

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2018



Hoffman, Philipp, & Knutson, PLLC

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

TABLE OF CONTENTS

<u>Introductory Section</u>	<u>Reference</u>	<u>Page</u>
Organization Schedule		1
 <u>Financial Section</u>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities	Exhibit 6	21
Proprietary Funds		
Statement of Net Position	Exhibit 7	22
Statement of Revenues, Expenses, and Changes in Net Position	Exhibit 8	23
Statement of Cash Flows	Exhibit 9	24
Notes to the Financial Statements		25

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

TABLE OF CONTENTS

<u>Financial Section</u> (Continued)	<u>Reference</u>	<u>Page</u>
Required Supplementary Information		
Budgetary Comparison Schedule		
General Fund	Schedule 1	57
TIF 1-3 Red Willow Heights Special Revenue Fund	Schedule 2	59
Public Employees Retirement Association of Minnesota		
Schedule of Contributions	Schedule 3	60
Schedule of Proportionate Share of Net Pension Liability	Schedule 4	61
Volunteer Firefighter Retirement Plan		
Schedule of Contributions and Schedule of		
Proportionate Share of Net Pension Liability	Schedule 5	62
Notes to the Required Supplementary Information		63
 Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	67
Combining Statement of Revenues, Expenditures, and Changes		
in Fund Balance	Statement 2	68
Nonmajor Special Revenue Funds		
Combining Balance Sheet	Statement 3	69
Combining Statement of Revenues, Expenditures, and Changes		
in Fund Balance	Statement 4	70
Nonmajor Debt Service Funds		
Combining Balance Sheet	Statement 5	71
Combining Statement of Revenues, Expenditures, and Changes		
in Fund Balance	Statement 6	72
Nonmajor Capital Projects Funds		
Combining Statement of Revenues, Expenditures, and Changes		
in Fund Balance	Statement 7	73
Other Schedules		
Schedule of Intergovernmental Revenue	Schedule 6	74

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

TABLE OF CONTENTS

Management and Compliance Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75
Schedule of Findings and Responses	77
Corrective Action Plan	80
Schedule of Prior Audit Findings	82

INTRODUCTORY SECTION

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2018**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Hank Ludtke ¹	Mayor	December 31, 2018
Bonnie Julius ²	Councilmember	December 31, 2018
Ken Miosek ³	Councilmember	December 31, 2018
Mike Sharp	Vice-Mayor	December 31, 2020
Mark Flemmer	Councilmember	December 31, 2020
Appointed		
Denise Anderson	Administrator/Clerk/Treasurer	Indefinite

¹ Replaced by newly elected Ken Miosek. Term effective 1/1/19-12/31/22.

² Replaced by newly elected Nicole Strand. Term effective 1/1/19-12/31/22.

³ Replaced by newly elected Mark Kemper. Term effective 1/1/19-12/31/22.

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Frazee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee, Minnesota, as of and for the year ended December 31, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019, 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
September 5, 2019



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, 2018. 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 \$5,947,013, of which \$3,666,915 is the net investment in capital assets, \$278,695 is restricted for debt service and general government, and \$2,001,403 is unrestricted. The total net position of governmental activities increased by \$811,831 for the year ended December 31, 2018, mainly as a result of the completion of two large street and utility projects in 2018.

The total net position of business-type activities is \$2,257,398, of which \$1,787,241 is the net investment in capital assets, \$17,585 is restricted for wastewater infrastructure replacement, and \$452,572 is unrestricted. The total net position of business-type activities increased by \$16,404 in 2018, also as a result of the completion of two large street and utility projects in 2018.

At the close of 2018, the City's governmental funds reported combined ending fund balances of \$1,293,854, an increase of \$109,268 from the prior year. Of the total fund balance amount, \$278,695 is legally or contractually restricted, \$17,956 is formally committed for economic development, \$680,004 is assigned for specific purposes, and \$317,199 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

The City reports four governmental fund types: General, Special Revenue, Debt Service, and Capital Projects. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the

General Fund, the TIF 1-3 Red Willow Heights Special Revenue Fund, the 2003 Red Willow Heights I Debt Service Fund, the 2006 Red Willow Heights II Debt Service Fund, and the Southeast Area and Main Avenue West Debt Service Fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Frazee adopts annual budgets for its General Fund and major Special Revenue Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with budgets.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 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 \$8,204,411 at the close of 2018. The largest portion of the City’s net position (approximately 66 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 30 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$2,453,975 as of December 31, 2018, 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 \$901,315 from the prior year, mainly due to the completion of two large street and utility projects in 2018. Deferred outflows of resources related to pensions decreased by \$144,722. Total liabilities increased by \$7,101 from the prior year, also due to the completion of two large street and utility projects in 2018. Deferred inflows of resources related to pensions decreased by \$78,743. This resulted in an increased net position of \$828,235 from the prior year.

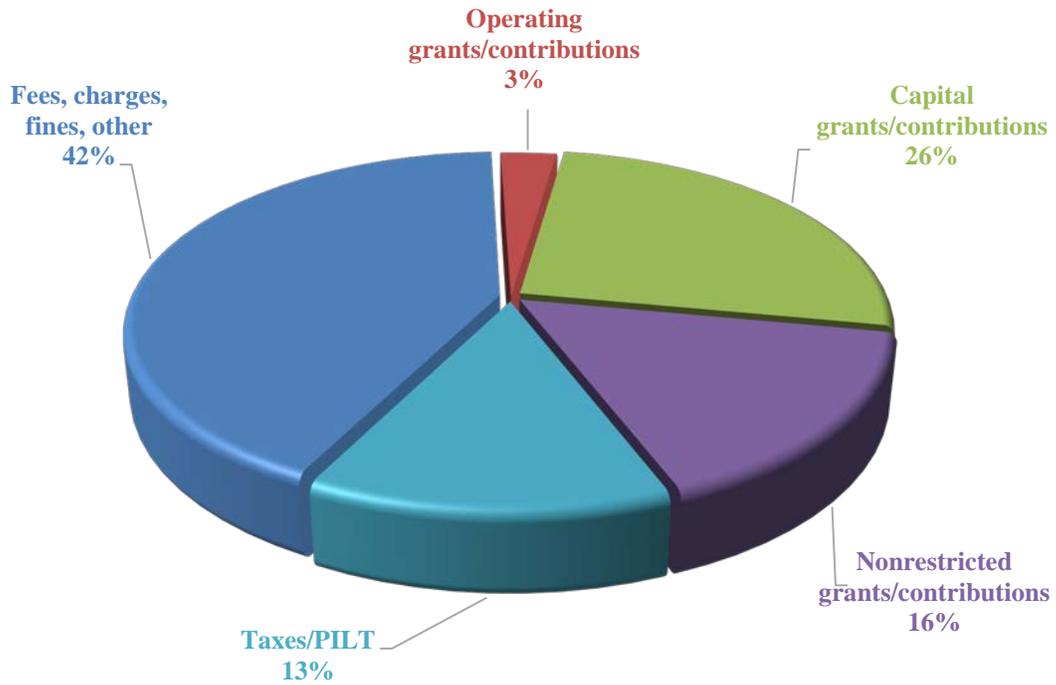
NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,537,859	\$ 1,890,420	\$ 607,525	\$ 821,666	\$ 3,145,384	\$ 2,712,086
Capital assets	5,602,915	5,576,694	2,494,986	2,053,190	8,097,901	7,629,884
Total assets	\$ 8,140,774	\$ 7,467,114	\$ 3,102,511	\$ 2,874,856	\$ 11,243,285	\$ 10,341,970
Deferred outflows - pension	\$ 330,017	\$ 440,988	\$ 56,074	\$ 89,825	\$ 386,091	\$ 530,813
Other liabilities	\$ 50,894	\$ 46,373	\$ 31,220	\$ 43,882	\$ 82,114	\$ 90,255
Long-term liabilities outstanding	2,040,148	2,219,936	794,970	599,940	2,835,118	2,819,876
Total liabilities	\$ 2,091,042	\$ 2,266,309	\$ 826,190	\$ 643,822	\$ 2,917,232	\$ 2,910,131
Deferred inflows - pension	\$ 432,736	\$ 506,611	\$ 74,997	\$ 79,865	\$ 507,733	\$ 586,476
Net position						
Net investment in capital assets	\$ 3,666,915	\$ 3,732,694	\$ 1,787,241	\$ 1,688,296	\$ 5,454,156	\$ 5,420,990
Restricted	278,695	272,027	17,585	-	296,280	272,027
Unrestricted	2,001,403	1,130,461	452,572	552,698	2,453,975	1,683,159
Total net position	\$ 5,947,013	\$ 5,135,182	\$ 2,257,398	\$ 2,240,994	\$ 8,204,411	\$ 7,376,176

