

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Equity Classifications (Continued)**

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balance at December 31, 2017 consists of prepaid expenditures and land held for sale.

Restricted – Includes the portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Clerk or his/her designee shall have the authority to assign fund balance.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to at least 50% of the annual General Fund operating expenses.

See Note 3.E. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described on the prior page.

**Property Tax**

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. The County of Stearns is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 31 is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Property Tax (Continued)**

Delinquent taxes receivable includes the past six years' uncollected taxes. Delinquent taxes have been offset by deferred inflows of resources for taxes not received within 60 days after year end in the fund financial statements.

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and noncapital financing or investing activities.

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Capital Outlay
	Debt Service

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.D.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral at market value. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**CITY OF FREEPORT, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2017**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**2.B. BUDGETARY INFORMATION**

Annual budgets are adopted on the basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk/Treasurer so that a budget may be prepared. Before September 15, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. See original and final, if applicable, General Fund and Area Fire Service Fund budgets in the Required Supplementary Information section.

**2.C. EXPENDITURES IN EXCESS OF BUDGET**

Actual expenditures exceeded total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures
General	\$ 439,643	\$ 449,012
Area Fire Service	\$ 94,384	\$ 520,405

**NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, deferred outflows, liabilities, deferred inflows, equity, revenues, and expenditures/expenses.

**3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;

**CITY OF FREEPORT, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS** (Continued)

**3.A.   CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

**Deposits** (Continued)

- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At December 31, 2017, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

As of December 31, 2017, the City had the following deposits:

Cash in Checking		\$	1,996,158
Money Market Savings			<u>57,982</u>
 Total Deposits		 \$	 <u><u>2,054,140</u></u>

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

At December 31, 2017, the City does not hold any investments.

**CITY OF FREEPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.B.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Balance at</u> 01/01/17	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at</u> 12/31/17
Governmental Activities:					
Capital Assets not Being Depreciated					
Land	\$ 399,900	\$ -	\$ -	\$ -	\$ 399,900
Capital Assets Being Depreciated					
Buildings and Improvements	1,269,051	-	-	-	1,269,051
Other Improvements and Infrastructure	3,928,581	-	-	-	3,928,581
Machinery and Equipment	195,249	9,108	-	-	204,357
Vehicles	463,770	424,822	-	-	888,592
Total Capital Assets Being Depreciated	5,856,651	433,930	-	-	6,290,581
Less: Accumulated Depreciation					
Buildings and Improvements	(806,644)	(44,153)	-	-	(850,797)
Other Improvements and Infrastructure	(2,028,950)	(115,391)	-	-	(2,144,341)
Machinery and Equipment	(190,120)	(2,985)	-	-	(193,105)
Vehicles	(324,778)	(21,375)	-	-	(346,153)
Total Accumulated Depreciation	(3,350,492)	(183,904)	-	-	(3,534,396)
Total Capital Assets Being Depreciated, Net	<u>2,506,159</u>	<u>250,026</u>	-	-	<u>2,756,185</u>
Capital Assets, Net	<u>\$ 2,906,059</u>	<u>\$ 250,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,156,085</u>

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.B.    CAPITAL ASSETS (Continued)**

	Balance at 01/01/17	Additions	Disposals	Transfers	Balance at 12/31/17
Business-Type Activities:					
Capital Assets not Being Depreciated					
Land	\$ 272,968	\$ -	\$ -	\$ -	\$ 272,968
Capital Assets Being Depreciated					
Buildings and Improvements	2,916,487	-	-	-	2,916,487
Other Improvements and Infrastructure	3,801,072	-	-	-	3,801,072
Total Capital Assets Being Depreciated	6,717,559	-	-	-	6,717,559
Less: Accumulated Depreciation					
Buildings and Improvements	(899,170)	(57,299)	-	-	(956,469)
Other Improvements and Infrastructure	(1,023,241)	(75,414)	-	-	(1,098,655)
Total Accumulated Depreciation	(1,922,411)	(132,713)	-	-	(2,055,124)
Total Capital Assets Being Depreciated, Net	4,795,148	(132,713)	-	-	4,662,435
Capital Assets, Net	<u>\$ 5,068,116</u>	<u>\$ (132,713)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,935,403</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 12,750
Public Safety	16,332
Public Works	146,198
Parks and Recreation	<u>8,624</u>
Total Depreciation Expense	<u>\$ 183,904</u>

**CITY OF FREEPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C.    NONCURRENT LIABILITIES**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. All bonds and certificates set forth below are direct obligations of the City and pledge the full faith and credit of the City.

