrestricted	1,130,461	1,303,409	552,698	446,857	1,683,159	1,750,266
Total net position	\$ 5,135,182	\$ 5,277,397	\$ 2,240,994	\$ 1,394,059	\$ 7,376,176	\$ 6,671,456

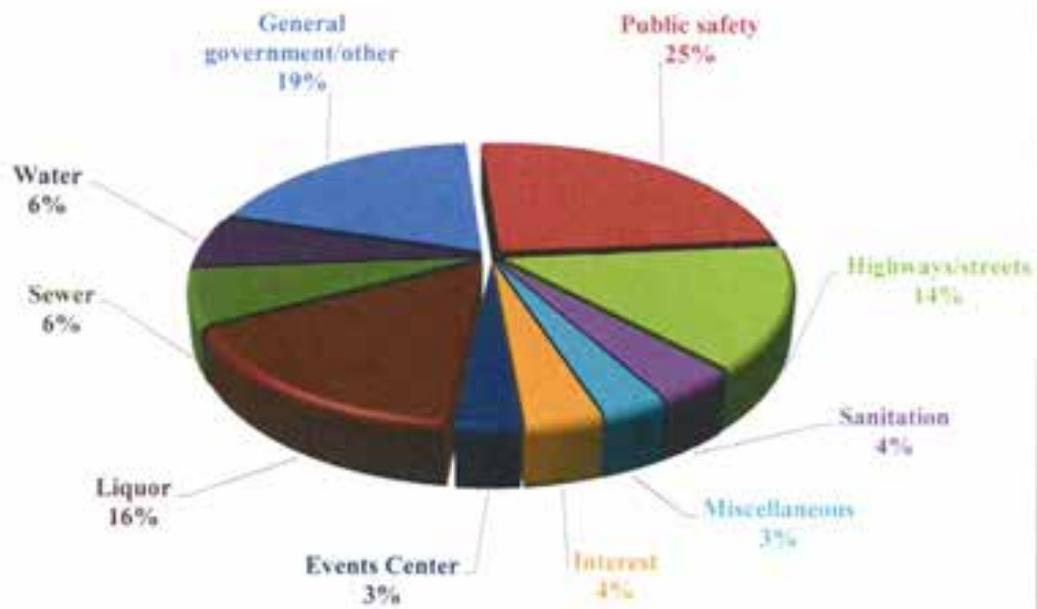
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	\$ 207,744	\$ 239,370	\$ 1,067,637	\$ 1,023,023	\$ 1,275,381	\$ 1,262,393
Operating grants and contributions	86,202	73,090	-	-	86,202	73,090
Capital grants and contributions	25,227	(43,876)	775,489	8,621	800,716	(35,255)
Property taxes	368,858	370,502	-	-	368,858	370,502
Franchise tax	3,939	3,623	-	-	3,939	3,623
Grants and contributions not restricted to specific programs	487,493	486,525	-	-	487,493	486,525
Payments in lieu of taxes	18,351	17,826	-	-	18,351	17,826
Investment earnings	2,236	2,137	653	404	2,889	2,541
Insurance dividends	4,021	31,419	-	-	4,021	31,419
Transfers	(50,000)	-	-	-	(50,000)	-
Total revenues and transfers	\$ 1,154,071	\$ 1,180,616	\$ 1,843,779	\$ 1,032,048	\$ 2,997,850	\$ 2,212,664
Expenses						
General government	\$ 358,889	\$ 262,755	\$ -	\$ -	\$ 358,889	\$ 262,755
Public safety	464,513	593,901	-	-	464,513	593,901
Highways and streets	274,777	326,616	-	-	274,777	326,616
Sanitation	71,888	68,720	-	-	71,888	68,720
Culture and recreation	33,002	65,209	-	-	33,002	65,209
Conservation of natural resources	4,095	2,389	-	-	4,095	2,389
Economic development	20,722	2,900	-	-	20,722	2,900
Interest	68,400	61,984	-	-	68,400	61,984
Events Center	-	-	64,246	95,326	64,246	95,326
Liquor	-	-	688,964	676,619	688,964	676,619
Sewer	-	-	125,370	106,802	125,370	106,802
Water	-	-	118,264	134,916	118,264	134,916
Total expenses	\$ 1,296,286	\$ 1,384,474	\$ 996,844	\$ 1,013,663	\$ 2,293,170	\$ 2,398,137
Increase (decrease) in net position	\$ (142,215)	\$ (203,858)	\$ 846,935	\$ 18,385	\$ 704,720	\$ (185,473)
Net position - January 1, as previously reported	\$ 5,277,397	\$ 5,377,369	\$ 1,394,059	\$ 1,375,674	\$ 6,671,456	\$ 6,753,043
Prior period adjustment	-	103,886	-	-	-	103,886
Net position, January 1, as restated	\$ 5,277,397	\$ 5,481,255	\$ 1,394,059	\$ 1,375,674	\$ 6,671,456	\$ 6,856,929
Net position, December 31	\$ 5,135,182	\$ 5,277,397	\$ 2,240,994	\$ 1,394,059	\$ 7,376,176	\$ 6,671,456

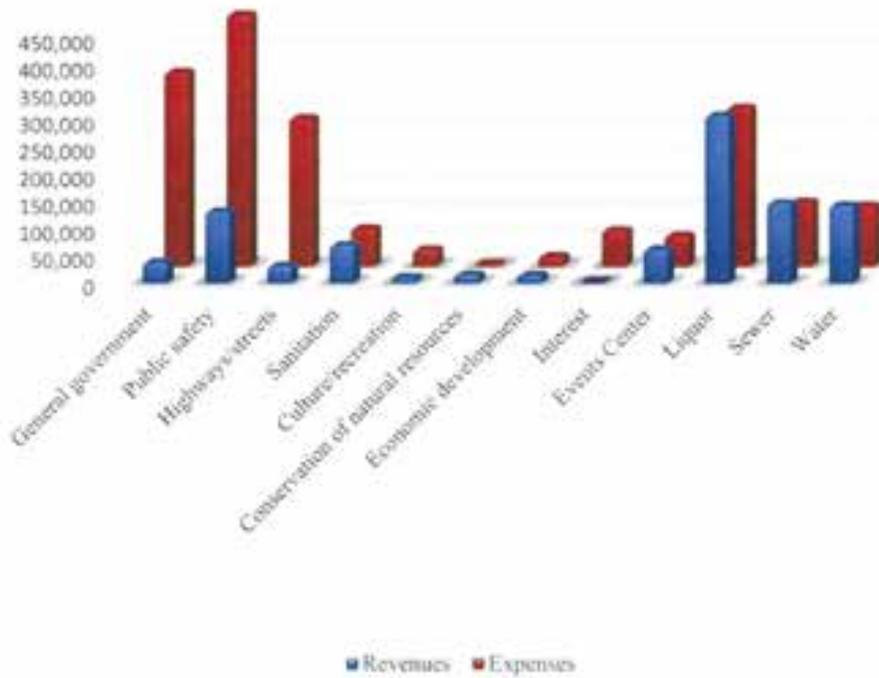
Revenues by Source



Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 1,390 Population as of 2017



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 2017, the City's governmental funds reported combined ending fund balances of \$1,184,586. Of this amount, approximately 34 percent constitutes legally or contractually restricted fund balance, three percent constitutes formally committed fund balance, 78 percent constitutes specifically assigned fund balance, and -15 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 \$780,927. The General Fund's assigned fund balance was \$420,000 and unassigned fund balance was \$360,927. The General Fund has no restricted fund balance or committed fund balance. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2017. Total fund balance represents 85 percent of total General Fund expenditures.

In 2017, the fund balance amount in the General Fund decreased by \$125,614, as a result of purchases of computers, laptops, cameras, public works equipment, and financial programs.

The fund balance of the 2003 Red Willow Heights I Debt Service Fund decreased \$47,130 from the prior year, due to the repayment of long term debt.

The fund balance of the 2006 Red Willow Heights II Debt Service Fund decreased \$104,335 from the prior year, due to the repayment of long term debt.

The fund balance of the 2008 Street Improvements Debt Service Fund increased \$7,794 from the prior year, due to special assessments received.

The fund balance of the County Road 118 Debt Service Fund decreased \$10,379 from the prior year, due to the repayment of long term debt.

The fund balance of the Southeast Area and Main Avenue Improvements Capital Projects Fund, new in 2017, has a fund balance of (\$54,064).

Proprietary Funds

The Events Center Enterprise Fund reported an operating income in 2017 of \$4,990, indicating that it is collecting fees for events at a rate higher than current expenses.

The Liquor Enterprise Fund reported an operating income in 2017 of \$15,391, indicating that it is collecting fees for sales of liquor at a rate higher than current expenses.

The Sewer Enterprise Fund reported an operating income in 2017 of \$27,809, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating income in 2017 of \$30,600, 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 2017.