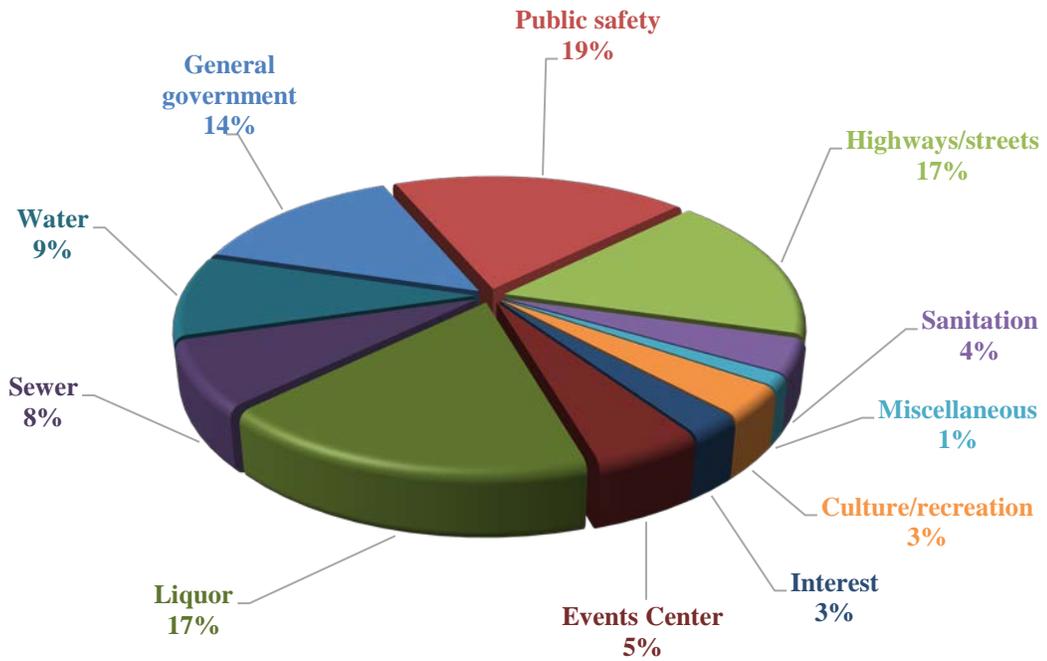
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues and Transfers						
Fees, charges, fines and other	\$ 212,435	\$ 207,744	\$ 1,084,456	\$ 1,067,637	\$ 1,296,891	\$ 1,275,381
Operating grants and contributions	88,521	86,202	-	-	88,521	86,202
Capital grants and contributions	693,673	25,227	98,157	775,489	791,830	800,716
Property taxes	390,254	368,858	-	-	390,254	368,858
Franchise tax	11,420	3,939	-	-	11,420	3,939
Grants and contributions not restricted to specific programs	499,105	487,493	-	-	499,105	487,493
Payments in lieu of taxes	11,665	18,351	-	-	11,665	18,351
Investment earnings	6,066	2,236	1,097	653	7,163	2,889
Insurance dividends	-	4,021	-	-	-	4,021
Transfers	(45,000)	(50,000)	-	-	(45,000)	(50,000)
Total revenues and transfers	\$ 1,868,139	\$ 1,154,071	\$ 1,183,710	\$ 1,843,779	\$ 3,051,849	\$ 2,997,850
Expenses						
General government	\$ 241,689	\$ 358,889	\$ -	\$ -	\$ 241,689	\$ 358,889
Public safety	332,077	464,513	-	-	332,077	464,513
Highways and streets	291,831	274,777	-	-	291,831	274,777
Sanitation	66,693	71,888	-	-	66,693	71,888
Culture and recreation	58,994	33,002	-	-	58,994	33,002
Conservation of natural resources	5,539	4,095	-	-	5,539	4,095
Economic development	16,810	20,722	-	-	16,810	20,722
Interest	42,433	68,400	-	-	42,433	68,400
Events Center	-	-	90,377	64,246	90,377	64,246
Liquor	-	-	777,340	688,964	777,340	688,964
Sewer	-	-	134,806	125,370	134,806	125,370
Water	-	-	164,783	118,264	164,783	118,264
Total expenses	\$ 1,056,066	\$ 1,296,286	\$ 1,167,306	\$ 996,844	\$ 2,223,372	\$ 2,293,130
Increase (decrease) in net position	\$ 812,073	\$ (142,215)	\$ 16,404	\$ 846,935	\$ 828,477	\$ 704,720
Net position - January 1, as previously reported	5,134,940	5,277,397	2,240,994	1,394,059	7,375,934	6,671,456
Net position, December 31	\$ 5,947,013	\$ 5,135,182	\$ 2,257,398	\$ 2,240,994	\$ 8,204,411	\$ 7,376,176

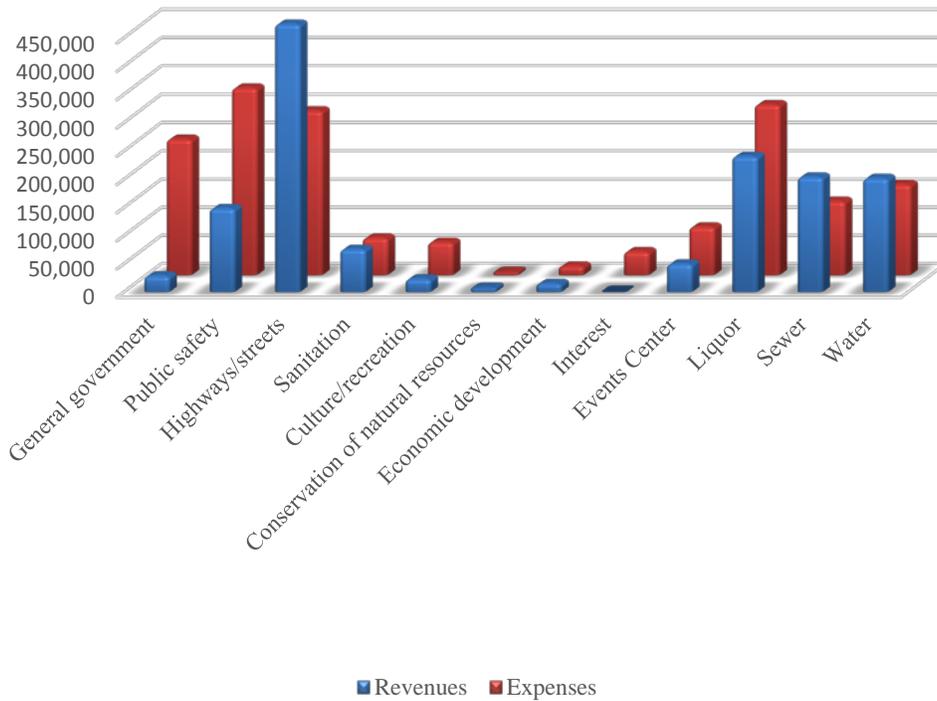
Revenues by Source



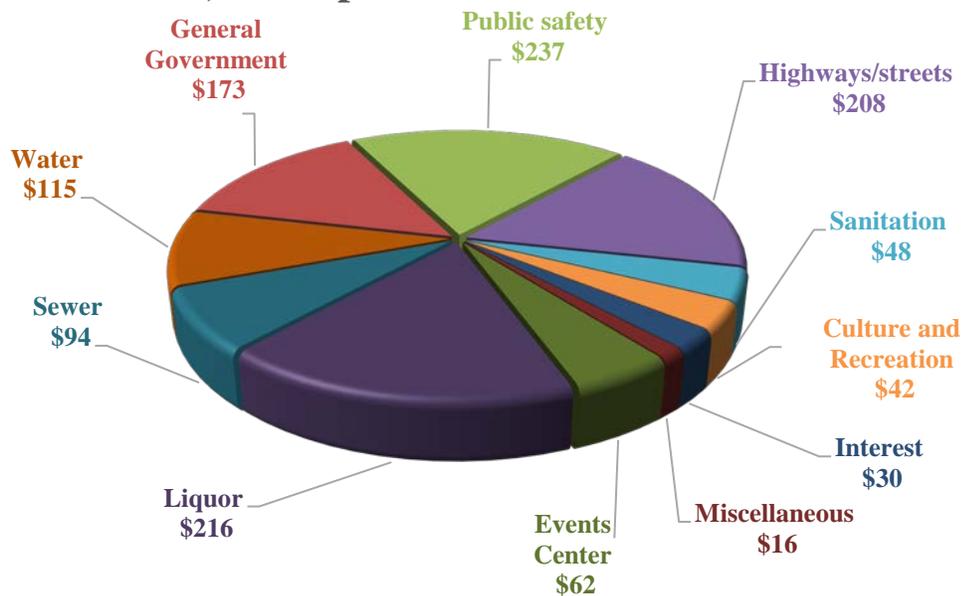
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 1,401 Population as of 2018



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 2018, the City's governmental funds reported combined ending fund balances of \$1,293,854. Of this amount, approximately 22 percent constitutes legally or contractually restricted fund balance, less than one percent constitutes formally committed fund balance, 53 percent constitutes specifically assigned fund balance, and 25 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 \$770,005. The General Fund's assigned fund balance was \$134,225 and the unassigned fund balance was \$635,780. 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 2018. Total fund balance represents 74 percent of total General Fund expenditures. In 2018, the fund balance amount in the General Fund decreased by \$10,922, as a result of closing of the capital projects funds.

The fund balance of the TIF 1-3 Red Willow Heights Special Revenue Fund increased by \$71,474 from the prior year, due to collection of tax increment.

The fund balance of the 2003 Red Willow Heights I Debt Service Fund decreased \$33,815 from the prior year, due to payment of debt.

The fund balance of the 2006 Red Willow Heights II Debt Service Fund decreased \$13,552 from the prior year, due to payment of debt.

The fund balance of the Southeast Area and Main Avenue West Debt Service Fund increased by \$50,091 from the prior year, due to closing inactive debt service funds.

Proprietary Funds

The Events Center Enterprise Fund reported an operating loss in 2018 of \$35,804, indicating that it is not collecting fees for events at a rate higher than current expenses.

The Liquor Enterprise Fund reported an operating loss in 2018 of \$61,407, indicating that it is not collecting funds from sales of liquor at a rate higher than current expenses.

The Sewer Enterprise Fund reported an operating income in 2018 of \$19,418, indicating that it is collecting fees for services at a rate higher than current expenses.

The Water Enterprise Fund reported an operating income in 2018 of \$834, 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 2018.

Actual revenues were more than overall final budgeted revenues by \$36,818, with the largest positive variances in intergovernmental revenue. Actual expenditures were less than overall final budgeted expenditures by \$6,919, 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, 2018, amounted to \$8,097,901. The total increase in the City's investment in capital assets for the current fiscal year was approximately six 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	
	2018	2017	2018	2017	2018	2017
Land	\$ 69,819	\$ 69,819	\$ -	\$ -	\$ 69,819	\$ 69,819
Construction in progress	-	493,258	-	927,170	-	1,420,428
Infrastructure	5,027,971	4,461,332	2,104,484	714,768	7,132,455	5,176,100
Buildings and improvements	256,258	270,285	361,130	378,848	617,388	649,133
Machinery and equipment	248,867	282,000	29,372	32,404	278,239	314,404
Total capital assets	\$ 5,602,915	\$ 5,576,694	\$ 2,494,986	\$ 2,053,190	\$ 8,097,901	\$ 7,629,884

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 \$2,266,500, net of bond discounts, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
G.O. Bonds	\$ 1,707,000	\$ 1,844,000	\$ -	\$ -	\$ 1,707,000	\$ 1,844,000
MN PFA	-	-	384,500	168,894	384,500	168,894
Revenue Bonds	-	-	175,000	196,000	175,000	196,000
	\$ 1,707,000	\$ 1,844,000	\$ 559,500	\$ 364,894	\$ 2,266,500	\$ 2,208,894