**Debt Detail**

As of December 31, 2017, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2012A Crossover Refunding Bonds	02/12	\$20,000 - 180,000	1.15-2.25%	02/22	\$ 1,200,000	\$ 860,000
2013A Refunding Bonds	01/13	\$10,000 - 170,000	2.00%	02/21	715,000	490,000
Total Governmental Activities Bonds Payable						1,350,000
Bonds Due Within One Year						285,000
Bonds Due After One Year						\$ 1,065,000

Business Type Activities

General Obligation Bonds						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2012 Water and Sewer Revenue Bonds (USDA)	06/12	\$23,000 - 49,000	2.00%	01/52	\$ 1,352,000	\$ 1,256,000
2013A Refunding Bonds	01/13	\$40,000 - 45,000	2.00-3.25%	02/33	525,000	420,000
Total Business-Type Activities Bonds Payable						1,676,000
Bonds Due Within One Year						65,000
Bonds Due After One Year						\$ 1,611,000

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C.    NONCURRENT LIABILITIES (Continued)**

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2017:

Type of Debt	Balance 01/01/17	Additions	Deductions	Balance 12/31/17	Amounts Due Within One Year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 1,625,000	\$ -	\$ (275,000)	\$ 1,350,000	\$ 285,000
Unamortized Bond Premium	5,855	-	(1,171)	4,684	-
Compensated Absences	6,967	6,572	(4,192)	9,347	-
Net Pension Liability	154,271	-	(45,744)	108,527	-
<b>Total</b>	<b>\$ 1,792,093</b>	<b>\$ 6,572</b>	<b>\$ (326,107)</b>	<b>\$ 1,472,558</b>	<b>\$ 285,000</b>
<i>Business-Type Activities</i>					
General Obligation Bonds	\$ 1,741,000	\$ -	\$ (65,000)	\$ 1,676,000	\$ 65,000
Unamortized Bond Premium	13,694	-	(1,735)	11,959	-
<b>Total</b>	<b>\$ 1,754,694</b>	<b>\$ -</b>	<b>\$ (66,735)</b>	<b>\$ 1,687,959</b>	<b>\$ 65,000</b>

Interest and other fiscal changes total \$61,362 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest and other fiscal charges total \$28,518 in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$34,702 in the Statement of Revenues, Expenses, and Changes and Net Position – Proprietary Funds (included in the line Interest and Other Charges).

Governmental activity debt is typically funded through the Debt Service Fund. Business-Type activity debt is funded through the Water Fund and Sewer Fund. Compensated absences and the net pension liability are funded through the funds to which the respective employees' wages are allocated.

**Annual Debt Service Requirements**

At December 31, 2017, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 285,000	\$ 23,809	\$ 308,809
2019	290,000	18,642	308,642
2020	295,000	13,090	308,090
2021	300,000	7,138	307,138
2022	180,000	2,025	182,025
<b>Totals</b>	<b>\$ 1,350,000</b>	<b>\$ 64,704</b>	<b>\$ 1,414,704</b>



**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C.    NONCURRENT LIABILITIES (Continued)**

**Annual Debt Service Requirements (Continued)**

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 65,000	\$ 35,310	\$ 100,310
2019	66,000	34,010	100,010
2020	71,000	32,640	103,640
2021	72,000	31,285	103,285
2022	67,000	29,750	96,750
2023-2027	244,000	130,594	374,594
2028-2032	250,000	102,922	352,922
2033-2037	196,000	75,627	271,627
2038-2042	194,000	56,929	250,929
2043-2047	215,000	36,720	251,720
2048-2052	236,000	14,330	250,330
<b>Totals</b>	<b>\$ 1,676,000</b>	<b>\$ 580,117</b>	<b>\$ 2,256,117</b>