Actual revenues were more than overall final budgeted revenues by \$45,633, with the largest positive variances in intergovernmental revenue due to increases in state shared revenue. Actual expenditures were less than overall final budgeted expenditures by \$76,471, mainly due to postponement of capital outlay.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's net investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounted to \$7,629,884. 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, sewer, and water projects added to infrastructure.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 69,819	\$ 69,819	\$ -	\$ -	\$ 69,819	\$ 69,819
Construction in progress	493,258	104,734	927,170	-	1,420,428	104,734
Infrastructure	4,461,332	4,594,512	714,768	747,445	5,176,100	5,341,957
Buildings and improvements	270,285	284,312	378,848	196,721	649,133	681,033
Machinery and equipment	282,000	347,564	32,404	18,036	314,404	365,600
Total capital assets	\$ 5,576,694	\$ 5,400,941	\$ 2,053,190	\$ 1,162,202	\$ 7,629,884	\$ 6,563,143

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 \$2,208,894, net of bond discounts, which is backed by the full faith and credit of the government.

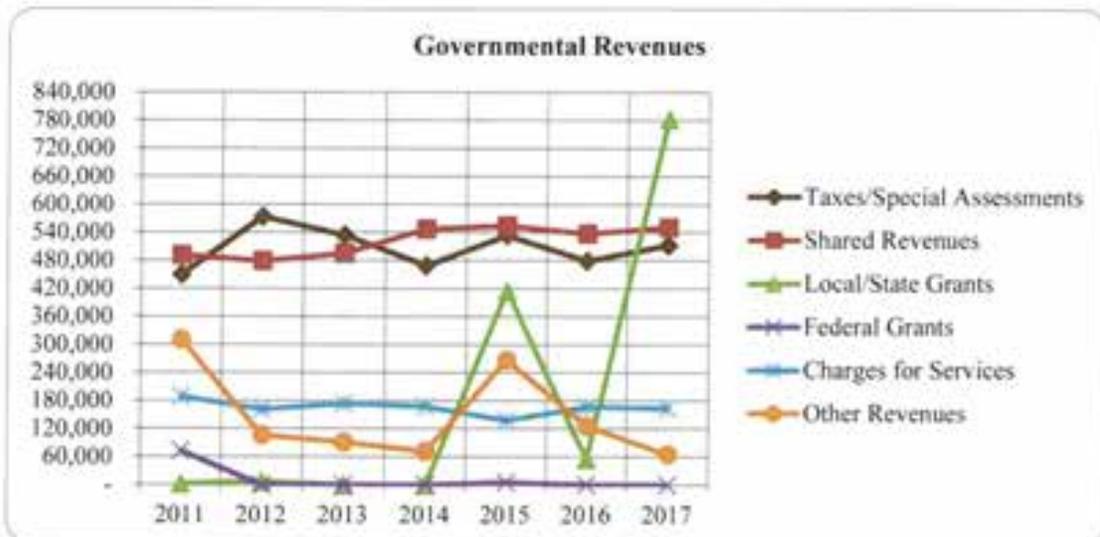
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
G.O. Bonds	\$ 1,844,000	\$ 1,683,000	\$ -	\$ -	\$ 1,844,000	\$ 1,683,000
MN PFA	-	-	168,894	-	168,894	-
Revenue Bonds	-	-	196,000	215,000	196,000	215,000
	\$ 1,844,000	\$ 1,683,000	\$ 364,894	\$ 215,000	\$ 2,208,894	\$ 1,898,000

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 2017, 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 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 4.9 percent as of December 31, 2017. This is higher than the statewide rate of 3.4 percent and higher than the national average rate of 3.9 percent.
- Frazee's 2017 population was 1,390, an increase of 40 since the 2010 census of 1,350.
- On December 11, 2017, the City of Frazee set its 2018 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. The City has recently obtained a \$768,016 grant through Minnesota PFA for the 2017 water and sewer improvement projects.

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, 2017**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 642,892	\$ 571,791	\$ 1,214,683	\$ 69,345
Investments	570,985	123,740	694,725	44,063
Taxes receivable				
Current	7,756	-	7,756	-
Prior	11,613	-	11,613	-
Special assessments receivable				
Current	1,552	-	1,552	-
Prior	21,146	-	21,146	-
Accounts receivable	7,797	34,692	42,489	-
Due from other governments	219	-	219	-
Inventory	-	91,443	91,443	-
Notes receivable	44,012	-	44,012	76,945
Special assessments receivable - noncurrent	467,794	-	467,794	-
Net pension asset	114,654	-	114,654	-
Capital assets				
Non-depreciable	563,077	927,170	1,490,247	181,697
Depreciable - net of accumulated depreciation	5,013,617	1,126,020	6,139,637	127,066
Total Assets	\$ 7,467,114	\$ 2,874,856	\$ 10,341,970	\$ 499,116
Deferred Outflows of Resources				
Related to pensions	\$ 440,988	\$ 89,825	\$ 530,813	\$ -
Liabilities				
Accounts payable	\$ 21,638	\$ 31,728	\$ 53,366	\$ 1,867
Salaries payable	9,306	7,001	16,307	-
Due to other governments	2,730	5,153	7,883	-
Contracts payable	12,699	-	12,699	-
Long-term liabilities				
Due within one year	151,699	35,822	187,521	-
Due in more than one year	2,068,237	564,118	2,632,355	-
Total Liabilities	\$ 2,266,309	\$ 643,822	\$ 2,910,131	\$ 1,867
Deferred Inflows of Resources				
Related to pensions	\$ 506,611	\$ 79,865	\$ 586,476	\$ -
Net Position				
Net investment in capital assets	\$ 3,732,694	\$ 1,688,296	\$ 5,420,990	\$ 308,763
Amounts restricted for				
Debt service	260,395	-	260,395	-
General government	11,632	-	11,632	-
Unrestricted amounts	1,130,461	552,698	1,683,159	188,486
Total Net Position	\$ 5,135,182	\$ 2,240,994	\$ 7,376,176	\$ 497,249

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Program Revenues		
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions
Primary Government			
Governmental activities			
General government	\$ 358,889	\$ 39,238	\$ -
Public safety	464,513	77,296	56,142
Highways and streets	274,777	5,709	14,316
Sanitation	71,888	71,225	-
Culture and recreation	33,002	4,580	6,574
Conservation of natural resources	4,095	7,140	9,170
Economic development	20,722	3,556	-
Interest	68,400	-	-
Total governmental activities	\$ 1,296,286	\$ 207,744	\$ 86,202
Business-type activities			
Events Center	\$ 64,246	\$ 69,236	\$ -
Liquor	688,964	704,355	-
Sewer	125,370	149,200	-
Water	118,264	144,846	-
Total business-type activities	\$ 996,844	\$ 1,067,637	\$ -
Total Primary Government	\$ 2,293,130	\$ 1,275,381	\$ 86,202
Component Unit			
Economic Development Authority	\$ 29,736	\$ 20,589	\$ 2,425
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			
Net Position - December 31			

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government		Total	Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities		
\$ -	\$ (319,651)	\$ -	\$ (319,651)	\$ -
-	(331,075)	-	(331,075)	-
12,264	(242,488)	-	(242,488)	-
-	(663)	-	(663)	-
-	(21,848)	-	(21,848)	-
-	12,215	-	12,215	-
12,963	(5,203)	-	(5,203)	-
-	(68,400)	-	(68,400)	-
\$ 25,227	\$ (977,113)	\$ -	\$ (977,113)	\$ -
\$ -	\$ -	\$ 4,990	\$ 4,990	\$ -
-	-	15,391	15,391	-
268,952	-	292,782	292,782	-
506,537	-	533,119	533,119	-
\$ 775,489	\$ -	\$ 846,282	\$ 846,282	\$ -
\$ 800,716	\$ (977,113)	\$ 846,282	\$ (130,831)	\$ -
\$ -	\$ -	\$ -	\$ -	\$ (6,722)
	\$ 368,858	\$ -	\$ 368,858	\$ -
	3,939	-	3,939	-
	487,493	-	487,493	-
	18,351	-	18,351	-
	2,236	653	2,889	24
	4,021	-	4,021	-
	(50,000)	-	(50,000)	50,000
	\$ 834,898	\$ 653	\$ 835,551	\$ 50,024
	\$ (142,215)	\$ 846,935	\$ 704,720	\$ 43,302
	5,277,397	1,394,059	6,671,456	453,947
\$ 5,135,182	\$ 2,240,994	\$ 7,376,176	\$ 497,249	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service
Assets			
Assets			
Cash and pooled investments	\$ 232,771	\$ -	\$ -
Investments	566,985	948	-
Taxes receivable:			
Current	7,737	-	-
Prior	9,690	-	-
Special assessments receivable:			
Current	-	364	-
Prior	-	7,862	12,549
Accounts receivable	6,889	-	-
Due from other governments	219	-	-
Notes receivable	-	-	-
Special assessments receivable - noncurrent	-	157,239	86,459
Total Assets	\$ 824,291	\$ 166,413	\$ 99,008
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Cash overdraft	\$ -	\$ 126,424	\$ 146,102
Accounts payable	21,638	-	-
Salaries payable	9,306	-	-
Contracts payable	-	-	-
Due to other governments	2,730	-	-
Total Liabilities	\$ 33,674	\$ 126,424	\$ 146,102
Deferred Inflows of Resources			
Taxes	\$ 9,690	\$ -	\$ -
Notes	-	-	-
Special assessments	-	165,101	99,008
Total Deferred Inflows of Resources	\$ 9,690	\$ 165,101	\$ 99,008
Fund Balances			
Restricted for:			
Debt service	\$ -	\$ -	\$ -
Perpetual care	-	-	-
Committed to:			
Economic development	-	-	-
Assigned to:			
General government	420,000	-	-
Sanitation	-	-	-
Economic development	-	-	-
Capital projects	-	-	-
Unassigned	160,927	(125,112)	(146,102)
Total Fund Balances	\$ 780,927	\$ (125,112)	\$ (146,102)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 824,291	\$ 166,413	\$ 99,008