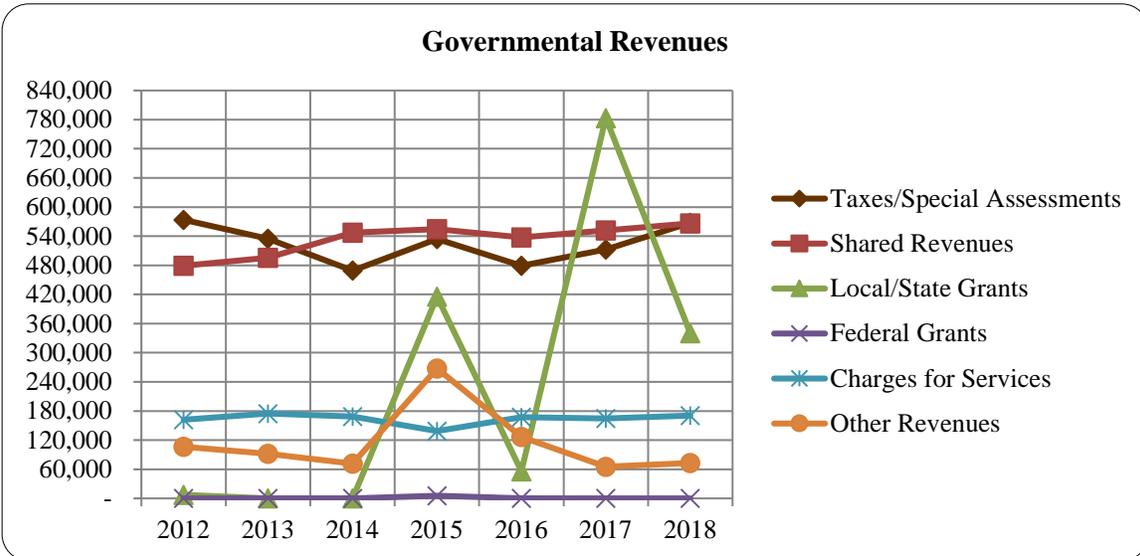
Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2018, overall debt of the City is below the three percent debt limit.

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.



- In 2017 and 2018, the City received loan and grant funding from the Minnesota Public Facilities Authority for a street and utilities improvement project.
- Specific unemployment statistics for the City of Frazee are not available. However, the unemployment rate for Becker County was 4.2 percent as of December 31, 2018. This is higher than the statewide rate of 3.2 percent and higher than the national average rate of 3.7 percent.
- Frazee's 2018 population according to the League of Minnesota Cities was 1,401, an increase of 51 since the 2010 census of 1,350.
- On December 10, 2018, the City of Frazee set its 2019 revenue and expenditure budgets. This budget included specific capital projects to maintain and improve facilities to better serve the public.
- The City of Frazee is optimistic that it will continue to see further development within the City. With several new businesses in the community and new homes popping up every year, there continues to be a progressive and positive community attitude.
- The City of Frazee prides itself in providing the essential services to its citizens, while continually looking for ways to improve and grow. The City continues to apply for and receive assistance from outside agencies to help support ways to accomplish the community's goals.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 607,870	\$ 400,193	\$ 1,008,063	\$ 114,379
Investments	710,610	124,837	835,447	35,124
Taxes receivable				
Current	9,390	-	9,390	-
Prior	15,662	-	15,662	-
Special assessments receivable				
Current	5,393	-	5,393	-
Prior	43,213	-	43,213	-
Accounts receivable	9,935	32,122	42,057	-
Due from other governments	1,550	-	1,550	-
Inventory	-	50,373	50,373	-
Notes receivable	47,594	-	47,594	86,869
Special assessments receivable - noncurrent	955,051	-	955,051	-
Net pension asset	131,591	-	131,591	-
Capital assets				
Non-depreciable	69,819	-	69,819	181,697
Depreciable - net of accumulated depreciation	5,533,096	2,494,986	8,028,082	121,565
Total Assets	\$ 8,140,774	\$ 3,102,511	\$ 11,243,285	\$ 539,634
<u>Deferred Outflows of Resources</u>				
Related to pensions	\$ 330,017	\$ 56,074	\$ 386,091	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 36,385	\$ 21,096	\$ 57,481	\$ 374
Salaries payable	9,576	5,229	14,805	-
Due to other governments	4,933	4,895	9,828	-
Long-term liabilities				
Due within one year	241,288	47,231	288,519	-
Due in more than one year	1,798,860	747,739	2,546,599	-
Total Liabilities	\$ 2,091,042	\$ 826,190	\$ 2,917,232	\$ 374
<u>Deferred Inflows of Resources</u>				
Related to pensions	\$ 432,736	\$ 74,997	\$ 507,733	\$ -
<u>Net Position</u>				
Net investment in capital assets	\$ 3,666,915	\$ 1,787,241	\$ 5,454,156	\$ 303,262
Amounts restricted for				
General government	11,093	-	11,093	-
Debt service	267,602	-	267,602	-
Wastewater Infrastructure Replacement	-	17,585	17,585	-
Unrestricted amounts	2,001,403	452,572	2,453,975	235,998
Total Net Position	\$ 5,947,013	\$ 2,257,398	\$ 8,204,411	\$ 539,260

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Revenues		
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 241,689	\$ 29,314	\$ -
Public safety	332,077	78,678	70,446
Highways and streets	291,831	11,598	13,318
Sanitation	66,693	76,599	-
Culture and recreation	58,994	7,200	4,757
Conservation of natural resources	5,539	7,783	-
Economic development	16,810	1,263	-
Interest	42,433	-	-
Total governmental activities	\$ 1,056,066	\$ 212,435	\$ 88,521
Business-type activities			
Events Center	\$ 90,377	\$ 54,573	\$ -
Liquor	777,340	715,933	-
Sewer	134,806	151,493	-
Water	164,783	162,457	-
Total business-type activities	\$ 1,167,306	\$ 1,084,456	\$ -
Total Primary Government	\$ 2,223,372	\$ 1,296,891	\$ 88,521
Component Unit			
Economic Development Authority	\$ 36,118	\$ 18,483	\$ 5,076

General revenues and transfers

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

Total general revenues and transfers

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (212,375)	\$ -	\$ (212,375)	\$ -
-	(182,953)	-	(182,953)	-
667,584	400,669	-	400,669	-
-	9,906	-	9,906	-
11,834	(35,203)	-	(35,203)	-
-	2,244	-	2,244	-
14,255	(1,292)	-	(1,292)	-
-	(42,433)	-	(42,433)	-
\$ 693,673	\$ (61,437)	\$ -	\$ (61,437)	\$ -
\$ -	\$ -	\$ (35,804)	\$ (35,804)	\$ -
-	-	(61,407)	(61,407)	-
55,853	-	72,540	72,540	-
42,304	-	39,978	39,978	-
\$ 98,157	\$ -	\$ 15,307	\$ 15,307	\$ -
\$ 791,830	\$ (61,437)	\$ 15,307	\$ (46,130)	\$ -
\$ -	\$ -	\$ -	\$ -	\$ (12,559)
	\$ 390,254	\$ -	\$ 390,254	\$ 9,412
	11,420	-	11,420	-
	499,105	-	499,105	-
	11,665	-	11,665	-
	6,066	1,097	7,163	158
	(45,000)	-	(45,000)	45,000
	\$ 873,510	\$ 1,097	\$ 874,607	\$ 54,570
	\$ 812,073	\$ 16,404	\$ 828,477	\$ 42,011
	5,134,940	2,240,994	7,375,934	497,249
	\$ 5,947,013	\$ 2,257,398	\$ 8,204,411	\$ 539,260

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	TIF 1-3 Red Willow Heights Special Revenue	2003 Red Willow Heights I Debt Service
<u>Assets</u>			
Assets			
Cash and pooled investments	\$ 96,226	\$ 13,958	\$ -
Investments	706,549	-	957
Taxes receivable			
Current	7,229	2,117	-
Prior	14,128	1,258	-
Special assessments receivable			
Current	-	-	512
Prior	-	-	9,888
Accounts receivable	9,345	-	-
Due from other funds	-	320,501	-
Due from other governments	1,550	-	-
Notes receivable	-	-	-
Special assessments receivable - noncurrent	-	-	141,752
Total Assets	\$ 835,027	\$ 337,834	\$ 153,109
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 36,385	\$ -	\$ -
Salaries payable	9,576	-	-
Due to other funds	-	-	160,396
Due to other governments	4,933	-	-
Total Liabilities	\$ 50,894	\$ -	\$ 160,396
Deferred Inflows of Resources			
Taxes	\$ 14,128	\$ 1,258	\$ -
Notes	-	-	-
Special assessments	-	-	151,640
Total Deferred Inflows of Resources	\$ 14,128	\$ 1,258	\$ 151,640
Fund Balances			
Restricted for			
Debt service	\$ -	\$ -	\$ -
Perpetual care	-	-	-
Committed to			
Economic development	-	-	-
Assigned to			
General government	134,225	-	-
Sanitation	-	-	-
Economic development	-	336,576	-
Capital projects	-	-	-
Unassigned	635,780	-	(158,927)
Total Fund Balances	\$ 770,005	\$ 336,576	\$ (158,927)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 835,027	\$ 337,834	\$ 153,109

EXHIBIT 3

2006 Red Willow Heights II Debt Service	Southeast Area and Main Avenue West Debt Service	Other Governmental Funds (Statement 1)	Total Governmental Funds
\$ -	\$ 75,917	\$ 421,769	\$ 607,870
-	-	3,104	710,610
-	-	44	9,390
-	-	276	15,662
451	-	4,430	5,393
15,041	15,079	3,205	43,213
-	-	590	9,935
-	-	-	320,501
-	-	-	1,550
-	-	47,594	47,594
69,839	570,977	172,483	955,051
<u>\$ 85,331</u>	<u>\$ 661,973</u>	<u>\$ 653,495</u>	<u>\$ 2,726,769</u>
\$ -	\$ -	\$ -	\$ 36,385
-	-	-	9,576
160,105	-	-	320,501
-	-	-	4,933
<u>\$ 160,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 371,395</u>
\$ -	\$ -	\$ 276	\$ 15,662
-	-	47,594	47,594
84,880	586,056	175,688	998,264
<u>\$ 84,880</u>	<u>\$ 586,056</u>	<u>\$ 223,558</u>	<u>\$ 1,061,520</u>
\$ -	\$ 75,917	\$ 191,685	\$ 267,602
-	-	11,093	11,093
-	-	17,956	17,956
-	-	-	134,225
-	-	24,715	24,715
-	-	82,885	419,461
-	-	101,603	101,603
(159,654)	-	-	317,199
<u>\$ (159,654)</u>	<u>\$ 75,917</u>	<u>\$ 429,937</u>	<u>\$ 1,293,854</u>
<u>\$ 85,331</u>	<u>\$ 661,973</u>	<u>\$ 653,495</u>	<u>\$ 2,726,769</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