**3.D.    INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2017:

Major Funds	Transfers Out	Transfers In				Total
		Major Funds		Nonmajor		
		General	Area Fire Service	Other Governmental		
General	\$ 134,924	\$ -	\$ 39,924	\$ 95,000	\$ 134,924	
Area Fire Service	3,500	3,500	-	-	3,500	
Water	41,000	41,000	-	-	41,000	
Sewer	41,000	41,000	-	-	41,000	
	220,424	85,500	39,924	95,000	220,424	
<b>Nonmajor Funds</b>						
Governmental	5,000	5,000	-	-	5,000	
	<u>\$ 225,424</u>	<u>\$ 90,500</u>	<u>\$ 39,924</u>	<u>\$ 95,000</u>	<u>\$ 225,424</u>	

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There are no interfund balances at December 31, 2017.

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.E.    FUND EQUITY**

At December 31, 2017, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids	\$       12,752
Unassigned	<u>568,088</u>
Total General Fund Balance	<u>\$       580,840</u>
Debt Service Fund	
Restricted for Debt Service	<u>\$       411,852</u>
Area Fire Service Fund	
Nonspendable - Prepaids	\$           3,869
Committed for Fire Service	<u>163,989</u>
Total Area Fire Service Fund Balance	<u>\$       167,858</u>
Other Governmental Funds	
Nonspendable - Land Held for Sale	\$       102,136
Restricted for Loan Subsidization	93,699
Committed for Economic Development	28,951
Assigned for Capital Projects	<u>185,254</u>
Total Other Governmental Funds Balance	<u>\$       410,040</u>

**NOTE 4    OTHER NOTES**

**4.A.    EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

The City 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.

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Plan Description (Continued)**

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

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

**Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature.

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

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

**Contributions**

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017 total \$8,083. The City's contributions were equal to the required contributions as set by State Statute.

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Pension Costs**

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$108,527 for its proportionate share of the General Employees Fund's net pension liability. The City of Freeport's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,362. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the City's proportionate share was 0.0017% which was a decrease of 0.0002% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$392 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$39 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City 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	\$ 3,577	\$ 7,804
Changes in actuarial assumptions	20,137	10,880
Difference between projected and actual investment earnings	2,952	-
Changes in proportion	3,523	41,898
Contributions paid to PERA subsequent to the measurement date	4,025	-
Total City Deferred Outflows/Inflows	\$ 34,214	\$ 60,582

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Pension Costs (Continued)**

A total of \$4,025 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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
2018	\$ (9,195)
2019	\$ (11,063)
2020	\$ (5,528)
2021	\$ (4,607)

**Actuarial Assumptions**

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- 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.

**CITY OF FREEPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees 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.

**Pension Liability Sensitivity**

The following presents the City'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's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	Sensitivity of Net Pension Liability at Current Single Discount Rate		
	1% Decrease in		1% Increase in
	Discount Rate (6.5%)	Discount Rate (7.5%)	Discount Rate (8.5%)
Net Pension Liability	\$ 168,333	\$ 108,527	\$ 59,564

**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](http://www.mnpera.org).

**CITY OF FREEPORT, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2017**

**NOTE 4 OTHER NOTES (Continued)**

**4.B. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City’s management is not aware of any incurred but no reported claims.

**4.C. TAX INCREMENT DISTRICTS**

The City occasionally enters into tax increment financing arrangements with local businesses, for the purpose of stimulating economic growth within the City. Eligibility for businesses seeking tax abatements of this nature is determined in accordance the applicable Minnesota Statutes, and such arrangements generally include a commitment by the local business to use the abated funds for financing a development or redevelopment project. Any tax increment generated by the district and not retained by the City for administrative costs is returned to the business to finance the debt incurred for the related improvements.