EXHIBIT 3

2008 Street Improvements Debt Service	County Road 118 Debt Service	Southeast Area and Main Avenue Improvements	Other Governmental Funds (Statement 1)	Total Governmental Funds
\$ 33,271	\$ 201,678	\$ -	\$ 567,931	\$ 1,035,651
-	-	-	3,052	570,985
-	-	-	19	7,756
-	-	-	5,923	11,613
-	430	-	758	1,552
735	-	-	-	21,146
-	-	-	908	7,797
-	-	-	-	219
-	-	-	44,012	44,012
70,856	96,772	-	56,468	467,794
<u>\$ 104,862</u>	<u>\$ 298,880</u>	<u>\$ -</u>	<u>\$ 675,071</u>	<u>\$ 2,168,525</u>
\$ -	\$ -	\$ 41,365	\$ 78,868	\$ 392,759
-	-	-	242	21,880
-	-	-	-	9,306
-	-	12,699	-	12,699
-	-	-	-	2,730
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,064</u>	<u>\$ 79,110</u>	<u>\$ 439,374</u>
\$ -	\$ -	\$ -	\$ 1,923	\$ 11,613
-	-	-	44,012	44,012
71,591	96,772	-	56,468	488,940
<u>\$ 71,591</u>	<u>\$ 96,772</u>	<u>\$ -</u>	<u>\$ 102,483</u>	<u>\$ 544,565</u>
\$ 33,271	\$ 202,108	\$ -	\$ 25,016	\$ 260,395
-	-	-	11,632	11,632
-	-	-	31,693	31,693
-	-	-	-	420,000
-	-	-	22,471	22,471
-	-	-	331,826	331,826
-	-	-	149,030	149,030
-	-	(54,064)	(78,110)	(42,461)
<u>\$ 33,271</u>	<u>\$ 202,108</u>	<u>\$ (54,064)</u>	<u>\$ 493,558</u>	<u>\$ 1,184,586</u>
<u>\$ 104,862</u>	<u>\$ 298,880</u>	<u>\$ -</u>	<u>\$ 675,071</u>	<u>\$ 2,168,525</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balances - total governmental funds (Exhibit 3)	\$	1,184,828
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		5,576,694
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		544,565
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences payable	\$ (46,100)	
General obligation bonds payable	(1,842,745)	(1,888,845)
Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:		
Deferred outflows of resources related to pensions	\$ 440,988	
Deferred inflows of resources related to pensions	(506,611)	
Net pension asset	114,654	
Net pension liability	(331,091)	(282,060)
Net position of governmental activities (Exhibit 1)	\$	<u>5,135,182</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, 2017**

	General	2003 Red Willow Heights I Debt Service	2006 Red Willow Heights II Debt Service	2008 Street Improvements Debt Service
Revenues				
Taxes	\$ 301,156	\$ -	\$ -	\$ -
Special assessments	-	6,037	11,365	17,977
Licenses and permits	17,194	-	-	-
Intergovernmental	585,472	-	-	-
Charges for services	157,675	-	-	-
Fines and forfeitures	5,709	-	-	-
Investment earnings	2,208	6	-	-
Gifts and contributions	6,574	-	-	-
Miscellaneous	16,019	-	-	-
Total Revenues	\$ 1,092,007	\$ 6,043	\$ 11,365	\$ 17,977
Expenditures				
Current				
General government	\$ 279,920	\$ -	\$ -	\$ -
Public safety	412,065	-	-	-
Highways and streets	124,206	-	-	-
Sanitation	71,888	-	-	-
Culture and recreation	22,474	-	-	-
Conservation of natural resources	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal retirement	-	45,000	90,000	3,000
Interest	-	4,213	23,700	7,183
Capital outlay				
Highways and streets	-	-	-	-
Culture and recreation	9,330	-	-	-
Total Expenditures	\$ 919,905	\$ 49,213	\$ 115,700	\$ 10,183
Excess of Revenues Over (Under) Expenditures	\$ 172,104	\$ (43,170)	\$ (104,335)	\$ 7,794
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	(297,718)	-	-	-
Proceeds from issuance of debt	-	-	-	-
Total Other Financing Sources (Uses)	\$ (297,718)	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ (125,614)	\$ (43,170)	\$ (104,335)	\$ 7,794
Fund Balance - January 1	906,541	(81,942)	(41,767)	25,477
Fund Balance - December 31	\$ 780,927	\$ (125,112)	\$ (146,102)	\$ 33,271

EXHIBIT 5

County Road 118 Debt Service	Southeast Area and Main Avenue Improvements	Other Governmental Funds (Statement 2)	Total Governmental Funds
\$ -	\$ -	\$ 79,080	\$ 380,236
28,502	-	50,322	114,203
-	-	-	17,194
-	-	-	585,472
-	-	7,140	164,815
-	-	-	5,709
-	-	22	2,236
-	-	-	6,574
-	-	17,532	33,551
<u>\$ 28,502</u>	<u>\$ -</u>	<u>\$ 154,096</u>	<u>\$ 1,309,990</u>
\$ -	\$ -	\$ 6,152	\$ 286,072
-	-	-	412,065
-	-	-	124,206
-	-	-	71,888
-	-	-	22,474
-	-	4,095	4,095
-	-	20,722	20,722
-	-	-	-
28,000	-	77,000	243,000
10,881	6,978	13,026	67,981
-	292,044	96,480	388,524
-	-	-	9,350
<u>\$ 38,881</u>	<u>\$ 299,022</u>	<u>\$ 217,475</u>	<u>\$ 1,650,377</u>
\$ (10,379)	\$ (299,022)	\$ (63,379)	\$ (340,387)
\$ -	\$ -	\$ 247,718	\$ 247,718
-	-	-	(297,718)
-	244,958	159,042	404,000
<u>\$ -</u>	<u>\$ 244,958</u>	<u>\$ 406,760</u>	<u>\$ 354,000</u>
\$ (10,379)	\$ (54,064)	\$ 343,381	\$ 13,613
212,487	-	158,177	1,170,973
<u>\$ 202,108</u>	<u>\$ (54,064)</u>	<u>\$ 493,558</u>	<u>\$ 1,184,586</u>

**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, 2017**

Net change in fund balance - total governmental funds (Exhibit 5)	\$	13,855
 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	\$ 397,874	
Current year depreciation	(222,121)	175,753
 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	\$ (7,439)	
Special assessments receivable	(101,939)	
Notes receivable	2,062	(107,316)
 The issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, neither transaction has any effect on net position.		
Proceeds from issuance of debt	\$ (404,000)	
Principal repayments on general obligation bonds	243,000	(161,000)
 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	\$ (419)	
Compensated absences payable	(8,934)	(9,353)
 Net pension asset and liability do not represent an impending source or use of current resources. Therefore, the change in the asset, liability, and related deferrals of resources are not reported in the governmental funds.		
Change in		
Net pension asset	\$ 19,350	
Net pension liability	468,207	
Deferred outflows of resources related to pensions	(128,401)	
Deferred inflows of resources related to pensions	(412,910)	(54,154)
 Change in net position of governmental activities (Exhibit 2)	 \$	 (142,215)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Assets					
Current Assets					
Cash and pooled investments	\$ 98,592	\$ 92,068	\$ 160,653	\$ 220,478	\$ 571,793
Investments	-	-	75,040	48,700	123,740
Accounts receivable	-	3,848	16,502	14,342	34,692
Inventory	-	91,443	-	-	91,443
Total Current Assets	\$ 98,592	\$ 187,359	\$ 252,195	\$ 283,520	\$ 821,666
Noncurrent Assets					
Capital assets					
Non-depreciable	\$ -	\$ -	\$ 332,476	\$ 594,694	\$ 927,170
Depreciable - net of accumulated depreciation	360,390	32,864	256,623	476,141	1,126,020
Total Noncurrent Assets	\$ 360,390	\$ 32,864	\$ 589,101	\$ 1,070,835	\$ 2,053,190
Total Assets	\$ 458,982	\$ 220,223	\$ 841,296	\$ 1,354,355	\$ 2,874,856
Deferred Outflows of Resources					
Related to pensions	\$ 5,795	\$ 39,118	\$ 21,732	\$ 23,180	\$ 89,825
Liabilities					
Current Liabilities					
Accounts payable	\$ 1,472	\$ 25,540	\$ 2,291	\$ 2,425	\$ 31,728
Salaries payable	-	3,987	1,449	1,565	7,001
Compensated absences payable	-	-	3,382	2,900	6,282
Due to other governments	-	4,903	-	250	5,153
Bonds payable	-	-	12,262	17,278	29,540
Total Current Liabilities	\$ 1,472	\$ 34,430	\$ 19,384	\$ 24,418	\$ 79,704
Noncurrent Liabilities					
Compensated absences payable	\$ -	\$ -	\$ 7,742	\$ 11,246	\$ 18,988
Net pension liability	13,533	91,355	50,752	54,136	209,776
Bonds payable	-	-	146,294	189,060	335,354
Total Noncurrent Liabilities	\$ 13,533	\$ 91,355	\$ 204,788	\$ 254,442	\$ 564,118
Total Liabilities	\$ 15,005	\$ 125,785	\$ 224,172	\$ 278,860	\$ 643,822
Deferred Inflows of Resources					
Related to pensions	\$ 5,153	\$ 34,780	\$ 19,322	\$ 20,610	\$ 79,865
Net Position					
Net investment in capital assets	\$ 560,390	\$ 32,864	\$ 430,545	\$ 864,497	\$ 1,688,296
Unrestricted amounts	84,229	65,912	188,989	213,568	552,698
Total Net Position	\$ 444,619	\$ 98,776	\$ 619,534	\$ 1,078,065	\$ 2,240,994