Fund balances - total governmental funds (Exhibit 3)	\$	1,293,854
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		5,602,915
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.</p>		1,061,520
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable	\$ (51,784)	
General obligation bonds payable (net of discount)	(1,706,164)	(1,757,948)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
Deferred outflows of resources related to pensions	\$ 330,017	
Deferred inflows of resources related to pensions	(432,736)	
Net pension asset	131,591	
Net pension liability	(282,200)	(253,328)
Net position of governmental activities (Exhibit 1)	\$	5,947,013

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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, 2018**

	General	TIF 1-3 Red Willow Heights Special Revenue	2003 Red Willow Heights I Debt Service
Revenues			
Taxes	\$ 308,180	\$ 71,474	\$ -
Special assessments	-	-	8,451
Licenses and permits	17,777	-	-
Intergovernmental	595,780	-	-
Charges for services	162,477	-	-
Fines and forfeitures	11,598	-	-
Investment earnings	6,005	-	9
Gifts and contributions	15,345	-	-
Miscellaneous	5,750	-	-
	\$ 1,122,912	\$ 71,474	\$ 8,460
Expenditures			
Current			
General government	\$ 230,867	\$ -	\$ -
Public safety	329,988	-	-
Highways and streets	138,544	-	-
Sanitation	66,693	-	-
Culture and recreation	47,531	-	-
Conservation of natural resources	-	-	-
Economic development	-	-	-
Debt service			
Principal retirement	-	-	40,000
Interest	-	-	2,275
Capital outlay			
Public safety	13,991	-	-
Highways and streets	206,561	-	-
	\$ 1,034,175	\$ -	\$ 42,275
Excess of Revenues Over (Under) Expenditures	\$ 88,737	\$ 71,474	\$ (33,815)
Other Financing Sources (Uses)			
Transfers in	\$ 58,100	\$ -	\$ -
Transfers out	(157,759)	-	-
	\$ (99,659)	\$ -	\$ -
Net Change in Fund Balance	\$ (10,922)	\$ 71,474	\$ (33,815)
Fund Balance - January 1	780,927	265,102	(125,112)
Fund Balance - December 31	\$ 770,005	\$ 336,576	\$ (158,927)

EXHIBIT 5

2006 Red Willow Heights II Debt Service	Southeast Area and and Main Avenue West Debt Service	Other Governmental Funds (Statement 2)	Total Governmental Funds
\$ -	\$ -	\$ 17,971	\$ 397,625
20,986	61,674	67,149	158,260
-	-	-	17,777
-	-	-	595,780
-	-	7,783	170,260
-	-	-	11,598
-	-	52	6,066
-	-	-	15,345
-	-	16,126	21,876
\$ 20,986	\$ 61,674	\$ 109,081	\$ 1,394,587
\$ -	\$ -	\$ 4,781	\$ 235,648
-	-	-	329,988
-	-	-	138,544
-	-	-	66,693
-	-	-	47,531
-	-	5,539	5,539
-	-	16,810	16,810
-	-	-	-
-	-	97,000	137,000
8,050	10,773	20,916	42,014
-	-	-	13,991
-	-	-	206,561
\$ 8,050	\$ 10,773	\$ 145,046	\$ 1,240,319
\$ 12,936	\$ 50,901	\$ (35,965)	\$ 154,268
\$ -	\$ -	\$ 139,247	\$ 197,347
(26,488)	-	(58,100)	(242,347)
\$ (26,488)	\$ -	\$ 81,147	\$ (45,000)
\$ (13,552)	\$ 50,901	\$ 45,182	\$ 109,268
(146,102)	25,016	384,755	1,184,586
\$ (159,654)	\$ 75,917	\$ 429,937	\$ 1,293,854

**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) **\$ 109,268**

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	\$ 220,553	
Current year depreciation	(194,331)	26,222

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	\$ 4,049	
Special assessments receivable	509,324	
Notes receivable	3,582	516,955

The issuance of long-term debt provides current financial resources to governmental
funds, but increases long-term liabilities in the Statement of Net Position, while the
repayment of the principal of long-term debt consumes the current financial resources
of governmental funds, however, neither transaction has any effect on net position.

Principal repayments on general obligation bonds		137,000
--	--	---------

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	(5,684)	(6,103)

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	\$ 16,937	
Net pension liability	48,891	
Deferred outflows of resources related to pensions	(110,972)	
Deferred inflows of resources related to pensions	73,875	28,731

Change in net position of governmental activities (Exhibit 2) **\$ 812,073**

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	<u>Events Center Enterprise</u>	<u>Liquor Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Total</u>
<u>Assets</u>					
Current Assets					
Cash and pooled investments	\$ 81,273	\$ 69,673	\$ 120,872	\$ 128,375	\$ 400,193
Investments	-	-	75,310	49,527	124,837
Accounts receivable	-	-	15,186	16,936	32,122
Inventory	-	50,373	-	-	50,373
Total Current Assets	\$ 81,273	\$ 120,046	\$ 211,368	\$ 194,838	\$ 607,525
Noncurrent Assets					
Capital assets					
Depreciable - net of accumulated depreciation	\$ 343,119	\$ 30,769	\$ 755,138	\$ 1,365,960	\$ 2,494,986
Total Assets	\$ 424,392	\$ 150,815	\$ 966,506	\$ 1,560,798	\$ 3,102,511
<u>Deferred Outflows of Resources</u>					
Related to pensions	\$ 3,618	\$ 24,419	\$ 13,566	\$ 14,471	\$ 56,074
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 1,885	\$ 14,661	\$ 1,913	\$ 2,637	\$ 21,096
Salaries payable	-	1,997	1,509	1,723	5,229
Compensated absences payable	-	-	3,890	2,341	6,231
Due to other governments	44	4,667	23	161	4,895
Bonds payable	-	-	16,500	24,500	41,000
Total Current Liabilities	\$ 1,929	\$ 21,325	\$ 23,835	\$ 31,362	\$ 78,451
Noncurrent Liabilities					
Compensated absences payable	\$ -	\$ -	\$ 9,649	\$ 26,977	\$ 36,626
Net pension Liability	12,427	83,880	46,600	49,706	192,613
Bonds payable	-	-	189,500	329,000	518,500
Total Noncurrent Liabilities	\$ 12,427	\$ 83,880	\$ 245,749	\$ 405,683	\$ 747,739
Total Liabilities	\$ 14,356	\$ 105,205	\$ 269,584	\$ 437,045	\$ 826,190
<u>Deferred Inflows of Resources</u>					
Related to pensions	\$ 4,839	\$ 32,660	\$ 18,144	\$ 19,354	\$ 74,997
<u>Net Position</u>					
Net investment in capital assets	\$ 343,119	\$ 30,769	\$ 495,979	\$ 917,374	\$ 1,787,241
Restricted for					
Wastewater Infrastructure Replacement	-	-	17,585	-	17,585
Unrestricted amounts	65,696	6,600	178,780	201,496	452,572
Total Net Position	\$ 408,815	\$ 37,369	\$ 692,344	\$ 1,118,870	\$ 2,257,398

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Events Center Enterprise</u>	<u>Liquor Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Total</u>
Sales and Cost of Goods Sold					
Sales	\$ 31,057	\$ 708,791	\$ -	\$ -	\$ 739,848
Cost of goods sold	(4,040)	(474,662)	-	-	(478,702)
Gross Profit	\$ 27,017	\$ 234,129	\$ -	\$ -	\$ 261,146
Operating Revenues					
Charges for services	-	-	151,493	162,457	313,950
Miscellaneous	23,516	7,142	-	-	30,658
Total Gross Profit and Operating Revenues	\$ 50,533	\$ 241,271	\$ 151,493	\$ 162,457	\$ 605,754
Operating Expenses					
Personnel services	\$ 26,597	\$ 173,976	\$ 79,783	\$ 95,620	\$ 375,976
Advertising	7,087	12,394	-	-	19,481
Entertainment	-	9,124	-	-	9,124
Insurance	3,103	12,152	3,060	1,581	19,896
Repairs and maintenance	5,009	24,450	13,157	19,435	62,051
Supplies	13,392	21,010	3,523	9,174	47,099
Utilities	13,330	26,694	20,120	9,675	69,819
Miscellaneous	548	20,783	1,708	5,093	28,132
Depreciation	17,271	2,095	10,724	21,045	51,135
Total Operating Expenses	\$ 86,337	\$ 302,678	\$ 132,075	\$ 161,623	\$ 682,713
Operating Income (Loss)	\$ (35,804)	\$ (61,407)	\$ 19,418	\$ 834	\$ (76,959)
Nonoperating Revenues (Expenses)					
Intergovernmental	\$ -	\$ -	\$ 55,853	\$ 42,304	\$ 98,157
Investment earnings	-	-	270	827	1,097
Interest expense	-	-	(2,731)	(3,160)	(5,891)
Total Nonoperating Revenues (Expenses)	\$ -	\$ -	\$ 53,392	\$ 39,971	\$ 93,363
Change in Net Position	\$ (35,804)	\$ (61,407)	\$ 72,810	\$ 40,805	\$ 16,404
Net Position - January 1	444,619	98,776	619,534	1,078,065	2,240,994
Net Position - December 31	\$ 408,815	\$ 37,369	\$ 692,344	\$ 1,118,870	\$ 2,257,398