The following is a summary of the City’s current tax increment financing district:

Name of District:	Economic Development District #2-1	
Business Name:	Swany White Flour Mills, LTD	
Purpose:	Economic Development	
Authorizing Law:	MN Statutes Sections 469.174	
Year Established:	2012	
Duration of District:	10 Years	
Original Base Net Tax Capacity:		\$ <u>1,052</u>
Current Net Tax Capacity:		\$ <u>3,112</u>
Captured Net Tax Capacity:		
Retained by City		\$ <u>2,060</u>
Shared with Other Taxing Districts		\$ <u>-</u>
Taxes Abated in 2017:		\$ <u>2,986</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF FREEPORT, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
	Orginal	Final		
<b>RESOURCES (INFLOWS):</b>				
Taxes	\$ 274,500	\$ 249,800	\$ 251,665	\$ 1,865
Special Assessments	675	675	-	(675)
Licenses, Permits, and Fees	8,925	8,925	15,986	7,061
Intergovernmental	112,450	112,450	112,896	446
Charges for Services	1,600	1,600	880	(720)
Fines	1,500	1,500	1,364	(136)
Investment Income	2,500	2,500	3,920	1,420
Miscellaneous	6,140	6,140	35,145	29,005
Transfers In	88,500	90,500	90,500	-
<b>AMOUNTS AVAILABLE</b>	<u>496,790</u>	<u>474,090</u>	<u>512,356</u>	<u>38,266</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General Government:				
General Government	34,721	34,359	28,557	(5,802)
Mayor and Council	7,951	8,101	5,854	(2,247)
Clerk and Administration	90,952	90,952	85,302	(5,650)
Elections	415	415	427	12
Professional Services	21,660	21,660	18,533	(3,127)
Planning and Zoning	1,250	1,250	-	(1,250)
Public Safety	4,200	4,200	5,253	1,053
Public Works	135,021	131,971	125,558	(6,413)
Parks and Recreation	11,811	11,811	44,604	32,793
Transfers Out	154,924	134,924	134,924	-
<b>TOTAL CHARGES</b>	<u>462,905</u>	<u>439,643</u>	<u>449,012</u>	<u>9,369</u>
<b>BUDGETARY CHANGE IN FUND BALANCE</b>	<u>\$ 33,885</u>	<u>\$ 34,447</u>	63,344	<u>\$ 28,897</u>
<b>FUND BALANCE - BEGINNING</b>			<u>517,496</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 580,840</u>	

**CITY OF FREEPORT, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE-AREA FIRE SERVICE FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over
<b>RESOURCES (INFLOWS):</b>			
Intergovernmental	\$ 12,000	\$ 21,098	\$ 9,098
Charges for Services	89,949	97,898	7,949
Investment Income	-	9,097	9,097
Miscellaneous	4,000	23,717	19,717
Transfers In	39,924	39,924	-
<b>AMOUNTS AVAILABLE</b>	145,873	191,734	45,861
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
Public Safety	90,884	516,905	426,021
Transfers Out	3,500	3,500	-
<b>TOTAL CHARGES</b>	94,384	520,405	426,021
<b>BUDGETARY CHANGE IN FUND BALANCE</b>	\$ 51,489	(328,671)	\$ (380,160)
<b>FUND BALANCE - BEGINNING</b>		496,529	
<b>FUND BALANCE - ENDING</b>		\$ 167,858	

**CITY OF FREEPORT, MINNESOTA  
SCHEDULE OF CITY'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered- Employee Payroll (c)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><i>General Employees Retirement Fund Pension Plan</i></b>							
2017	0.0017%	\$ 108,527	\$ 1,362	\$ 109,889	\$ 109,160	100.7%	75.9%
2016	0.0019%	\$ 154,271	\$ 1,989	\$ 156,260	\$ 117,276	133.2%	68.9%
2015	0.0031%	\$ 160,658	-	\$ 160,658	\$ 205,360	78.2%	78.2%

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF FREEPORT, MINNESOTA  
SCHEDULE OF CITY CONTRIBUTIONS  
LAST TEN YEARS (Presented Prospectively)**