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Events Center Enterprise	Liquor Enterprise	Sewer Enterprise	Water Enterprise	Total
Sales and Cost of Goods Sold					
Sales	\$ 49,861	\$ 696,624	\$ -	\$ -	\$ 746,485
Cost of goods sold	(5,796)	(394,868)	-	-	(400,664)
Gross Profit	\$ 44,065	\$ 301,756	\$ -	\$ -	\$ 345,821
Operating Revenues					
Charges for services	-	-	149,200	144,846	294,046
Miscellaneous	19,375	7,731	-	-	27,106
Total Gross Profit and Operating Revenues	\$ 63,440	\$ 309,487	\$ 149,200	\$ 144,846	\$ 666,973
Operating Expenses					
Personnel services	\$ 13,875	\$ 173,433	\$ 80,185	\$ 63,891	\$ 331,384
Professional services	3,091	-	-	-	3,091
Advertising	5,046	16,412	-	-	21,458
Entertainment	-	15,422	-	-	15,422
Insurance	1,836	11,512	1,633	2,092	17,073
Repairs and maintenance	3,871	11,535	3,509	5,052	23,967
Supplies	3,482	24,697	2,704	6,218	37,101
Utilities	9,523	16,896	18,151	8,730	53,320
Miscellaneous	455	22,094	2,078	7,198	31,785
Depreciation	17,271	2,095	13,171	21,045	53,582
Total Operating Expenses	\$ 58,450	\$ 294,096	\$ 121,391	\$ 114,246	\$ 588,183
Operating Income (Loss)	\$ 4,990	\$ 15,391	\$ 27,809	\$ 30,600	\$ 78,790
Nonoperating Revenues (Expenses)					
Special assessments	\$ -	\$ -	\$ -	\$ 7,473	\$ 7,473
Intergovernmental	-	-	268,952	499,064	768,016
Investment earnings	-	-	310	343	653
Interest expense	-	-	(3,979)	(4,018)	(7,997)
Total Nonoperating Revenues (Expenses)	\$ -	\$ -	\$ 265,283	\$ 502,862	\$ 768,148
Change in Net Position	\$ 4,990	\$ 15,391	\$ 293,092	\$ 533,462	\$ 846,935
Net Position - January 1	439,629	83,385	326,442	544,603	1,394,059
Net Position - December 31	\$ 444,619	\$ 98,776	\$ 619,534	\$ 1,078,065	\$ 2,240,994

CITY OF FRAZEE
FRAZEE, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
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	\$ 69,231	\$ 823,667	\$ 152,898	\$ 156,753	\$ 1,202,549
Payments to employees	(18,752)	(175,739)	(60,443)	(61,296)	(316,230)
Payments to suppliers	(35,210)	(676,417)	(38,088)	(44,823)	(794,538)
Net cash provided by (used in) operating activities	\$ 15,249	\$ (28,489)	\$ 54,367	\$ 50,634	\$ 91,761
Cash Flows from Capital and Related Financing Activities					
Capital grants received	\$ -	\$ -	\$ 268,952	\$ 499,064	\$ 768,016
Special assessments received	-	-	1,383	17,146	18,529
Purchase of capital assets	-	(17,400)	(332,476)	(594,694)	(944,570)
Proceeds from issuance of debt	-	-	60,556	108,338	168,894
Revenue bond payment	-	-	(9,500)	(9,500)	(19,000)
Interest paid	-	-	(3,979)	(4,018)	(7,997)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ (17,400)	\$ (15,064)	\$ 16,336	\$ (16,128)
Cash Flows from Investing Activities					
Investment earnings received	\$ -	\$ -	\$ 310	\$ 341	\$ 651
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 15,249	\$ (45,889)	\$ 39,613	\$ 67,313	\$ 76,286
Cash and Cash Equivalents at January 1	83,343	137,557	196,080	201,865	619,245
Cash and Cash Equivalents at December 31	\$ 98,592	\$ 91,668	\$ 235,693	\$ 269,178	\$ 695,131
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 4,990	\$ 15,391	\$ 27,809	\$ 30,600	\$ 78,790
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities					
Depreciation expense	\$ 17,271	\$ 2,093	\$ 13,171	\$ 21,045	\$ 53,582
Decrease (increase) in assets					
Accounts receivable	-	(3,848)	1,889	1,939	(20)
Inventory	-	(50,191)	-	-	(50,191)
Increase (decrease) in liabilities					
Accounts payable	(2,242)	5,500	1,122	1,697	6,077
Salaries payable	(945)	2,569	167	50	1,841
Due to other governments	-	4,903	-	250	5,153
Compensated absences payable	-	-	3,058	(10,486)	(7,428)
Net pension liability	(3,825)	(4,908)	7,151	5,539	3,957
Total adjustments	\$ 10,259	\$ (43,888)	\$ 26,558	\$ 20,034	\$ 12,971
Net cash provided by (used in) operating activities	\$ 15,249	\$ (28,489)	\$ 54,367	\$ 50,634	\$ 91,761

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The City of Frazee was established on February 10, 1891, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Frazee (primary government) and its component 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 Frazee Economic Development Authority (EDA) is a component unit of the City of Frazee and is discretely presented. The EDA was created to enhance economic development for the City. Board members are appointed by the City Council.

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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:

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Southeast Area and Main Avenue 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.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2017, 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 2017 were \$702. Total investment earnings for 2017 were \$2,954.

3. Receivables and Payables

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2001 through 2017 and deferred special assessments collectible in 2018 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 and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed. During the current period, the City did not have any capitalized interest.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

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

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

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

6. Deferred Outflows/Inflows of Resources

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

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

7. Compensated Absences

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

9. Pensions

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

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

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, 2017.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

10. Net Position and Fund Balance (Continued)

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

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

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

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

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when unforeseen emergencies exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The City does not identify an amount for stabilization at December 31, 2017.

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

11. Use of Estimates

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

II. Stewardship, Compliance, and Accountability

B. Deficit Fund Balances

The 2003 Red Willow Heights I Debt Service Fund had a deficit fund balance of \$125,112 as of December 31, 2017. This deficit will be eliminated with future special assessments.

The 2006 Red Willow Heights II Debt Service Fund had a deficit fund balance of \$146,102 as of December 31, 2017. This deficit will be eliminated with future special assessments.

The Southeast Area and Main Avenue Improvements Capital Projects Fund had a deficit fund balance of \$54,064 as of December 31, 2017. This deficit will be eliminated with a transfer from the General Fund.

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, 2017, are as follows:

Primary Government	
Cash and pooled investments	\$ 1,214,683
Investments	694,725
Component Units	
Cash and pooled investments	69,345
Investments	<u>44,063</u>
Total Cash and Investments	<u>\$ 2,022,816</u>
Checking Accounts	\$ 1,318,006
Certificates of Deposit	101,714
Municipal Money Market Fund	257,958
Negotiable Certificates of Deposit	<u>345,138</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 2,022,816</u>

Deposits

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

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City's policy is to comply with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2017, 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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, 2017, the City's investment in a Minnesota Municipal Money Market Fund with a fair value of \$257,958, and negotiable certificates of deposit with a fair value of \$345,138, had maturities of one year or less.

Credit Risk

Generally, a credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute. The City's exposure to credit risk as of December 31, 2017, is in the nonrated Minnesota Municipal Money Market Fund with a fair value of \$257,958.

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, 2017, 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, constitute 13 percent of the City's portfolio, and negotiable certificates of deposit, constitute 17 percent of the City's portfolio, which are not exposed to concentration of credit risk.