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
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	\$ 54,522	\$ 718,882	\$ 152,452	\$ 159,482	\$ 1,085,338
Payments to employees	(22,641)	(172,129)	(74,586)	(77,146)	(346,502)
Payments to suppliers	(49,200)	(569,148)	(41,352)	(44,575)	(704,275)
Net cash provided by (used in) operating activities	\$ (17,319)	\$ (22,395)	\$ 36,514	\$ 37,761	\$ 34,561
Cash Flows from Capital and Related Financing Activities					
Capital grants received	\$ -	\$ -	\$ 55,853	\$ 42,304	\$ 98,157
Purchase of capital assets	-	-	(176,861)	(316,170)	(493,031)
Proceeds from issuance of debt	-	-	59,706	164,440	224,146
Revenue bond payment	-	-	(12,262)	(17,278)	(29,540)
Interest paid	-	-	(2,731)	(3,160)	(5,891)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ (76,295)	\$ (129,864)	\$ (206,159)
Cash Flows from Investing Activities					
Investment earnings received	\$ -	\$ -	\$ 270	\$ 827	\$ 1,097
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (17,319)	\$ (22,395)	\$ (39,511)	\$ (91,276)	\$ (170,501)
Cash and Cash Equivalents at January 1	98,592	92,068	235,693	269,178	695,531
Cash and Cash Equivalents at December 31	\$ 81,273	\$ 69,673	\$ 196,182	\$ 177,902	\$ 525,030
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (35,804)	\$ (61,407)	\$ 19,418	\$ 834	\$ (76,959)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities					
Depreciation expense	\$ 17,271	\$ 2,095	\$ 10,724	\$ 21,045	\$ 51,135
Decrease (increase) in assets					
Accounts receivable	-	3,848	1,316	(2,594)	2,570
Inventory	-	41,070	-	-	41,070
Increase (decrease) in liabilities					
Accounts payable	413	(10,879)	(378)	212	(10,632)
Salaries payable	-	(1,990)	60	158	(1,772)
Due to other governments	44	(236)	23	(89)	(258)
Compensated absences payable	-	-	2,415	15,172	17,587
Net pension liability	757	5,104	2,936	3,023	11,820
Total adjustments	\$ 18,485	\$ 39,012	\$ 17,096	\$ 36,927	\$ 111,520
Net cash provided by (used in) operating activities	\$ (17,319)	\$ (22,395)	\$ 36,514	\$ 37,761	\$ 34,561

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The City of Frazee was established on February 10, 1891, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Frazee (primary government) and its component unit for which the City is financially accountable.

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

The Frazee Fire Relief Association is organized to provide pension and other benefits to its members in accordance with Minnesota statutes. The Fire Relief Association is a defined benefit plan type and is required by GASB Pronouncement No. 68 to be included in the financial statements of the City.

The City participates in a joint venture as described in Note VI-C.

Discretely Presented Component Unit

While part of the City of Frazee, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Frazee Economic Development Authority (EDA) is a component unit of the City of Frazee and is discretely presented. The EDA was created to enhance economic development for the City. Board members are appointed by the City Council.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

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

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Fund Financial Statements (Continued)

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers tax revenues to be available if they are collected within 60 days after the end of the current period. 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, 2018, 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 2018 were \$1,977. Total investment earnings for 2018 were \$7,163.

3. Receivables and Payables

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2003 through 2018 and deferred special assessments collectible in 2019 and beyond. Taxes and special assessments receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

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

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

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

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

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

4. Inventory

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

5. Capital Assets

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

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

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

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

6. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports delinquent property tax and special assessment receivables, 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

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

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

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

10. Net Position and Fund Balance (Continued)

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

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

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

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board 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, 2018.

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

I. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

II. Stewardship, Compliance, and Accountability

Deficit Fund Balances

The 2003 Red Willow Heights I Debt Service Fund had a deficit fund balance of \$158,927 as of December 31, 2018. This deficit will be eliminated with future special assessments.

The 2006 Red Willow Heights II Debt Service Fund had a deficit fund balance of \$159,654 as of December 31, 2018. This deficit will be eliminated with future special assessments.

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, 2018, are as follows:

Governmental Activities	
Cash and pooled investments	\$ 607,870
Investments	710,610
	\$ 1,318,480
Business-Type Activities	
Cash and pooled investments	\$ 400,193
Investments	124,837
	\$ 525,030
Component Units	
Cash and pooled investments	\$ 114,379
Investments	35,124
	\$ 149,503
Total Cash and Investments	\$ 1,993,013
Checking Accounts	\$ 1,022,067
Savings Accounts	259,480
Certificates of Deposit	102,162
Municipal Money Market Fund	262,339
Negotiable Certificates of Deposit	346,964
	\$ 1,993,013
Total Deposits and Investments	\$ 1,993,013

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

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

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City's policy is to comply with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2018, the City's deposits were not exposed to custodial credit risk.

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2018, the City's investment in a Minnesota Municipal Money Market Fund with a fair value of \$262,339, and negotiable certificates of deposit with a fair value of \$346,964, 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, 2018, is in the nonrated Minnesota Municipal Money Market Fund with a fair value of \$262,339.

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, 2018, 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 14 percent of the City's portfolio, and negotiable certificates of deposit, constitute 18 percent of the City's portfolio.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Fair Value Hierarchy

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

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

At December 31, 2018, the City's investment in the Minnesota Municipal Money Market Fund in the amount of \$262,339 were rated as a level 1 investment. At December 31, 2018, the City's investment in negotiable certificates of deposit in the amount of \$346,964 were rated as a level 2 investment, valued using a market approach based on the securities' relationship to benchmark quoted prices. The City had no level 3 investments.

2. Receivables

Receivables as of December 31, 2018, for the City's governmental activities and business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 25,052	\$ -
Special assessments	1,002,657	955,051
Accounts	9,935	-
Due from other governments	1,550	-
Notes	47,594	31,463
	<u>\$ 1,086,788</u>	<u>\$ 986,514</u>
Business-Type Activities		
Accounts	<u>\$ 32,122</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, 2018, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 69,819	\$ -	\$ -	\$ 69,819
Construction in progress	493,258	206,561	699,819	-
Total capital assets not depreciated	<u>\$ 563,077</u>	<u>\$ 206,561</u>	<u>\$ 699,819</u>	<u>\$ 69,819</u>
Capital assets being depreciated				
Infrastructure	\$ 5,374,921	\$ 699,819	\$ -	\$ 6,074,740
Buildings and improvements	745,600	-	-	745,600
Machinery and equipment	901,249	13,991	-	915,240
Total capital assets being depreciated	<u>\$ 7,021,770</u>	<u>\$ 713,810</u>	<u>\$ -</u>	<u>\$ 7,735,580</u>
Less: accumulated depreciation for				
Infrastructure	\$ 913,589	\$ 133,180	\$ -	\$ 1,046,769
Buildings and improvements	475,315	14,027	-	489,342
Machinery and equipment	619,249	47,124	-	666,373
Total accumulated depreciation	<u>\$ 2,008,153</u>	<u>\$ 194,331</u>	<u>\$ -</u>	<u>\$ 2,202,484</u>
Total capital assets, depreciated, net	<u>\$ 5,013,617</u>	<u>\$ 519,479</u>	<u>\$ -</u>	<u>\$ 5,533,096</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,576,694</u>	<u>\$ 726,040</u>	<u>\$ 699,819</u>	<u>\$ 5,602,915</u>

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in progress	\$ 927,170	\$ 492,931	\$ 1,420,101	\$ -
Capital assets being depreciated				
Infrastructure	\$ 1,118,302	\$ 1,420,101	\$ -	\$ 2,538,403
Buildings and equipment	1,137,670	-	-	1,137,670
Machinery and equipment	396,027	-	-	396,027
Total capital assets being depreciated	<u>\$ 2,651,999</u>	<u>\$ 1,420,101</u>	<u>\$ -</u>	<u>\$ 4,072,100</u>
Less: accumulated depreciation for				
Infrastructure	\$ 403,534	\$ 30,385	\$ -	\$ 433,919
Buildings and improvements	758,822	17,718	-	776,540
Machinery and equipment	363,623	3,032	-	366,655
Total accumulated depreciation	<u>\$ 1,525,979</u>	<u>\$ 51,135</u>	<u>\$ -</u>	<u>\$ 1,577,114</u>
Total capital assets, depreciated, net	<u>\$ 1,126,020</u>	<u>\$ 1,368,966</u>	<u>\$ -</u>	<u>\$ 2,494,986</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,053,190</u>	<u>\$ 1,861,897</u>	<u>\$ 1,420,101</u>	<u>\$ 2,494,986</u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Depreciation Expense

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

Governmental Activities		
General government	\$	3,527
Public safety		35,077
Highways and streets		144,264
Culture and recreation		<u>11,463</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>194,331</u></u>
Business-Type Activities		
Events Center	\$	17,271
Liquor		2,095
Sewer		12,108
Water		<u>19,661</u>
Total Depreciation Expense - Business-Type Activities	\$	<u><u>51,135</u></u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2018 is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
2003 Red Willow Heights Debt Service Fund	TIF 1-3 Red Willow Heights Special Revenue Fund	\$ 160,396	To cover cash deficit
2006 Red Willow Heights Debt Service Fund	TIF 1-3 Red Willow Heights Special Revenue Fund	<u>160,105</u>	To cover cash deficit
Total Due To Other Funds		<u><u>\$ 320,501</u></u>	

Advances

Advances for the year ended December 31, 2018, consisted of the following:

Advance from Small Cities Development Program Capital Projects Fund to EDA Component Unit Fund	\$ 32,529	For economic development
	<u><u>32,529</u></u>	

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

Operating Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following operating transfers:

Transfer to Southeast Area Street and Utilities Debt Service Fund from General Fund	\$ 58,695	To cover cash deficit
Transfer to Southeast Area and Main Avenue Capital Projects Fund from General Fund	54,064	To close fund
Transfer to Economic Development Authority Component Unit Fund from General Fund	45,000	Appropriation
Transfer to General Fund from 4th Street and Maple Avenue Improvements Capital Projects Fund	58,100	To close fund
Transfer to 2006 Street Improvements Debt Service Fund from 2006 Red Willow Heights II Debt Service Fund	<u>26,488</u>	To close fund
Total Interfund Transfers	<u><u>\$ 242,347</u></u>	

C. Liabilities

Compensated Absences

Under the City’s personnel policy, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 15 days per year. Sick leave accrual is 12 days per year. Under the City’s employment policy, leave may be accumulated to a maximum of 25 days of vacation and 120 days of sick leave for employees hired before April 4, 2006 and 100 days sick leave for employees hired after April 6, 2006. Unvested sick leave, approximately \$30,839 at December 31, 2018, 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 \$30,000 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, 2018 is \$45,000, net of unamortized bond discount of \$836.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Governmental Activities (Continued)

City of Frazee General Obligation Refunding Bonds, Series 2012A (Rural Water MIDI Loan) represents debt incurred to refund the General Obligation Street Improvement Bonds of 2006 and the General Obligation Red Willow Heights Improvement Bonds of 2006. These bonds have an original issue amount of \$810,000. They carry a net interest rate of 3.0 percent and are due in annual installments from the Red Willow Heights II Debt Services Fund of \$50,000 to \$70,000 through February 1, 2026. As a result of the refunding, the City of Frazee realized an economic gain of \$65,333 with a present value of \$72,012. The balance outstanding at December 31, 2018 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, 2018 is \$185,000.