For the Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
<b><i>General Employees Retirement Fund Pension Plan</i></b>					
2017	\$ 8,083	\$ 8,083	\$ -	\$ 107,773	7.5%
2016	\$ 8,113	\$ 8,113	\$ -	\$ 108,174	7.5%
2015	\$ 9,315	\$ 9,315	\$ -	\$ 124,200	7.5%

Note: The schedule is provided prospectively with the City's fiscal year ending December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF FREEPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2017**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Swany White TIF District Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 122,608	\$ 185,254	\$ -	\$ 307,862
Property Taxes Receivable	135	-	-	135
Land Held for Sale	102,136	-	-	102,136
Notes Receivable	2,870	-	-	2,870
<b>TOTAL ASSETS</b>	<b>\$ 227,749</b>	<b>\$ 185,254</b>	<b>\$ -</b>	<b>\$ 413,003</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue:				
Property Taxes	93	-	-	93
Notes Receivable	2,870	-	-	2,870
Total Deferred Inflows of Resources	2,963	-	-	2,963
<b>FUND BALANCES</b>				
Nonspendable	102,136	-	-	102,136
Restricted	93,699	-	-	93,699
Committed	28,951	-	-	28,951
Assigned	-	185,254	-	185,254
Total Fund Balances	224,786	185,254	-	410,040
<b>TOTAL LIABILITIES, DEFERRED    INFLOWS OF RESOURCES,    AND FUND BALANCES</b>	<b>\$ 227,749</b>	<b>\$ 185,254</b>	<b>\$ -</b>	<b>\$ 413,003</b>

**CITY OF FREEPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Swany White TIF District Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 9,971	\$ -	\$ 2,986	\$ 12,957
Intergovernmental	-	8,980	-	8,980
Notes Receivable - Collections	1,146	-	-	1,146
Investment Income	1,082	1,313	-	2,395
Miscellaneous	-	1,000	-	1,000
<b>TOTAL REVENUES</b>	<u>12,199</u>	<u>11,293</u>	<u>2,986</u>	<u>26,478</u>
<b>EXPENDITURES</b>				
Current:				
Public Works	-	10,280	-	10,280
Parks and Recreation	-	50	-	50
Economic Development	25,657	-	2,986	28,643
<b>TOTAL EXPENDITURES</b>	<u>25,657</u>	<u>10,330</u>	<u>2,986</u>	<u>38,973</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(13,458)	963	-	(12,495)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds on Sale of Assets	14,383	-	-	14,383
Operating Transfers In	-	95,000	-	95,000
Operating Transfers Out	(5,000)	-	-	(5,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>9,383</u>	<u>95,000</u>	<u>-</u>	<u>104,383</u>
<b>NET CHANGE IN FUND BALANCES</b>	(4,075)	95,963	-	91,888
<b>FUND BALANCES - BEGINNING</b>	<u>228,861</u>	<u>89,291</u>	<u>-</u>	<u>318,152</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 224,786</u>	<u>\$ 185,254</u>	<u>\$ -</u>	<u>\$ 410,040</u>

**CITY OF FREEPORT, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
DECEMBER 31, 2017**

	<u>Economic Development Authority Fund</u>	<u>Small Cities Grant Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 28,909	\$ 93,699	\$ 122,608
Property Taxes Receivable	135	-	135
Land Held for Sale	102,136	-	102,136
Notes Receivable	<u>-</u>	<u>2,870</u>	<u>2,870</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 131,180</u></u>	<u><u>\$ 96,569</u></u>	<u><u>\$ 227,749</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue:			
Property Taxes	\$ 93	\$ -	\$ 93
Notes Receivable	<u>-</u>	<u>2,870</u>	<u>2,870</u>
Total Deferred Inflows of Resources	93	2,870	2,963
<b>FUND BALANCES</b>			
Nonspendable	102,136	-	102,136
Restricted	-	93,699	93,699
Committed	<u>28,951</u>	<u>-</u>	<u>28,951</u>
Total Fund Balances	<u><u>131,087</u></u>	<u><u>93,699</u></u>	<u><u>224,786</u></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
	<u><u>\$ 131,180</u></u>	<u><u>\$ 96,569</u></u>	<u><u>\$ 227,749</u></u>