Fair Value Hierarchy

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Fair Value Hierarchy (Continued)

At December 31, 2017, the City's investment in the Minnesota Municipal Money Market Fund in the amount of \$257,958 were rated as a level 1 investment. At December 31, 2017, the City's investment in negotiable certificates of deposit in the amount of \$345,138 were rated as a level 2 investment, valued using a market approach based on the securities' relationship to benchmark quoted prices.

2. Receivables

Receivables as of December 31, 2017, 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	\$ 19,369	\$ -
Special assessments	490,492	467,794
Accounts	7,797	-
Due from other governments	219	-
Notes	44,012	31,463
Total Governmental Activities	<u>\$ 561,889</u>	<u>\$ 499,257</u>
Business-Type Activities		
Accounts	<u>\$ 34,692</u>	<u>\$ -</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 69,819	\$ 388,524	\$ -	\$ 458,343
Construction in progress	104,734	-	-	104,734
Total capital assets not depreciated	\$ 174,553	\$ 388,524	\$ -	\$ 563,077
Capital assets being depreciated				
Infrastructure	\$ 5,374,921	\$ -	\$ -	\$ 5,374,921
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	891,899	9,350	-	901,249
Total capital assets being depreciated	\$ 7,012,420	\$ 9,350	\$ -	\$ 7,021,770
Less: accumulated depreciation for				
Infrastructure	\$ 780,409	\$ 133,180	\$ -	\$ 913,589
Buildings and improvements	461,288	14,027	-	475,315
Machinery and equipment	544,335	74,914	-	619,249
Total accumulated depreciation	\$ 1,786,032	\$ 222,121	\$ -	\$ 2,008,153
Total capital assets, depreciated, net	\$ 5,226,388	\$ (212,771)	\$ -	\$ 5,013,617
Governmental Activities Capital Assets, Net	\$ 5,400,941	\$ 175,753	\$ -	\$ 5,576,694

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 927,170	\$ -	\$ 927,170
Capital assets being depreciated				
Infrastructure	\$ 1,118,302	\$ -	\$ -	\$ 1,118,302
Buildings and equipment	1,137,670	-	-	1,137,670
Machinery and equipment	378,627	17,400	-	396,027
Total capital assets being depreciated	\$ 2,634,599	\$ 17,400	\$ -	\$ 2,651,999
Less: accumulated depreciation for				
Infrastructure	\$ 370,857	\$ 32,677	\$ -	\$ 403,534
Buildings and improvements	740,949	17,873	-	758,822
Machinery and equipment	360,591	3,032	-	363,623
Total accumulated depreciation	\$ 1,472,397	\$ 53,582	\$ -	\$ 1,525,979
Total capital assets, depreciated, net	\$ 1,162,202	\$ (36,182)	\$ -	\$ 1,126,020
Business-Type Activities Capital Assets, Net	\$ 1,162,202	\$ 890,988	\$ -	\$ 2,053,190

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Depreciation Expense

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

Governmental Activities		
General government	\$	3,527
Public safety		57,495
Highways and streets		150,571
Culture and recreation		<u>10,528</u>
Total Depreciation Expense - Governmental Activities	\$	<u>222,121</u>
Business-Type Activities		
Events Center	\$	17,271
Liquor		2,095
Sewer		13,171
Water		<u>21,045</u>
Total Depreciation Expense - Business-Type Activities	\$	<u>53,582</u>

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following operating transfers:

Transfer to 2005 Street Improvements Debt Service Fund from General Fund	\$	89,750	To close fund
Transfer to Street & Utility Improvements Capital Projects Fund from General Fund		157,968	To close fund
Transfer to Economic Development Authority Component Unit from General Fund		<u>50,000</u>	Appropriation
Total Interfund Transfers	\$	<u>297,718</u>	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

C. Liabilities

Compensated Absences

Under the City's personnel policy, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 15 days per year. Sick leave accrual is 12 days per year. Under the City's employment policy, leave may be accumulated to a maximum of 25 days of vacation and 120 days of sick leave for employees hired before April 4, 2006 and 100 days sick leave for employees hired after April 6, 2006. Unvested sick leave, approximately \$20,410 at December 31, 2017, 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, and Liquor Enterprise Funds.

Long-Term Debt

Governmental Activities

City of Frazee General Obligation Improvement Refunding Bonds of 2010 represent debt incurred to refund the City's General Obligation Improvement Bonds of 2003. These bonds have an original issue amount of \$465,000. They carry a net interest rate of 2.2936 percent and are due in annual installments from the Red Willow Heights I Debt Service Fund of \$15,000 to \$45,000 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, 2017 is \$85,000, net of unamortized bond discount of \$1,255.

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. These bonds have an original issue amount of \$810,000. They carry a net interest rate of 3.0 percent and are due in annual installments from the Red Willow Heights II Debt Services Fund of \$50,000 to \$70,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$65,333 with a present value of \$72,012. The balance outstanding at December 31, 2017 is \$510,000.

City of Frazee General Obligation Improvement Bonds of 2013 represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$333,000. They carry a net interest rate of 2.20 percent and are due in annual installments from the Southeast Area Street and Utilities Improvement Debt Service Fund of \$22,000 to \$41,000 through February 1, 2024. The balance outstanding at December 31, 2017 is \$223,000.

City of Frazee General Obligation Improvement Bonds of 2014A represent debt incurred for street and utility improvements. These bonds have an original issue amount of \$393,000. They carry a net interest rate of 3.10 percent and are due in annual installments from the County Road 118 Debt Service Fund of \$28,000 to \$39,000 through February 1, 2027. The balance outstanding at December 31, 2017 is \$337,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Street Improvement Bonds of 2008 and provide for 2017 street improvements. These bonds have an original issue amount of \$288,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the 2008 Street Improvement Debt Service Fund of \$3,000 to \$34,000 through February 1, 2027. As a result of the refunding, the City of Frazee realized an economic gain of \$22,834 with a present value of \$13,641. The balance outstanding at December 31, 2017 is \$285,000.

City of Frazee General Obligation Improvement Bonds of 2017A represent debt incurred for infrastructure improvements to SE and 4th Street South. These bonds have an original issue amount of \$404,000. They carry a net interest rate of 3 percent and are due in annual installments from the Southeast Area and Main Avenue West Debt Service Fund of \$30,000 to \$47,000 through February 1, 2028. The balance outstanding at December 31, 2017 is \$404,000.

Business-Type Activities

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Utility Revenue Bonds of 2010. These bonds have an original issue amount of \$215,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$19,000 to \$25,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$12,455 with a present value of \$11,178. The balance outstanding at December 31, 2017 is \$196,000.

City of Frazee Minnesota PFA Clean Water and Drinking Water Revolving Loans represent debt incurred for waste water and drinking water improvements. These loans have an original issue amount of \$168,894. They carry a net interest rate of 1 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$8,540 to \$20,000 through August 20, 2036. The balance outstanding at December 31, 2017 is \$168,894.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2017, are as follows:

Year End December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	137,000	41,664	29,540	7,725
2019	229,000	45,453	41,000	7,793
2020	206,000	39,291	41,000	7,089
2021	214,000	33,444	41,000	6,385
2022	196,000	27,708	41,000	5,681
2023-2027	815,000	39,668	167,560	16,255
2028-2030	47,000	705	3,794	635
	<u>\$ 1,844,000</u>	<u>\$ 247,933</u>	<u>\$ 364,894</u>	<u>\$ 51,563</u>
Less: Bond discount	(1,255)			
Total	<u>\$ 1,842,745</u>	<u>\$ 247,933</u>	<u>\$ 364,894</u>	<u>\$ 51,563</u>

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Improvement Refunding of 2010	\$ 130,000	\$ -	\$ 45,000.00	\$ 85,000	40,000
Less: Bond discount	(1,255)	-	-	(1,255)	-
Refunding, Series 2012A	640,000	-	130,000	510,000	-
Improvement of 2013	260,000	-	37,000	223,000	38,000
Improvement of 2014A	365,000	-	28,000	337,000	29,000
Improvement Refunding of 2016A	288,000	-	3,000	285,000	30,000
Improvement of 2017	-	404,000	-	404,000	-
Total General Obligation Bonds	<u>\$ 1,681,745</u>	<u>\$ 404,000</u>	<u>\$ 243,000</u>	<u>\$ 1,842,745</u>	<u>\$ 137,000</u>
Compensated Absences	37,166	24,432	15,497	46,101	14,699
Net Pension Liability	799,298	-	468,207	331,091	
Governmental Activities Long-Term Liabilities	<u>\$ 2,518,209</u>	<u>\$ 428,432</u>	<u>\$ 726,704</u>	<u>\$ 2,219,937</u>	<u>\$ 151,699</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Debt Service Requirements (Continued)