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, 2018 is \$308,000.

City of Frazee General Obligation Improvement and Refunding Bonds of 2016A represent debt incurred to refund the General Obligation Street Improvement Bonds of 2008 and provide for 2017 street improvements. These bonds have an original issue amount of \$288,000. They carry a net interest rate of 2.40 percent and are due in annual installments from the 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, 2018 is \$255,000.

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, 2018 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, 2018 is \$175,000.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

City of Frazee Minnesota PFA Clean Water and Drinking Water Revolving Loans represent debt incurred for waste water and drinking water improvements. These loans have an original issue amount of \$393,040. They carry a net interest rate of 1 percent and are due in annual installments from the Water and Sewer Enterprise Funds of \$8,540 to \$20,000 through August 20, 2036. The balance outstanding at December 31, 2018 is \$384,500.

Debt Service Requirements

Debt service requirements at December 31, 2018, are as follows:

Year End December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	229,000	45,453	41,000	7,663
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	200,000	22,107	41,000	4,977
2024-2028	662,000	38,265	175,000	14,825
2029-2033	-	-	111,000	6,775
2034-2036	-	-	68,500	1,365
	<u>\$ 1,707,000</u>	<u>\$ 206,268</u>	<u>\$ 559,500</u>	<u>\$ 54,760</u>
Less: Bond discount	(836)	-	-	-
Total	<u><u>\$ 1,706,164</u></u>	<u><u>\$ 206,268</u></u>	<u><u>\$ 559,500</u></u>	<u><u>\$ 54,760</u></u>

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Improvement Refunding of 2010	\$ 85,000	\$ -	\$ 40,000	\$ 45,000	30,000
Less: Bond discount	(836)	-	-	(836)	-
Refunding, Series 2012A	510,000	-	-	510,000	70,000
Improvement of 2013	223,000	-	38,000	185,000	39,000
Improvement of 2014A	337,000	-	29,000	308,000	30,000
Improvement Refunding of 2016A	285,000	-	30,000	255,000	30,000
Improvement of 2017	404,000	-	-	404,000	30,000
Total General Obligation Bonds	<u>\$ 1,843,164</u>	<u>\$ -</u>	<u>\$ 137,000</u>	<u>\$ 1,706,164</u>	<u>\$ 229,000</u>
Compensated Absences	46,101	24,707	19,025	51,783	12,288
Net Pension Liability	331,091	-	48,891	282,200	-
Governmental Activities Long-Term Liabilities	<u><u>\$ 2,220,356</u></u>	<u><u>\$ 24,707</u></u>	<u><u>\$ 204,916</u></u>	<u><u>\$ 2,040,147</u></u>	<u><u>\$ 241,288</u></u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

Business-Type Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds					
Improvement and Refunding Bonds	\$ 196,000	\$ -	\$ 21,000	\$ 175,000	\$ 21,000
PFA Revolving Loan 2017	168,894	224,146	8,540	384,500	20,000
Total	<u>\$ 364,894</u>	<u>\$ 224,146</u>	<u>\$ 29,540</u>	<u>\$ 559,500</u>	<u>\$ 41,000</u>
Compensated Absences	25,270	23,530	5,943	42,857	6,231
Net Pension Liability	<u>209,776</u>	<u>-</u>	<u>17,163</u>	<u>192,613</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u><u>\$ 599,940</u></u>	<u><u>\$ 247,676</u></u>	<u><u>\$ 52,646</u></u>	<u><u>\$ 794,970</u></u>	<u><u>\$ 47,231</u></u>

D. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes and special assessments, not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2018, are summarized below by fund:

	Taxes	Notes Receivable	Special Assessments	Total
Major governmental funds				
General	\$ 14,128	\$ -	\$ -	\$ 14,128
Special Revenue Funds				
TIF 1-3 Red Willow Heights	1,258	-	-	1,258
2003 Red Willow Heights I	-	-	151,640	151,640
Debt Service Funds				
2006 Red Willow Heights II	-	-	84,880	84,880
Southeast Area and Main Avenue West	-	-	586,056	586,056
Non-major governmental funds				
Special Revenue Funds				
Revolving Loan Pool	-	15,065	-	15,065
TIF 1-4 Swift Site	276	-	-	276
Debt Service Funds				
2008 Street Improvements	-	-	55,841	55,841
County Road 118	-	-	88,429	88,429
Southeast Area Streets and Utilities	-	-	31,418	31,418
Capital Projects Fund				
Small Cities Development Project	<u>-</u>	<u>32,529</u>	<u>-</u>	<u>32,529</u>
Total Deferred Inflows:	<u><u>\$ 15,662</u></u>	<u><u>\$ 47,594</u></u>	<u><u>\$ 998,264</u></u>	<u><u>\$ 1,061,520</u></u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

A. Plan Descriptions

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Fund

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

B. Benefits Provided

1. General Employees Plan Benefits (Continued)

increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to once percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018. The City of Frazee was required to contribute 7.50 percent for Coordinated Plan members. The City of Frazee's contributions to the General Employees Fund for the year ended December 31, 2018, were \$28,121. 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 and the City of Frazee was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City of Frazee's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$27,330. The City of Frazee's contributions were equal to the required contributions as set by state statute.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City of Frazee reported a liability of \$310,665 for its proportionate share of the General Employees Fund's net pension liability. The City of Frazee's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. 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 \$2,383. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. The City of Frazee's proportionate share of the net pension liability was based on the City of Frazee's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018. At June 30, 2018, The City of Frazee's proportionate share was .0056 percent which was an increase of .0003 percent from its proportion measured as of June 30, 2017.

Proportionate share of the net pension liability	\$	310,665
State of Minnesota's proportionate share of the net pension liability associated with the City of Frazee		2,383
Total	\$	313,048

There were no provision changes during the measurement period.

For the year ended December 31, 2018, the City of Frazee recognized pension expense of \$22,805 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Frazee recognized an additional \$10,219 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City of Frazee reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,802	\$ 8,899
Changes in actuarial assumptions	29,147	33,627
Net collective difference between projected and actual investment earnings investment earnings	39,129	69,023
Changes in proportion	14,364	9,414
Contributions paid to PERA subsequent to the measurement date	13,251	-
Total	\$ 103,693	\$ 120,963

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

\$13,251 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount:
2019	\$ 10,698
2020	(15,124)
2021	(19,609)
2022	(6,486)
2023	-

2. Police and Fire Fund Pension Costs

At December 31, 2018, The City of Frazee reported a liability of \$164,148 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Frazee's proportionate share of the net pension liability was based on the City of Frazee's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2018, the City of Frazee's proportion was .015 percent which did not change from its proportionate share measured as of June 30, 2017. The City of Frazee also recognized \$1,386 for the year ended December 31, 2018, 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, 2018, the City of Frazee recognized pension expense of \$15,769 for its proportionate share of the Police and Fire Plan's pension expense.

As of December 31, 2018, the City of Frazee reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,517	\$ 37,878
Changes in actuarial assumptions	212,028	235,513
Net collective difference between projected and actual investment earnings investment earnings	45,531	76,443
Changes in proportion	4,500	36,936
Contributions paid to PERA subsequent to the measurement date	13,407	
Total	\$ 281,983	\$ 386,770

\$13,407 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount:
2019	\$ (12,625)
2020	(8,704)
2021	(27,267)
2022	(69,960)
2023	362
2024	-

Total Pension Expense

The total pension expense for all plans recognized by the City of Frazee for the year ended December 31, 2018, was \$38,574.

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Growth	3.25% per year
Investment Rate of Return	7.50%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2018 valuation were based on the result of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

Police and Fire Fund

1. The mortality projection scale was changed from MP-2016 to MP-2017.
2. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

IV. Defined Benefit Pension Plans (Continued)

F. Pension Liability Sensitivity

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

Sensitivity Analysis (in Thousands)				Sensitivity Analysis (in Thousands)			
<i>Net Pension Liability (Asset) at Different</i>				<i>Net Pension Liability (Asset) at Different</i>			
<i>Discount Rates</i>				<i>Discount Rates</i>			
General Employees Fund				Police and Fire Fund			
1% Lower	6.50%	\$	504,870	1% Lower	6.50%	\$	351,944
Current Discount Rate	7.50%	\$	310,665	Current Discount Rate	7.50%	\$	164,148
1% Higher	8.50%	\$	150,354	1% Higher	8.50%	\$	8,849

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.

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, 2018, membership includes 27 active participants and 7 deferred members entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,400 for each year active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

B. Benefits Provided (Continued)

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:

	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
=	Total Contribution Required

The Plan is funded in part by Fire State Aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$28,760 in Fire State Aid paid by the City to the Relief Association for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2018, there was no statutorily-required City contributions to the plan.

D. Pension Costs

At December 31, 2018, the City reported an asset of \$131,591 for the Association’s net pension asset. The net pension asset was measured as of December 31, 2017, 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 \$13,597 for the year ended December 31, 2018. As December 31, 2018, the City reported deferred inflows of resources from the following sources:

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

V. Defined Benefit Pension Plan – Firefighters Relief Association

D. Pension Costs (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 17,228

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:
2019	\$ (1,678)
2020	(1,680)
2021	(6,986)
2022	(6,421)
2023	(93)
Thereafter	(370)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2018
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount Rate	5.25%
Expected return on plan assets	3.50%
Inflation rate	2.50%

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

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan’s asset allocation as of December 31, 2018 are summarized in the following table:

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

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.

G. Pension Asset Sensitivity

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

	1% Decrease (4.25%)	Discount Rate (5.25%)	1% Increase (6.25%)
Proportionate share of Net Pension Liability	\$ (119,797)	\$ (131,591)	\$ (142,967)

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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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

C. Joint Venture

Frazee Burlington Silverleaf Joint Powers Board

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

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

Funding is provided by participants in amounts determined by the Board on an annual basis. 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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

2. Basis of Presentation (Continued)

position). Enterprise funds are used to account for (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Measurement Focus and Basis of Accounting

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

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

4. Assets, Liabilities, and Net Position

a. Cash and Cash Equivalents

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

b. Deposits and Investments

The cash balances of the funds are invested by the City Administrator/Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments and are reported at their fair value at December 31, 2018, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Total investment earnings for 2018 were \$158.

c. Capital Assets

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

VII. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Position

d. Capital Assets (Continued)

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

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

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

d. Long-Term Obligations

Long-term 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

1. Assets (Continued)

Capital Assets

Capital asset activity for the component unit for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land				
Economic Development Authority	\$ 181,697	\$ -	\$ -	\$ 181,697
Capital assets being depreciated				
Buildings and improvements				
Economic Development Authority	\$ 164,932	\$ -	\$ -	\$ 164,932
Less: accumulated depreciation for				
Buildings and improvements				
Economic Development Authority	\$ 37,866	\$ 5,501	\$ -	\$ 43,367
Total accumulated depreciation	\$ 37,866	\$ 5,501	\$ -	\$ 43,367
Total capital assets, depreciated, net	\$ 127,066	\$ (5,501)	\$ -	\$ 121,565
Total Capital Assets, Net	\$ 308,763	\$ (5,501)	\$ -	\$ 303,262

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 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 321,645	\$ 321,645	\$ 308,180	\$ (13,465)
Licenses and permits	11,825	11,825	17,777	5,952
Intergovernmental	570,105	570,105	595,780	25,675
Charges for services	147,619	147,619	162,477	14,858
Fines and forfeitures	8,000	8,000	11,598	3,598
Investment earnings	2,000	2,000	6,005	4,005
Gifts and contributions	4,200	4,200	15,345	11,145
Miscellaneous	20,700	20,700	5,750	(14,950)
Total Revenues	\$ 1,086,094	\$ 1,086,094	\$ 1,122,912	\$ 36,818
Expenditures				
Current				
General government				
Mayor/council	\$ 17,715	\$ 17,715	\$ 22,306	\$ (4,591)
Financial administration	240,733	240,733	177,119	63,614
Elections	2,420	2,420	1,428	992
Assessor	-	-	8,800	(8,800)
Planning commission	10,250	10,250	21,214	(10,964)
Total general government	\$ 271,118	\$ 271,118	\$ 230,867	\$ 40,251
Public safety				
Police	\$ 309,970	\$ 309,970	\$ 206,600	\$ 103,370
Fire	86,750	86,750	92,671	(5,921)
Fire relief association	19,000	19,000	27,119	(8,119)
Rescue squad	1,650	1,650	3,598	(1,948)
Total public safety	\$ 417,370	\$ 417,370	\$ 329,988	\$ 87,382
Highways and streets				
Street department	\$ 102,258	\$ 102,258	\$ 99,730	\$ 2,528
Snow removal	9,706	9,706	10,296	(590)
Street lighting	31,200	31,200	28,518	2,682
Total highways and streets	\$ 143,164	\$ 143,164	\$ 138,544	\$ 4,620

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Sanitation				
Recycling	\$ 1,085	\$ 1,085	\$ 1,559	\$ (474)
Solid waste	65,000	65,000	65,134	(134)
Total sanitation	\$ 66,085	\$ 66,085	\$ 66,693	\$ (608)
Culture and recreation				
Parks	\$ 44,607	\$ 44,607	\$ 43,350	\$ 1,257
Other culture and recreation	4,250	4,250	4,181	69
Total culture and recreation	\$ 48,857	\$ 48,857	\$ 47,531	\$ 1,326
Total current	\$ 946,594	\$ 946,594	\$ 813,623	\$ 132,971
Capital outlay				
Public safety	\$ 30,000	\$ 30,000	\$ 13,991	\$ 16,009
Highways and streets	46,500	46,500	206,561	(160,061)
Culture and recreation	18,000	18,000	-	18,000
Total capital outlay	\$ 94,500	\$ 94,500	\$ 220,552	\$ (126,052)
Total Expenditures	\$ 1,041,094	\$ 1,041,094	\$ 1,034,175	\$ 6,919
Excess of Revenues Over (Under)				
Expenditures	\$ 45,000	\$ 45,000	\$ 88,737	\$ 43,737
Other Financing Sources (Uses)				
Transfers out	(45,000)	(45,000)	(157,759)	(112,759)
Net Change in Fund Balance	\$ -	\$ -	\$ (10,922)	\$ (10,922)
Fund Balance - January 1	780,927	780,927	780,927	-
Fund Balance - December 31	\$ 780,927	\$ 780,927	\$ 770,005	\$ (10,922)

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
TIF 1-3 RED WILLOW HEIGHTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 70,000	\$ 70,000	\$ 71,474	\$ 1,474
Fund Balance - January 1	<u>265,102</u>	<u>265,102</u>	<u>265,102</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 335,102</u></u>	<u><u>\$ 335,102</u></u>	<u><u>\$ 336,576</u></u>	<u><u>\$ 1,474</u></u>

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 3

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2018**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2018	\$ 28,121	\$ 28,121	\$ -	\$ 374,947	7.5%
December 31, 2017	\$ 26,293	\$ 26,293	\$ -	\$ 352,901	7.5%
December 31, 2016	\$ 25,675	\$ 25,675	\$ -	\$ 342,333	7.5%
December 31, 2015	\$ 24,893	\$ 24,893	\$ -	\$ 331,909	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2018	\$ 27,330	\$ 27,330	\$ -	\$ 165,636	16.5%
December 31, 2017	\$ 25,156	\$ 25,156	\$ -	\$ 155,040	16.2%
December 31, 2016	\$ 24,940	\$ 24,940	\$ -	\$ 153,951	16.2%
December 31, 2015	\$ 25,553	\$ 25,553	\$ -	\$ 157,733	16.2%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 375,270	82.78%	75.93%
June 30, 2017	0.0053%	\$ 338,349	\$ 4,245	\$ 342,594	\$ 350,993	96.40%	75.90%
June 30, 2016	0.0055%	\$ 446,573	\$ 5,862	\$ 452,435	\$ 343,830	129.88%	68.90%
June 30, 2015	0.0056%	\$ 290,221	\$ -	\$ 290,221	\$ 331,609	87.52%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.0015%	\$ 164,148	\$ 1,386	\$ 165,534	\$ 160,606	102.21%	88.84%
June 30, 2017	0.0015%	\$ 202,518	\$ 1,350	\$ 203,868	\$ 159,077	127.31%	85.40%
June 30, 2016	0.0160%	\$ 642,108	\$ 1,440	\$ 643,548	\$ 159,181	403.38%	63.90%
June 30, 2015	0.0170%	\$ 193,160	\$ 1,530	\$ 194,690	\$ 155,181	124.47%	86.60%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 5

**VOLUNTEER FIREFIGHTER RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2017	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2016	\$ -	\$ -	\$ -	N/A	N/A

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

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, 2018	100%	\$ 131,591	N/A	N/A	136.00%
January 1, 2017	100%	\$ 114,654	N/A	N/A	136.00%
January 1, 2016	100%	\$ 95,304	N/A	N/A	132.00%

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Mayor/council	\$ 22,306	\$ 17,715	\$ (4,591)
Assessor	8,800	-	(8,800)
Planning commission	21,214	10,250	(10,964)
Public safety			
Fire	92,671	86,750	(5,921)
Fire relief association	27,119	19,000	(8,119)
Rescure squad	3,598	1,650	(1,948)
Highways and streets			
Snow removal	10,296	9,706	(590)
Sanitation			
Recycling	1,559	1,085	(474)
Solid waste	65,134	65,000	(134)
Capital outlay			
Highways and streets	206,561	46,500	(160,061)

**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. 2018 Changes in Actuarial Assumptions

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

2. 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.

3. 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.

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 2035 and 2.5 percent per year thereafter.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

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.

A. Police and Fire Fund

1. 2018 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

2. 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.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

3. 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.
- 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 1-4 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 Bonds of 2012 for street improvements. Financing is provided by special assessments restricted for debt service. This fund was closed in 2018.

The 2008 Street Improvements Debt Service Fund is used to account for and report debt associated with General Obligation Street Improvement and Refunding Bonds of 2016 for street improvements. Financing is provided by special assessments restricted for debt service.

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

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

The 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 project was completed and this fund was closed in 2018.

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

The Southeast Area and Main Avenue Improvements Capital Projects Fund is used to account for and report the financial resources of the Southeast Area and Main Avenue street and utility projects. Financing is provided by special assessments and bond proceeds assigned to capital projects. The project was completed and this fund was closed in 2018.

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	Special Revenue Funds (Statement 3)	Debt Service Funds (Statement 5)	Small Cities Development Project Capital Projects Fund	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>				
Assets				
Cash and pooled investments	\$ 132,911	\$ 187,255	\$ 101,603	\$ 421,769
Investments	3,104	-	-	3,104
Taxes receivable				
Current	44	-	-	44
Prior	276	-	-	276
Special assessments receivable				
Current	-	4,430	-	4,430
Prior	-	3,205	-	3,205
Accounts receivable	590	-	-	590
Notes receivable	15,065	-	32,529	47,594
Special assessments receivable - noncurrent	-	172,483	-	172,483
Total Assets	\$ 151,990	\$ 367,373	\$ 134,132	\$ 653,495
<u>Deferred Inflows of Resources, and Fund Balances</u>				
Deferred Inflows of Resources				
Taxes	\$ 276	\$ -	\$ -	\$ 276
Notes	15,065	-	32,529	47,594
Special assessments	-	175,688	-	175,688
Total Deferred Inflows of Resources	\$ 15,341	\$ 175,688	\$ 32,529	\$ 223,558
Fund Balances				
Restricted for				
Debt service	\$ -	\$ 191,685	\$ -	\$ 191,685
Perpetual care	11,093	-	-	11,093
Committed to economic development	17,956	-	-	17,956
Assigned to				
Capital projects	-	-	101,603	101,603
Economic development	82,885	-	-	82,885
Sanitation	24,715	-	-	24,715
Total Fund Balances	\$ 136,649	\$ 191,685	\$ 101,603	\$ 429,937
Total Deferred Inflows of Resources and Fund Balances	\$ 151,990	\$ 367,373	\$ 134,132	\$ 653,495

**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, 2018**

	Special Revenue Funds (Statement 4)	Debt Service Funds (Statement 6)	Capital Projects Funds (Statement 7)	Total NonMajor Governmental Funds (Exhibit 5)
Revenues				
Taxes	\$ 17,971	\$ -	\$ -	\$ 17,971
Special assessments	-	67,149	-	67,149
Charges for services	7,783	-	-	7,783
Investment earnings	52	-	-	52
Miscellaneous	5,453	-	10,673	16,126
Total Revenues	\$ 31,259	\$ 67,149	\$ 10,673	\$ 109,081
Expenditures				
Current				
General government	\$ 4,781	\$ -	\$ -	\$ 4,781
Conservation of natural resources	5,539	-	-	5,539
Economic development	16,810	-	-	16,810
Total current	\$ 27,130	\$ -	\$ -	\$ 27,130
Debt service				
Principal retirement	\$ -	\$ 97,000	\$ -	\$ 97,000
Interest	-	20,916	-	20,916
Total debt service	\$ -	\$ 117,916	\$ -	\$ 117,916
Total Expenditures	\$ 27,130	\$ 117,916	\$ -	\$ 145,046
Excess of Revenues Over (Under) Expenditures	\$ 4,129	\$ (50,767)	\$ 10,673	\$ (35,965)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 85,183	\$ 54,064	\$ 139,247
Transfers out	-	-	(58,100)	(58,100)
Total Other Financing Sources (Uses)	\$ -	\$ 85,183	\$ (4,036)	\$ 81,147
Net Change in Fund Balance	\$ 4,129	\$ 34,416	\$ 6,637	\$ 45,182
Fund Balance - January 1	132,520	157,269	94,966	384,755
Fund Balance - December 31	\$ 136,649	\$ 191,685	\$ 101,603	\$ 429,937

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Assets</u>	Cemetery	Storm Water	Revolving Loan Pool	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 1)
Cash and pooled investments	\$ 7,989	\$ 24,125	\$ 17,956	\$ 73,473	\$ 9,368	\$ 132,911
Investments	3,104	-	-	-	-	3,104
Taxes receivable						
Current	-	-	-	-	44	44
Prior	-	-	-	276	-	276
Accounts receivable	-	590	-	-	-	590
Notes receivable	-	-	15,065	-	-	15,065
Total Assets	\$ 11,093	\$ 24,715	\$ 33,021	\$ 73,749	\$ 9,412	\$ 151,990
<u>Deferred Inflows of Resources, and Fund Balances</u>						
Deferred Inflows of Resources						
Taxes	\$ -	\$ -	\$ -	\$ 276	\$ -	\$ 276
Notes	-	-	15,065	-	-	15,065
Total Deferred Inflows of Resources	\$ -	\$ -	\$ 15,065	\$ 276	\$ -	\$ 15,341
Fund Balances						
Restricted for perpetual care	\$ 11,093	\$ -	\$ -	\$ -	\$ -	\$ 11,093
Committed to economic development	-	-	17,956	-	-	17,956
Assigned to						
Sanitation	-	24,715	-	-	-	24,715
Economic development	-	-	-	73,473	9,412	82,885
Total Fund Balances	\$ 11,093	\$ 24,715	\$ 17,956	\$ 73,473	\$ 9,412	\$ 136,649
Total Deferred Inflows of Resources, and Fund Balances	\$ 11,093	\$ 24,715	\$ 33,021	\$ 73,749	\$ 9,412	\$ 151,990

**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, 2018**

	Cemetery	Storm Water	Revolving Loan Pool	TIF 1-4 Swift Site	TIF 1-5 Downtown Renovations	Total (Statement 2)
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 12,652	\$ 5,319	\$ 17,971
Charges for services	-	7,783	-	-	-	7,783
Investment earnings	52	-	-	-	-	52
Miscellaneous	4,190	-	1,263	-	-	5,453
Total Revenues	\$ 4,242	\$ 7,783	\$ 1,263	\$ 12,652	\$ 5,319	\$ 31,259
Expenditures						
Current						
General government	\$ 4,781	\$ -	\$ -	\$ -	\$ -	\$ 4,781
Conservation of natural resources	-	5,539	-	-	-	5,539
Economic development	-	-	15,000	-	1,810	16,810
Total Expenditures	\$ 4,781	\$ 5,539	\$ 15,000	\$ -	\$ 1,810	\$ 27,130
Excess of Revenues Over (Under) Expenditures	\$ (539)	\$ 2,244	\$ (13,737)	\$ 12,652	\$ 3,509	\$ 4,129
Fund Balance - January 1	11,632	22,471	31,693	60,821	5,903	132,520
Fund Balance - December 31	\$ 11,093	\$ 24,715	\$ 17,956	\$ 73,473	\$ 9,412	\$ 136,649

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2008 Street Improvements</u>	<u>County Road 118</u>	<u>Southeast Area Streets and Utilities</u>	<u>Total (Statement 1)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 11,689	\$ 175,566	\$ -	\$ 187,255
Special assessments receivable				
Current	663	-	3,767	4,430
Prior	658	2,409	138	3,205
Noncurrent	55,183	86,020	31,280	172,483
Total Assets	<u>\$ 68,193</u>	<u>\$ 263,995</u>	<u>\$ 35,185</u>	<u>\$ 367,373</u>
 <u>Deferred Inflows of Resources and Fund Balances</u>				
Deferred Inflows of Resources				
Special assessments	\$ 55,841	\$ 88,429	\$ 31,418	\$ 175,688
Fund Balances				
Restricted for debt service	12,352	175,566	3,767	191,685
Deferred Inflows of Resources and Fund Balances	<u>\$ 68,193</u>	<u>\$ 263,995</u>	<u>\$ 35,185</u>	<u>\$ 367,373</u>

**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, 2018**

	2006 Street Improvements	2008 Street Improvements	County Road 118	Southeast Area Streets and Utilities	Total (Statement 2)
Revenues					
Special assessments	\$ -	\$ 15,561	\$ 12,456	\$ 39,132	\$ 67,149
Expenditures					
Debt service					
Principal retirement	\$ -	\$ 30,000	\$ 29,000	\$ 38,000	\$ 97,000
Interest	-	6,480	9,998	4,438	20,916
Total Expenditures	\$ -	\$ 36,480	\$ 38,998	\$ 42,438	\$ 117,916
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (20,919)	\$ (26,542)	\$ (3,306)	\$ (50,767)
Other Financing Sources (Uses)					
Transfers in	26,488	-	-	58,695	85,183
Net Change in Fund Balance	\$ 26,488	\$ (20,919)	\$ (26,542)	\$ 55,389	\$ 34,416
Fund Balance - January 1	(26,488)	33,271	202,108	(51,622)	157,269
Fund Balance - December 31	\$ -	\$ 12,352	\$ 175,566	\$ 3,767	\$ 191,685

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Statement 7

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>4th Street and and Maple Avenue Improvements</u>	<u>Small Cities Development Project (SCDP)</u>	<u>Southeast Area and Main Avenue Improvements</u>	<u>Total (Statement 2)</u>
Revenues				
Miscellaneous	\$ -	\$ 10,673	\$ -	\$ 10,673
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 54,064	\$ 54,064
Transfers out	(58,100)	-	-	(58,100)
Total Other Financing Sources (Uses)	\$ (58,100)	\$ -	\$ 54,064	\$ (4,036)
Net Change in Fund Balance	\$ (58,100)	\$ 10,673	\$ 54,064	\$ 6,637
Fund Balance - January 1	58,100	90,930	(54,064)	94,966
Fund Balance - December 31	\$ -	\$ 101,603	\$ -	\$ 101,603

OTHER SCHEDULES

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

Shared Revenue

State

Fire Relief Association supplemental benefit	\$	5,005
Fire state aid		23,755
Local government aid		497,844
PERA rate reimbursement		1,261
Police state aid		25,156
Small Cities Assistance		13,318
		13,318

Total Shared Revenue **\$ 566,339**

Payments

Payments in lieu of taxes	\$	11,665
		11,665

Grants

Local

Becker County	\$	11,834
		11,834

State

Minnesota Department of

Public Safety	\$	5,942
Public Facilities Authority		98,157
		98,157

Total State Grants **\$ 104,099**

Total Grants **\$ 115,933**

Total Intergovernmental Revenue **\$ 693,937**

Not included as revenue are \$224,146 in Public Facilities Authority loans from the Clean Water Revolving Fund and the Drinking Water Revolving Loan Fund which are recorded as liabilities in the Sewer and Water Enterprise Funds.

MANAGEMENT AND COMPLIANCE SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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

Independent Auditor's Report

City Council
City of Frazee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Frazee as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 5, 2019.

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 of Frazee's Response to Findings

The City's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Hoffman, Philipp, & Knutson, PLLC
September 5, 2019

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2006-001

Finding Title: Segregation of Duties

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

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

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

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

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

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

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

Finding Number: 2006-002

Finding Title: Internal Controls

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

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

controls must include a process for monitoring to ensure effectiveness and efficiency of operations.

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

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

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

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

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

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

Finding Number: 2008-001

Finding Title: Audit Adjustments

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

Condition: During our audit, we identified material adjustments in several funds. Cash 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/Clerk/Treasurer Response: *The City continuously reviews its process for posting transactions in the City's ledgers to increase efficiency. The City changed its accounting software beginning in 2017 in an attempt to provide the necessary information in the required format.*

**CITY OF FRAZEE
FRAZEE, MINNESOTA**

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number: 2008-002

Finding Title: Deficit Cash Balances

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

Condition: At December 31, 2018, the following funds had deficit cash balances

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

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

Effect: Allowing a fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the City and is in noncompliance with Minnesota law. These deficits are reported in the financial statements as amounts due to other funds.

Cause: Special assessments are levied over a period of time to provide for debt service payments, and when taxpayers are delinquent there is not enough cash flow to cover annual debt payments.

Recommendation: We recommend the City eliminate the cash balance deficits by transferring from another fund, or budgeting for the debt payments when determining the annual levy.

City Administrator/Clerk/Treasurer Response: *The City is aware of the deficit in certain accounts. The City has made progress by closing the inactive capital projects funds with deficit balances and will continue to strive for resolution of this issue.*



CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 2006-001

Finding Title: Segregation of Duties

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

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

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

Finding Number: 2006-002

Finding Title: Internal Controls

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

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

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

Finding Number: 2008-001

Finding Title: Audit Adjustments

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

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

Anticipated Completion Date: *December 31, 2019.*

Finding Number: 2008-002

Finding Title: Deficit Cash Balances

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

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

Anticipated Completion Date: *December 31, 2019.*



SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

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 fully corrected.