**CITY OF FREEPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Economic Development Authority Fund	Small Cities Grant Fund	Total Nonmajor Special Revenue Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$      9,971	\$          -	\$      9,971
Note Receivable - Collections	-	1,146	1,146
Investment Income	267	815	1,082
<b>TOTAL REVENUES</b>	<u>10,238</u>	<u>1,961</u>	<u>12,199</u>
<b>EXPENDITURES</b>			
Current:			
Economic Development	<u>25,657</u>	<u>          -</u>	<u>25,657</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(15,419)	1,961	(13,458)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds on Sale of Assets	14,383	-	14,383
Operating Transfers Out	<u>(5,000)</u>	<u>          -</u>	<u>(5,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>9,383</u>	<u>          -</u>	<u>9,383</u>
<b>NET CHANGE IN FUND BALANCES</b>	(6,036)	1,961	(4,075)
<b>FUND BALANCES - BEGINNING</b>	<u>137,123</u>	<u>91,738</u>	<u>228,861</u>
<b>FUND BALANCES - ENDING</b>	<u>\$  131,087</u>	<u>\$  93,699</u>	<u>\$  224,786</u>

**CITY OF FREEPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS  
 DECEMBER 31, 2017**

	South End Park Fund	North End Park Fund	Old Tower Preservation Fund	Street Improvements Fund	Capital Equipment Fund	Street Light Fund	Total Nonmajor Capital Projects Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	<u>\$ 6,760</u>	<u>\$ 2,727</u>	<u>\$ 5,326</u>	<u>\$ 140,174</u>	<u>\$ 20,212</u>	<u>\$ 10,055</u>	<u>\$ 185,254</u>
<b>FUND BALANCES</b>							
Assigned	<u>\$ 6,760</u>	<u>\$ 2,727</u>	<u>\$ 5,326</u>	<u>\$ 140,174</u>	<u>\$ 20,212</u>	<u>\$ 10,055</u>	<u>\$ 185,254</u>

**CITY OF FREEPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	South End Park Fund	North End Park Fund	Old Tower Preservation Fund	Street Improvements Fund	Capital Equipment Fund	Street Light Fund	Total Nonmajor Capital Projects Funds
<b>REVENUES</b>							
Intergovernmental	\$ -	\$ -	\$ -	\$ 8,980	\$ -		\$ 8,980
Investment Income	43	23	46	1,004	142	55	1,313
Miscellaneous	-	1,000	-	-	-	-	1,000
<b>TOTAL REVENUES</b>	<u>43</u>	<u>1,023</u>	<u>46</u>	<u>9,984</u>	<u>142</u>	<u>55</u>	<u>11,293</u>
<b>EXPENDITURES</b>							
Current:							
Public Works	-	-	-	10,280	-	-	10,280
Parks and Recreation	-	50	-	-	-	-	50
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>50</u>	<u>-</u>	<u>10,280</u>	<u>-</u>	<u>-</u>	<u>10,330</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	43	973	46	(296)	142	55	963
<b>OTHER FINANCING SOURCES</b>							
Operating Transfers In	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>10,000</u>	<u>10,000</u>	<u>95,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	5,043	973	46	69,704	10,142	10,055	95,963
<b>FUND BALANCES - BEGINNING</b>	<u>1,717</u>	<u>1,754</u>	<u>5,280</u>	<u>70,470</u>	<u>10,070</u>	<u>-</u>	<u>89,291</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 6,760</u>	<u>\$ 2,727</u>	<u>\$ 5,326</u>	<u>\$ 140,174</u>	<u>\$ 20,212</u>	<u>\$ 10,055</u>	<u>\$ 185,254</u>

**CITY OF FREEPORT, MINNESOTA  
 SUPPLEMENTAL COMBINING BALANCE SHEET  
 MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND  
 DECEMBER 31, 2017**