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2017, 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 Bonds					
Improvement and Refunding Bonds	\$ 215,000	-	19,000	\$ 196,000	21,000
PFA Revolving Loan 2017	-	168,894	-	168,894	8,540
Total General Obligation Bonds	215,000	168,894	19,000	364,894	29,540
Compensated Absences	32,698	14,506	14,506	32,698	6,283
Net Pension Liability	315,650	-	105,874	209,776	-
Business-Type Activities Long-Term Liabilities	<u>\$ 563,348</u>	<u>\$ 183,400</u>	<u>\$ 139,380</u>	<u>\$ 607,368</u>	<u>\$ 35,823</u>

IV. Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

A. Plan Description (Continued)

2. Public Employees Police and Fire Fund (Police and Fire Plan (accounted for in the Police and Fire Fund))

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

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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent 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. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

A. Plan Description

Benefits Provided

2. Police and Fire Plan Benefits (Continued)

For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

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. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City of Frazee was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City of Frazee's contributions to the General Employees Fund for the year ended December 31, 2017, were \$26,293. The City of Frazee's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The City of Frazee was required to contribute 16.20 percent of pay for members in calendar year 2017. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$25,516. The City of Frazee's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City of Frazee reported a liability of \$338,349 for its proportionate share of the General Employees Fund's net pension liability. The City of Frazee's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$9 million to the fund in 2017. The State of Minnesota considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee totaled \$4,245. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. The City of Frazee's proportion share was .0053 percent which was a decrease of .0002 percent from its proportion measured as of June 30, 2016. There were no provision changes during the measurement period.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

C. Pension Costs

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2017, the City of Frazee recognized pension expense of \$9,819 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional \$123 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$9 million to the General Employees Fund.

At December 31, 2017, the City of Frazee reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 11,151	\$ 22,676
Changes in actuarial assumptions	38,293	33,919
Difference between projected and actual investment earnings	62,129	57,449
Changes in proportion	-	14,770
Contributions paid to PERA subsequent to the measurement date	13,309	-
Total	\$ 144,882	\$ 128,814

\$13,309 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, 2017. 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>
2018	\$ 11,062
2019	18,532
2020	(9,880)
2021	(14,363)
2022	-

2. Police and Fire Fund Pension Costs

At December 31, 2017, The City of Frazee reported a liability of \$202,518 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

C. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

relative to the total employer contributions received from all PERA's participating employers. At June 30, 2017, the City of Frazee's proportion was .015 percent which was a decrease of .001 percent from its proportion measured as of June 30, 2016. The City of Frazee also recognized \$1,350 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, the City of Frazee recognized pension expense of (\$32,722) for its proportionate share of the Police and Fire Plan's pension expense.

As of December 31, 2017, the City of Frazee reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,662	\$ 58,856
Changes in actuarial assumptions	282,704	287,525
Difference between projected and actual investment earnings	72,503	64,262
Changes in proportion	-	47,019
Contributions paid to PERA subsequent to the measurement date	<u>12,396</u>	<u>-</u>
Total	<u>\$ 372,265</u>	<u>\$ 457,662</u>

\$12,396 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, 2017. 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>
2018	\$ 12,148
2019	(6,288)
2020	(8,264)
2021	(20,563)
2022	(63,258)
2023	-

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the General Employees Plan through 2044 and Police and Fire Plan through 2064, and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

1. The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
2. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

Police and Fire Fund

1. Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
2. Assumed rates of retirement were changed, resulting in fewer retirements.
3. The Combined Service Annuity (CSA) load was 30 percent vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Actuarial Assumptions

Police and Fire Fund (Continued)

4. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
5. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
6. Assumed percentage of married female members was decreased from 65 percent to 60 percent.
7. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
8. The assumed percentage of female members electing Joint and Survivor annuities was increased.
9. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.5 percent thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	1.00%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

E. Discount Rate (Continued)

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

**Sensitivity of Net Pension Liability at a Single Discount Rate
General Employees Fund**

<u>City of Frazee</u>	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Proportionate share of Net Pension Liability	\$ 524,804	\$ 338,349	\$ 185,701

**Sensitivity of Net Pension Liability at a Single Discount Rate
Police and Fire Fund**

<u>City of Frazee</u>	<u>1% Decrease in Discount Rate (4.60%)</u>	<u>Discount Rate (5.60%)</u>	<u>1% Increase in Discount Rate (6.60%)</u>
Proportionate share of Net Pension Liability	\$ 381,400	\$ 202,518	\$ 54,841

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

A. Plan Description

Firefighters of the City of Frazee are members of the Frazee Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2017, membership includes 28 active participants and 5 deferred members entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,200 for each year active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retired before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum of \$1,200 for each year the member was an active member of the Frazee Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

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

C. Contributions

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

C. Contributions (Continued)

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$0 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2017, there was no statutorily-required City contributions to the plan.

D. Pension Costs

At December 31, 2017, the City reported an asset of \$114,654 for the Association's net pension asset. The net pension asset was measured as of December 31, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$0 for the year ended December 31, 2017. As December 31, 2017, the City reported deferred outflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	<u>13,666</u>	<u>-</u>
Total	<u>\$ 13,666</u>	<u>\$ -</u>

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

Year Ended December 31	Pension Expense Amount
2018	\$ 5,311
2019	5,311
2020	5,309
2021	-
2022	-

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/2017
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Market value of assets
 Actuarial Assumptions:	
Discount Rate	5.25%
Expected return on plan assets	5.25%
Inflation rate	2.50%

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

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Allocation at December 31, 2017	Long-term Expected Real Rate of Return
Cash and equivalents	18.00%	2.25%
Equities	50.00%	7.50%
Fixed income	31.00%	3.30%
Other	1.00%	6.00%
Total	100.00%	5.25%

F. Discount Rate

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

G. Pension Asset Sensitivity

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

	<u>1% Decrease (4.25%)</u>	<u>Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Proportionate share of Net Pension Liability	\$ (105,144)	\$ (114,654)	\$ (123,966)

H. Pension Plan Fiduciary Net Position

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

VI. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

B. Risk Management

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

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

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Venture

Frazeo Burlington Silverleaf Joint Powers Board (Continued)

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

Funding is provided by participants in amounts determined by the Board on an annual basis. Complete financial information can be obtained from the City of Frazee Administrator/Clerk/Treasurer, City Hall, P.O. Box 387, Frazee, Minnesota 56544.

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

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

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

2. Basis of Presentation

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting

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

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

4. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

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

b. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments and are reported at their fair value at December 31, 2017, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2017 were \$24.

c. Capital Assets

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Position

c. Capital Assets (Continued)

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

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

d. Long-Term Obligations

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

e. Use of Estimates

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

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

B. Detailed Notes on All Funds

I. Assets (Continued)

Capital Assets

Capital asset activity for the component unit for the year ended December 31, 2017, 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	\$ 100,604	\$ -	\$ 181,697
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 164,932	\$ -	\$ -	\$ 164,932
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 32,365	\$ 5,501	\$ -	\$ 37,866
Total accumulated depreciation	\$ 32,365	\$ 5,501	\$ -	\$ 37,866
Total capital assets, depreciated, net	\$ 132,567	\$ (5,501)	\$ -	\$ 127,066
Total Capital Assets, Net	<u>\$ 213,660</u>	<u>\$ 95,103</u>	<u>\$ -</u>	<u>\$ 308,763</u>

Depreciation Expense

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

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 I

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 305,950	\$ 305,950	\$ 301,156	\$ (4,794)
Licenses and permits	17,625	17,625	17,194	(431)
Intergovernmental	551,181	551,181	585,472	34,291
Charges for services	145,718	145,718	157,675	11,957
Fines and forfeitures	5,000	5,000	5,709	709
Investment earnings	2,000	2,000	2,208	208
Gifts and contributions	4,500	4,500	6,574	2,074
Miscellaneous	14,400	14,400	16,019	1,619
Total Revenues	\$ 1,046,374	\$ 1,046,374	\$ 1,092,007	\$ 45,633
Expenditures				
Current				
General government				
Mayor/council	\$ 25,360	\$ 25,360	\$ 17,110	\$ 8,250
Financial administration	239,950	239,950	227,406	12,544
Elections	100	100	-	100
Assessor	17,400	17,400	17,400	-
Planning commission	11,250	11,250	18,004	(6,754)
Total general government	\$ 294,060	\$ 294,060	\$ 279,920	\$ 14,140
Public safety				
Police	\$ 281,444	\$ 281,444	\$ 269,819	\$ 11,625
Fire	84,630	84,630	114,021	(29,391)
Fire relief association	17,000	17,000	25,308	(8,308)
Rescue squad	1,650	1,650	2,917	(1,267)
Total public safety	\$ 384,724	\$ 384,724	\$ 412,065	\$ (27,341)
Highways and streets				
Street department	\$ 120,124	\$ 120,124	\$ 93,383	\$ 26,741
Snow removal	6,956	6,956	5,943	1,013
Street lighting	33,200	33,200	24,880	8,320
Total highways and streets	\$ 160,280	\$ 160,280	\$ 124,206	\$ 36,074

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

*Schedule J
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Sanitation				
Recycling	\$ 4,810	\$ 4,810	\$ 4,950	\$ (140)
Solid waste	-	-	66,938	(66,938)
Total sanitation	<u>\$ 4,810</u>	<u>\$ 4,810</u>	<u>\$ 71,888</u>	<u>\$ (67,078)</u>
Culture and recreation				
Parks	\$ 37,000	\$ 37,000	\$ 22,474	\$ 14,526
Total current	<u>\$ 880,874</u>	<u>\$ 880,874</u>	<u>\$ 910,553</u>	<u>\$ (29,679)</u>
Capital outlay				
Public safety	\$ 42,000	\$ 42,000	\$ -	\$ 42,000
Highways and streets	49,500	49,500	-	49,500
Culture and recreation	24,000	24,000	9,350	14,650
Total capital outlay	<u>\$ 115,500</u>	<u>\$ 115,500</u>	<u>\$ 9,350</u>	<u>\$ 106,150</u>
Total Expenditures	<u>\$ 996,374</u>	<u>\$ 996,374</u>	<u>\$ 919,903</u>	<u>\$ 76,471</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 172,104</u>	<u>\$ 122,104</u>
Other Financing Sources (Uses)				
Transfers out	(50,000)	(50,000)	(297,718)	(247,718)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (125,614)</u>	<u>\$ (125,614)</u>
Fund Balance - January 1	<u>906,541</u>	<u>906,541</u>	<u>906,541</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 906,541</u>	<u>\$ 906,541</u>	<u>\$ 780,927</u>	<u>\$ (125,614)</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2017**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2017	\$ 26,293	\$ 26,293	\$ -	\$ 352,901	7.5%
December 31, 2016	\$ 25,675	\$ 25,675	\$ -	\$ 342,333	7.5%
December 31, 2015	\$ 24,893	\$ 24,893	\$ -	\$ 331,909	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2017	\$ 25,156	\$ 25,156	\$ -	\$ 155,040	16.2%
December 31, 2016	\$ 24,940	\$ 24,940	\$ -	\$ 153,951	16.2%
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.2%

**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, 2017**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	0.0053%	\$ 338,349	\$ 4,245	\$ 342,594	\$ 350,993	96.40%	75.90%
June 30, 2016	0.0055%	\$ 446,573	\$ 5,862	\$ 452,435	\$ 343,830	129.88%	68.90%
June 30, 2015	0.0056%	\$ 290,221	\$ -	\$ 290,221	\$ 331,609	87.52%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	0.0015%	\$ 202,518	\$ 1,350	\$ 203,868	\$ 159,077	127.31%	85.40%
June 30, 2016	0.0160%	\$ 642,108	\$ 1,440	\$ 643,548	\$ 159,181	403.38%	63.90%
June 30, 2015	0.0170%	\$ 195,360	\$ 1,530	\$ 196,890	\$ 155,181	124.47%	86.60%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 4

**VOLUNTEER FIREFIGHTER RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

SCHEDULE OF CONTRIBUTIONS

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

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability (Asset)	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 (Asset)
January 1, 2017	100%	\$ (114,654)	N/A	N/A	136.00%
January 1, 2016	100%	\$ (95,304)	N/A	N/A	132.00%

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Planning commission	\$ 18,004	\$ 11,250	\$ (6,754)
Public safety			
Fire	114,021	84,630	(29,391)
Fire relief association	25,308	17,000	(8,308)
Rescue squad	2,917	1,650	(1,267)
Sanitation			
Recycling	4,950	4,810	(140)
Solid waste	66,938	-	(66,938)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Net Pension Liability

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

A. General Employees Fund

1. 2017 Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

3. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

4. 2015 Changes in Plan Provisions

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Net Pension Liability (Continued)

B. Police and Fire Fund

I. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changes as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent year through 2064 and 2.50 percent thereafter.

2. 2016 Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate changed from 7.9 percent to 5.6 percent.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Net Pension Liability

C. Police and Fire Fund

3. 2016 Changes in Actuarial Assumptions (Continued)

- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

4. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

5. 2015 Changes in Plan Provisions

- The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

SUPPLEMENTARY INFORMATION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

Debt Service Funds

The 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 Southeast Area and Main Ave West Debt Service Fund is used to account for and report debt associated with General Obligation Improvement Bonds of 2017 for street and utility improvements. Financing is provided by a general levy and 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.

The 4th Street and Maple Avenue Improvements Capital Projects Fund is used to account for and report the 4th Street and Maple Avenue Improvements Project. Funding is provided by bonds and special assessments assigned to capital projects.

The Street and Utility Improvements Capital Projects Fund is used to account for and report the financial resources of street and utility projects. Financing is provided by special assessments and bond proceeds assigned to capital projects. This fund was closed by a transfer from the General Fund in 2017.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Capital Projects Funds (Statement 7)	Total Nonmajor Governmental Funds (Exhibit 3)
Assets				
Assets				
Cash and pooled investments	\$ 393,643	\$ 25,016	\$ 149,272	\$ 567,931
Investments	3,052	-	-	3,052
Taxes receivable				
Current	19	-	-	19
Prior	1,923	-	-	1,923
Special assessments receivable				
Current	-	758	-	758
Accounts receivable	908	-	-	908
Notes receivable	1,274	-	42,738	44,012
Special assessments receivable - noncurrent	-	56,468	-	56,468
Total Assets	\$ 400,819	\$ 82,242	\$ 192,010	\$ 675,071
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Cash overdraft	\$ -	\$ 78,868	\$ -	\$ 78,868
Accounts payable	-	-	242	242
Total Liabilities	\$ -	\$ 78,868	\$ 242	\$ 79,110
Deferred Inflows of Resources				
Taxes	\$ 1,923	\$ -	\$ -	\$ 1,923
Notes	1,274	-	42,738	44,012
Special assessments	-	56,468	-	56,468
Total Deferred Inflows of Resources	\$ 3,197	\$ 56,468	\$ 42,738	\$ 102,403
Fund Balances				
Restricted for				
Debt service	\$ -	\$ 25,016	\$ -	\$ 25,016
Perpetual care	11,632	-	-	11,632
Committed to economic development	31,693	-	-	31,693
Assigned to				
Capital projects	-	-	149,030	149,030
Economic development	331,826	-	-	331,826
Sanitation	22,471	-	-	22,471
Unassigned	-	(78,110)	-	(78,110)
Total Fund Balances	\$ 397,622	\$ (53,094)	\$ 149,030	\$ 493,558
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 400,819	\$ 82,242	\$ 192,010	\$ 675,071

**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, 2017**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Capital Projects Funds (Statement 8)	Total NonMajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 79,080	\$ -	\$ -	\$ 79,080
Special assessments	-	50,322	-	50,322
Charges for services	7,140	-	-	7,140
Investment earnings	22	-	-	22
Miscellaneous	6,631	-	10,901	17,532
Total Revenues	\$ 92,873	\$ 50,322	\$ 10,901	\$ 154,096
Expenditures				
Current				
General government	\$ 6,152	\$ -	\$ -	\$ 6,152
Conservation of natural resources	4,095	-	-	4,095
Economic development	832	-	19,890	20,722
Total current	\$ 11,079	\$ -	\$ 19,890	\$ 30,969
Debt service				
Principal retirement	\$ -	\$ 77,000	\$ -	\$ 77,000
Interest	-	8,564	4,462	13,026
Total debt service	\$ -	\$ 85,564	\$ 4,462	\$ 90,026
Capital outlay				
Highways and streets	\$ -	\$ -	\$ 96,480	\$ 96,480
Total Expenditures	\$ 11,079	\$ 85,564	\$ 120,832	\$ 217,475
Excess of Revenues Over (Under) Expenditures	\$ 81,794	\$ (35,242)	\$ (109,931)	\$ (63,379)
Other Financing Sources				
Transfers in	\$ -	\$ 89,750	\$ 157,968	\$ 247,718
Proceeds from issuance of debt	-	-	159,042	159,042
Total Other Financing Sources (Uses)	\$ -	\$ 89,750	\$ 317,010	\$ 406,760
Net Change in Fund Balance	\$ 81,794	\$ 54,508	\$ 207,079	\$ 343,381
Fund Balance - January 1	315,828	(107,602)	(58,049)	150,177
Fund Balance - December 31	\$ 397,622	\$ (53,094)	\$ 149,030	\$ 493,558

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Assets	Cemetery	Storm Water	Revolving Loan Pool	TIF 1-3 Red Willow Heights	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 1)
Cash and pooled investments	\$ 8,580	\$ 21,563	\$ 31,693	\$ 265,102	\$ 60,821	\$ 3,884	\$ 393,643
Investments	3,052	-	-	-	-	-	3,052
Taxes receivable	-	-	-	-	-	19	19
Current	-	-	-	-	-	19	19
Prior	-	-	-	1,923	-	-	1,923
Accounts receivable	-	908	-	-	-	-	908
Notes receivable	-	-	1,274	-	-	-	1,274
Total Assets	\$ 11,632	\$ 22,471	\$ 32,967	\$ 267,025	\$ 60,821	\$ 5,903	\$ 400,819
Deferred Inflows of Resources, and Fund Balances							
Deferred Inflows of Resources							
Taxes	\$ -	\$ -	\$ -	\$ 1,923	\$ -	\$ -	\$ 1,923
Notes	-	-	1,274	-	-	-	1,274
Total Deferred Inflows of Resources	\$ -	\$ -	\$ 1,274	\$ 1,923	\$ -	\$ -	\$ 3,197
Fund Balances							
Restricted for perpetual care	\$ 11,632	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,632
Committed to economic development	-	-	31,693	-	-	-	31,693
Assigned to	-	22,471	-	-	-	-	22,471
Sanitation	-	22,471	-	-	-	-	22,471
Economic development	-	-	-	265,102	60,821	5,903	331,826
Total Fund Balances	\$ 11,632	\$ 22,471	\$ 31,693	\$ 265,102	\$ 60,821	\$ 5,903	\$ 397,622
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 11,632	\$ 22,471	\$ 32,967	\$ 267,025	\$ 60,821	\$ 5,903	\$ 400,819

**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, 2017**

	Cemetery	Storm Water	Revolving Loan Pool	TIF 1-3 Red Willow Heights	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 2)
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ 61,124	\$ 12,853	\$ 5,103	\$ 79,080
Charges for services	-	7,140	-	-	-	-	7,140
Miscellaneous	4,075	-	2,556	-	-	-	6,631
Total Revenues	\$ 4,097	\$ 7,140	\$ 2,556	\$ 61,124	\$ 12,853	\$ 5,103	\$ 92,873
Expenditures							
Current							
General government	\$ 6,152	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,152
Conservation of natural resources	-	4,095	-	-	-	-	4,095
Economic development	-	-	-	-	-	832	832
Total Expenditures	\$ 6,152	\$ 4,095	\$ -	\$ -	\$ -	\$ 832	\$ 11,079
Excess of Revenues Over (Under) Expenditures	\$ (2,055)	\$ 3,045	\$ 2,556	\$ 61,124	\$ 12,853	\$ 4,271	\$ 81,794
Fund Balance - January 1	15,687	19,426	29,137	203,978	47,968	1,632	315,828
Fund Balance - December 31	\$ 11,632	\$ 22,471	\$ 31,693	\$ 265,102	\$ 60,821	\$ 5,903	\$ 397,622

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2006 Street Improvements	Southeast Area and Main Avenue West	Southeast Area Streets and Utilities	Total (Statement 1)
Assets				
Cash and pooled investments	\$ -	\$ 25,016	\$ -	\$ 25,016
Special assessments receivable				
Current	758		-	758
Noncurrent	11,042		45,426	56,468
Total Assets	\$ 11,800	\$ 25,016	\$ 45,426	\$ 82,242
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Cash overdraft	\$ 27,246	\$ -	\$ 51,622	\$ 78,868
Deferred Inflows of Resources				
Special assessments	\$ 11,042	\$ -	\$ 45,426	\$ 56,468
Fund Balances				
Restricted for debt service	\$ -	\$ 25,016	\$ -	\$ 25,016
Unassigned	(26,488)	-	(51,622)	(78,110)
Total Fund Balances	\$ (26,488)	\$ 25,016	\$ (51,622)	\$ (53,094)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 11,800	\$ 25,016	\$ 45,426	\$ 82,242

**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, 2017**

	2005 Street Improvements	2006 Street Improvements	Southeast Area and Main Avenue West	Southeast Area Streets and Utilities	Total (Statement 2)
Revenues					
Special assessments	\$ -	\$ 12,267	\$ 25,016	\$ 12,939	\$ 50,322
Debt service					
Principal retirement	\$ -	\$ 40,000	\$ -	\$ 37,000	\$ 77,000
Interest	-	3,251	-	5,313	8,564
Total Expenditures	\$ -	\$ 43,251	\$ -	\$ 42,313	\$ 85,564
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (30,884)	\$ 25,016	\$ (29,374)	\$ (35,242)
Other Financing Sources (Uses)					
Transfers in	89,750	-	-	-	89,750
Net Change in Fund Balance	\$ 89,750	\$ (30,884)	\$ 25,016	\$ (29,374)	\$ 54,508
Fund Balance - January 1	(89,750)	4,396	-	(22,248)	(107,602)
Fund Balance - December 31	\$ -	\$ (26,488)	\$ 25,016	\$ (51,622)	\$ (53,094)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 7

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	4th Street and and Maple Avenue Improvements		Small Cities Development Project (SCDP)		Total (Statement 1)
Assets					
Cash and pooled investments	\$ 58,342		\$ 90,930		\$ 149,272
Notes receivable	-		42,738		42,738
Total Assets	\$ 58,342		\$ 133,668		\$ 192,010
Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 242		\$ -		\$ 242
Deferred Inflows of Resources					
Notes	-		42,738		42,738
Fund Balances					
Assigned to Capital projects	58,100		90,930		149,030
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 58,342		\$ 133,668		\$ 192,010

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 8

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	4th Street and and Maple Avenue Improvements	Small Cities Development Project (SCDP)	Street and Utility Improvements	Total (Statement 2)
Revenues				
Miscellaneous	\$ -	\$ 10,901	\$ -	\$ 10,901
Expenditures				
Current				
Economic development	\$ -	\$ 19,890	\$ -	\$ 19,890
Debt service				
Interest	4,462	-	-	4,462
Capital outlay				
Streets and highways	96,480	-	-	96,480
Total Expenditures	\$ 100,942	\$ 19,890	\$ -	\$ 120,832
Excess of Revenues Over (Under) Expenditures	\$ (100,942)	\$ (8,989)	\$ -	\$ (109,931)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 157,968	\$ 157,968
Proceeds from issuance of debt	159,042	-	-	159,042
Total Other Financing Sources (Uses)	\$ 159,042	\$ -	\$ 157,968	\$ 317,010
Net Change in Fund Balance	\$ 58,100	\$ (8,989)	\$ -	\$ 207,079
Fund Balance - January 1	-	99,919	(157,968)	(58,049)
Fund Balance - December 31	\$ 58,100	\$ 90,930	\$ (157,968)	\$ 149,030

OTHER SCHEDULES

CITY OF FRAZEE
FRAZEE, MINNESOTA

Schedule 5

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

Shared Revenue

State

Fire Relief Association supplemental benefit	\$	1,079
Fire state aid		25,308
Local government aid		486,232
PERA rate reimbursement		1,261
Police state aid		24,405
Small Cities Assistance		13,362

Total Shared Revenue \$ 551,647

Payments

Payments in lieu of taxes	\$	18,351
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Grants

State

Minnesota Department of

Health	\$	9,170
Public Safety		5,350
POST Board		954
Public Financing Agency		768,016

Total Grants \$ 783,490

Total Intergovernmental Revenue \$ 1,353,488

MANAGEMENT AND COMPLIANCE SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

**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 6
(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 changed its accounting software beginning in 2017 in an attempt to provide the necessary information in the required format.

PREVIOUSLY REPORTED ITEM RESOLVED

2016-001 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, 2016.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 6
(Continued)

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

Resolution: The Frazee Firefighters Association obtained an actuarial study for the year ended December 31, 2016, to determine its net pension asset 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, 2016, the following funds had deficit cash balances

2003 Red Willow Heights I Debt Service Fund	\$ 126,424
2006 Red Willow Heights II Debt Service Fund	\$ 146,102
Southeast Area and Main Avenue Improvements Capital Improvements	\$ 41,365
2006 Street Improvements Debt Service Fund	\$ 27,246
Southeast Area Streets and Utilities Debt Service Fund	\$ 51,622

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Schedule 7

Finding Number: 2006-001

Finding Title: Segregation of Duties

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

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

Status: Not corrected.

Finding Number: 2006-002

Finding Title: Internal Controls

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

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

Status: Not corrected.

Finding Number: 2008-001

Finding Title: Audit Adjustments

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

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

Status: Not fully corrected.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Finding Number: 2008-002

Finding Title: Deficit Cash Balances

Summary of Condition: Each fund of the City should maintain a positive cash balance. Minnesota Statute § 471.75 permits payment of expenditures provided there is money in the fund for that purpose. At December 31, 2016, the following funds had deficit cash balances:

2003 Red Willow Heights I Debt Service Fund	\$ 82,971
2006 Red Willow Heights II Debt Service Fund	\$ 41,767
Southeast Area and Maine Avenue Improvements Capital Improvements	\$ 157,968
2005 Street Improvements Debt Service Fund	\$ 89,750
Southeast Area Streets and Utilities Debt Service Fund	\$ 22,248

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

Summary of Corrective Action: We recommend the City eliminate the temporary cash balance deficits by transferring from another fund.

Status: Not corrected.

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



Hoffman, Philipp, & Knutson, PLLC

Governmental Audit Services

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

Independent Auditor's Report

City Council
City of Frazee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 10, 2018.

Internal Control Over Financial Reporting

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as items 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 Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Responses as item 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 over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.


Hoffman, Philipp, & Knutson, PLLC
August 10, 2018