	G.O. Improvement Crossover Refunding Bonds of 2012	G.O. Improvement Crossover Refunding Bonds of 2013	Total Debt Service Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 304,953	\$ 105,809	\$ 410,762
Property Taxes Receivable	1,221	1,231	2,452
Assessments Receivable	<u>551,009</u>	<u>50,240</u>	<u>601,249</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 857,183</u></u>	<u><u>\$ 157,280</u></u>	<u><u>\$ 1,014,463</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue:			
Property Taxes	\$ 824	\$ 840	\$ 1,664
Special Assessments	<u>551,009</u>	<u>49,938</u>	<u>600,947</u>
Total Deferred Inflows of Resources	551,833	50,778	602,611
<b>FUND BALANCE</b>			
Restricted	<u>305,350</u>	<u>106,502</u>	<u>411,852</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u><u>\$ 857,183</u></u>	<u><u>\$ 157,280</u></u>	<u><u>\$ 1,014,463</u></u>

**CITY OF FREEPORT, MINNESOTA  
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	G.O. Improvement Crossover Refunding Bonds of 2012	G.O. Improvement Crossover Refunding Bonds of 2013	Total Debt Service Fund
<b>REVENUES</b>			
Taxes	\$ 116,282	\$ 100,718	\$ 217,000
Investment Income	2,150	410	2,560
<b>TOTAL REVENUES</b>	<u>118,432</u>	<u>101,128</u>	<u>219,560</u>
<b>EXPENDITURES</b>			
Debt Service:			
Principal	160,000	115,000	275,000
Interest and Other Charges	18,062	11,445	29,507
<b>TOTAL EXPENDITURES</b>	<u>178,062</u>	<u>126,445</u>	<u>304,507</u>
<b>NET CHANGE IN FUND BALANCE</b>	(59,630)	(25,317)	(84,947)
<b>FUND BALANCE - BEGINNING</b>	<u>364,980</u>	<u>131,819</u>	<u>496,799</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 305,350</u>	<u>\$ 106,502</u>	<u>\$ 411,852</u>

**CITY OF FREEPORT, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 1/1/2017</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/2017</u>	<u>Principal Due in 2018</u>
<b>GENERAL OBLIGATION BONDS</b>									
GO Improvement Crossover Refunding Bonds - 2012A	2/1/2012	1.15-2.25%	2/1/2022	\$ 1,200,000	\$ 1,020,000	\$ -	\$ 160,000	\$ 860,000	\$ 165,000
GO Refunding Bonds - 2013A	1/1/2013	2.00%	2/1/2021	715,000	605,000	-	115,000	490,000	120,000
<b>TOTAL GENERAL OBLIGATION BONDS</b>				1,915,000	1,625,000	-	275,000	1,350,000	285,000
<b>ENTERPRISE DEBT</b>									
GO Water and Sewer Revenue Bonds - 2012	6/28/2012	2.00%	1/1/2052	1,352,000	1,281,000	-	25,000	1,256,000	25,000
GO Refunding Bonds - 2013A	1/1/2013	2.00-3.25%	2/1/2033	525,000	460,000	-	40,000	420,000	40,000
<b>TOTAL ENTERPRISE DEBT</b>				1,877,000	1,741,000	-	65,000	1,676,000	65,000
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 3,792,000</u>	<u>\$ 3,366,000</u>	<u>\$ -</u>	<u>\$ 340,000</u>	<u>\$ 3,026,000</u>	<u>\$ 350,000</u>

## **OTHER REPORTS**

**INDEPENDENT AUDITORS' 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**

June 5, 2018

Honorable Mayor and City Council  
City of Freeport, Minnesota

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, each major fund, and the aggregate remaining fund information of the City of Freeport (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Freeport's basic financial statements, and have issued our report thereon dated June 5, 2018.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2014-001 and 2017-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompany *Schedule of Findings and Responses* to be a significant deficiency: 2014-002.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

## **City's Response to Findings**

The City of Freeport's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**INDEPENDENT AUDITORS' REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

June 5, 2018

Honorable Mayor and City Council  
City of Freeport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, Minnesota (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, contracting and bidding, 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 items 2017-002, 2017-003, and 2017-004. 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.

This report is intended for the information and use of the City Council and management of the City of Freeport, Minnesota and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota