



CITY OF FREEPORT

125 Main Street E – PO Box 301 – Freeport, MN 56331 – 320-836-2112
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May 29, 2018 - Regular Meeting Agenda
Freeport City Hall - 7:00 pm

Call to Order

- I. Approve Agenda
- II. TIF District Public Hearings
- III. 2017 Audit Presentation (1-78)
- IV. Open Public Forum
- V. Consent Agenda
 - a. May 29, 2018 Regular Meeting Minutes (79-82)
 - b. Claims 3200-3228 (83-86)
 - c. Sheriff's Report (87)
 - d. Resolution 2018-08 – Election Judges (88)
- VI. Reports
 - a. Clerk Report (89-90)
 - b. Treasurer Report (N/A)
 - c. Public Works Report (91-92)
 - d. Engineer Report (N/A)
 - e. Attorney Report (93)
 - f. Fire Department Report (N/A)
- VII. Old Business
 - a. Welle Addition Park (94)
 - b. Public Nuisance Properties (95)
 - i.* Loehrer
 - ii.* Beach
 - c. Solar Gardens (96)
 - d. Treasurer Position (97-102)
- VIII. Adjourn

Next Meeting: July 31, 2018

CITY OF FREEPORT, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

**CITY OF FREEPORT, MINNESOTA
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**INTRODUCTORY
SECTION**

**CITY OF FREEPORT, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CITY COUNCIL		<u>Term Expires</u>
Rodney Atkinson	Mayor	December 31, 2018
Ben Eittle	Council Member	December 31, 2018
Mike Eveslage	Council Member	December 31, 2020
Tim Hennen	Council Member	December 31, 2018
Jake Renneker	Council Member	December 31, 2020
 CITY OFFICIALS		
Adrianna Hennen	Clerk/Treasurer	
Doug Petersen	Deputy Treasurer	

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

June 5, 2018

Honorable Mayor and City Council
City of Freeport, Minnesota

Report on the Financial Statements

We have audited the accompanying 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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, Minnesota, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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St. Cloud
320.251.0286

Little Falls
320.632.6311

Albany 7
320.845.2940

Maple Lake
320.963.5414

Monticello
763.295.5070

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of City's Proportionate Share of the Net Pension Liability, and Schedule of City Contributions 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's basic financial statements. The introductory section, combining nonmajor fund financial statements, supplementary combining debt service fund schedules, and schedule of indebtedness, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, combining nonmajor fund financial statements, supplementary combining debt service fund schedules, and schedule of indebtedness have not been subject 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 June 5, 2018 on our consideration of the City of Freeport's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Freeport's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated June 5, 2018, on our consideration of City of Freeport's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section § 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Our discussion and analysis of the City of Freeport's financial performance provides an overview of the City's financial activities for the year ended December 31, 2017. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page twelve.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$213,364 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues increased \$6,037 (or 2.32 percent) and expenses increased \$4,154 (or 1.98 percent).
- Total cost of all of the City's programs decreased \$14,830 (or 1.76 percent).
- The City's General Fund generated more revenue than budgeted of \$38,266 excluding transfers. Expenditures were more than budgeted by \$9,369, excluding transfers to other funds which approximated budgeted amounts.

USING THIS ANNUAL REPORT

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages twelve and thirteen) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page fourteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page six. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities and deferred outflows/inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes net position. You can think of the City's net position (the net difference between assets, deferred outflows, liabilities, and deferred inflows) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

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

- **Governmental Activities** – Most of the City's basic services are reported here, including fire, public works, parks departments, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

USING THIS ANNUAL REPORT (Continued)

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page eight. The fund financial statements begin on page fourteen and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds (governmental and proprietary) use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the fund financial statements.

- **Proprietary Funds** – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE

The City's combined net position increased \$213,364 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Current & Other Assets	\$ 2,278,160	\$ 2,568,251	\$ 861,940	\$ 835,495	\$ 3,140,100	\$ 3,403,746
Net Capital Assets	3,156,085	2,906,059	4,935,403	5,068,116	8,091,488	7,974,175
Total Assets	5,434,245	5,474,310	5,797,343	5,903,611	11,231,588	11,377,921
Deferred Outflows of Reasources	34,214	70,662	-	-	34,214	70,662
Current & Other Liabilities	142,816	189,902	31,619	41,242	174,435	231,144
Long-Term Debt Outstanding	1,354,684	1,630,855	1,687,959	1,754,694	3,042,643	3,385,549
Total Liabilities	1,497,500	1,820,757	1,719,578	1,795,936	3,217,078	3,616,693
Deferred Inflows of Resources	60,582	57,112	-	-	60,582	57,112
Net Position:						
Net Investment in						
Capital Assets	1,801,401	1,275,204	3,247,444	3,313,422	5,048,845	4,588,626
Restricted	1,097,209	1,205,697	-	-	1,097,209	1,205,697
Unrestricted	1,011,767	1,186,202	830,321	794,253	1,842,088	1,980,455
Total Net Position	<u>\$ 3,910,377</u>	<u>\$ 3,667,103</u>	<u>\$ 4,077,765</u>	<u>\$ 4,107,675</u>	<u>\$ 7,988,142</u>	<u>\$ 7,774,778</u>

The net position of the City's governmental activities increased by \$243,274 (or 6.63 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$174,435 (or 14.71 percent) compared to the prior year, largely due to additional investments in capital assets and payments made on related debt during the year.

The net position of the City's business-type activities decreased by \$29,910 (or 0.73 percent), while the unrestricted net position increased from \$794,253 to \$830,321 due to the depreciation of capital assets included in Net Investment in Capital Assets. Operations were comparable to the prior year.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
REVENUE						
Charges for Services	\$ 116,128	\$ 125,700	\$ 254,601	\$ 245,938	\$ 370,729	\$ 371,638
Grants and Contributions	83,508	55,981	7,330	10,953	90,838	66,934
Taxes	450,279	438,140	-	-	450,279	438,140
Intergovernmental	121,915	113,166	-	-	121,915	113,166
Investment Income	17,972	11,639	4,495	3,498	22,467	15,137
Miscellaneous	100	1,885	-	-	100	1,885
Total Revenues	789,902	746,511	266,426	260,389	1,056,328	1,006,900
PROGRAM EXPENSES						
General Government	148,287	170,110	-	-	148,287	170,110
Public Safety	104,560	130,166	-	-	104,560	130,166
Public Works	281,765	272,399	-	-	281,765	272,399
Parks and Recreation	53,278	24,132	-	-	53,278	24,132
Economic Development	28,643	4,625	-	-	28,643	4,625
Debt Service	26,478	30,903	-	-	26,478	30,903
Water	-	-	119,983	131,991	119,983	131,991
Sewer	-	-	94,353	78,191	94,353	78,191
Total Expenses	643,011	632,335	214,336	210,182	857,347	842,517
Gain on Sale of Assets	14,383	-	-	-	14,383	-
Transfers	82,000	80,000	(82,000)	(80,000)	-	-
Change in Net Position	\$ 243,274	\$ 194,176	\$ (29,910)	\$ (29,793)	\$ 213,364	\$ 164,383

The City's total revenues increased by \$49,428 (or 4.91 percent), largely due to increases in property taxes levied and collected. The total cost of all programs and services increased by \$14,830 (or 1.76 percent). Our analysis on the next page separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities increased by \$43,391 (or 5.81 percent), and total expenses increased \$10,676 (or 1.69 percent). Revenues were generally consistent with those of the prior year, with the exception of various donations from private parties received during 2017. Additionally, there was a slight increase in property taxes, and the City received approximately \$9,000 of small cities assistance aid from the State during 2017, which was not received in 2016. Expenses were also comparable to the prior year, with the overall increase noted above resulting from increases in parks repairs and maintenance and various economic development expenses, partially offset by decreases in expenses for public safety repairs, supplies, and other items, as well as reduced general government expenditures for compensation, training, and unemployment compensation.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE (Continued)

Governmental Activities (Continued)

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, parks and recreation, economic development, and debt service) as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities, net of capital outlay which is excluded from Table 3, were generally comparable to the prior year as operations remained fairly consistent with the prior year with the exception of matters previously discussed.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General Government	\$ 148,287	\$ 170,110	\$ 97,288	\$ 134,980
Public Safety	104,560	130,166	(38,153)	(928)
Public Works	281,765	272,399	279,489	262,940
Parks and Recreation	53,278	24,132	52,278	24,132
Economic Development	28,643	4,625	28,643	4,625
Debt Service	26,478	30,903	23,830	24,905
Totals	\$ 643,011	\$ 632,335	\$ 443,375	\$ 450,654

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$6,037 (or 2.32 percent) due to increased revenues from charges for services. Expenses increased by \$4,154 (or 1.98 percent), which can be attributed to increased expenses for sewer operations. Operations were comparable to those of the prior year.

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page fourteen) reported a combined fund balance of \$1,570,590. This is a decrease of \$258,386 (or 14.13 percent) from the prior year. Operations were comparable to the prior year. Financial information specific to the governmental funds is detailed on the following pages. Such information was derived from the fund financials at pages fourteen and sixteen.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
General	\$ 580,840	517,496	\$ 63,344

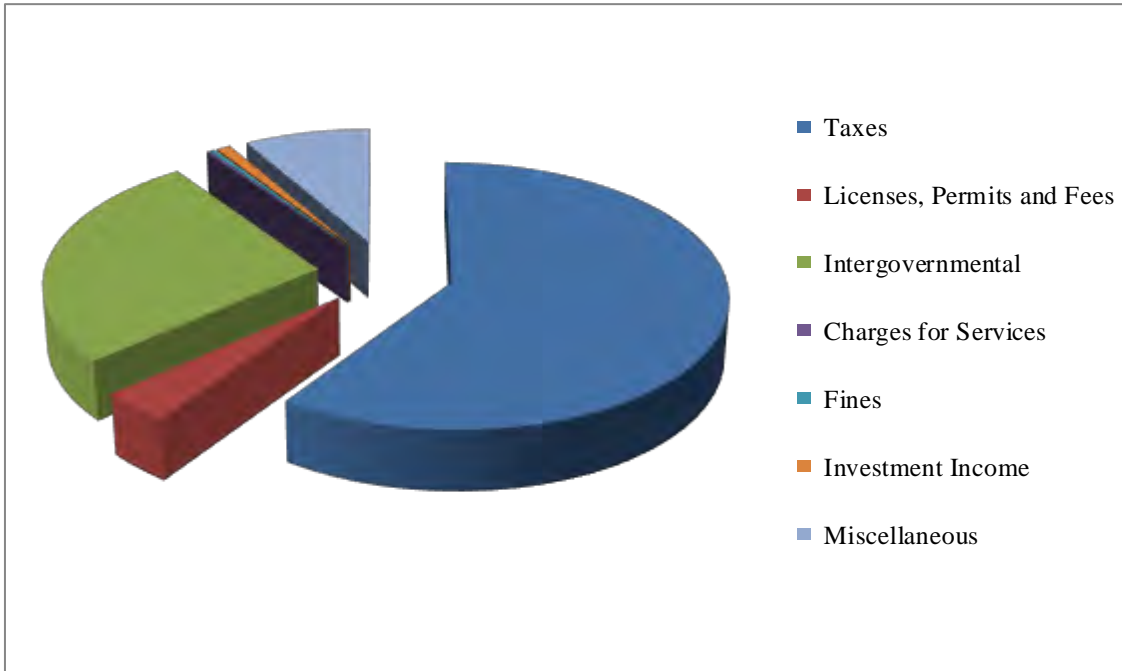
The fund balance of the General Fund increased by \$63,344 compared to 2016. Details of the General Fund's revenues and expenditures are displayed on the next page.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

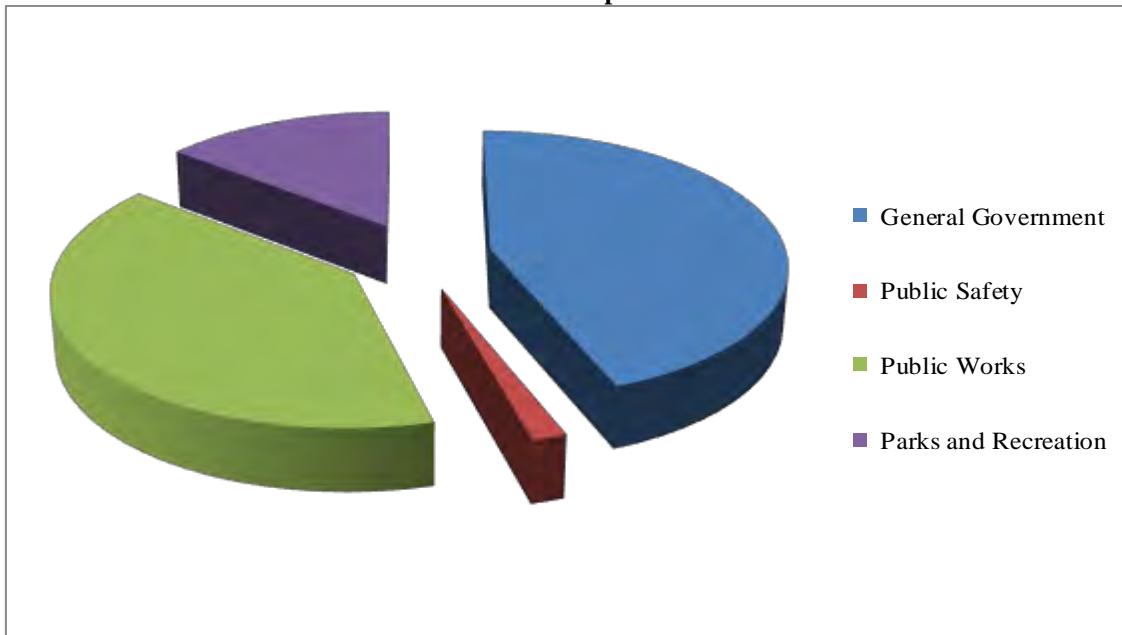
Governmental Funds (Continued)

General Fund Revenue



The City received the majority of its funding in the General Fund in the form of grants and funding received from other governmental agencies (26.76 percent) and taxes (59.66 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of the increase in taxes and donations previously discussed.

General Fund Expenditures



**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

A significant portion of the City's General Fund expenditures are used for general government operations (44.15 percent). Remaining expenditures are used primarily for public works (39.98 percent) and parks and recreation (14.20 percent). Expenditures have increased from the prior year largely due to greater expenditures incurred for park maintenance and improvements.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
Debt Service	\$ 411,852	\$ 496,799	\$ (84,947)

The Debt Service fund balance decreased \$84,947 primarily due to payment of bonds during the current year.

Area Fire Service	\$ 167,858	\$ 496,529	\$ (328,671)
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The Area Fire Service fund balance decreased \$328,671 primarily due to the purchase of a new fire truck.

General Fund Budgetary Highlights

The City's General Fund budget was amended during the year. The revenues budget was decreased by \$22,700 and the expenditures budget was changed in several functions for an overall decrease of \$23,262 from original to final. The final budget called for expenditures of \$439,643 and an increase in fund balance of \$34,447. Actual revenues and expenditures were approximately equal to budgeted amounts.

Proprietary Funds

As the City completed the year, its business-type activities (as presented in the Statement of Net Position on page eighteen) reported a combined net position of \$4,077,765. This is a decrease of \$29,910 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2017	2016	
Water	\$ 2,027,282	\$ 2,057,154	\$ (29,872)

The Water Fund net position decreased due to charges for services and other income being less than expenses incurred for depreciation, interest, transfers to the General Fund, and the cost of providing water services.

Sewer	\$ 2,050,483	\$ 2,050,521	\$ (38)
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The Sewer Fund net position decreased \$38 during the year as a result of transfers to the General Fund slightly exceeding net operating income.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$8,091,488 invested in a broad range of capital assets, including land, buildings, improvements, infrastructure, machinery, equipment, and vehicles. This amount represents a net increase of \$117,314 (or 1.47 percent) from last year.

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 399,900	\$ 399,900	\$ 272,968	\$ 272,968	\$ 672,868	\$ 672,868
Buildings and Improvements	418,254	462,407	1,960,018	2,017,316	2,378,272	2,479,723
Other Improvements and Infrastructure	1,784,240	1,899,631	2,702,417	2,777,831	4,486,657	4,677,462
Machinery and Equipment	11,252	5,129	-	-	11,252	5,129
Vehicles	542,439	138,992	-	-	542,439	138,992
Totals	\$ 3,156,085	\$ 2,906,059	\$ 4,935,403	\$ 5,068,115	\$ 8,091,488	\$ 7,974,174

More detailed information about the City's capital assets is presented in Note 3.B. to the financial statements.

Debt

At year-end, the City had \$3,026,000 in debt versus \$3,366,000 last year (a decrease of 10.10 percent), as shown in Table 5.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General Obligation Debt	<u>\$1,350,000</u>	<u>\$1,625,000</u>	<u>\$1,676,000</u>	<u>\$1,741,000</u>	<u>\$3,026,000</u>	<u>\$3,366,000</u>

See additional information at Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the year 2018 budget, including tax rates and fees that will be charged for the business-type activities. The Council elected to increase the 2018 tax levy from \$445,300 in 2017, to \$464,500 in 2018. Also, the Council elected to increase the 2018 water rates, beginning in April, with the net result being a small increase to overall utility bills. The Council expects operations to remain fairly consistent with 2017 for 2018. Overall budget amounts for 2018 are consistent with 2017's budget and operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Freeport, P.O. Box 301, Freeport, MN 56331.

BASIC FINANCIAL STATEMENTS

**CITY OF FREEPORT, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,448,937	\$ 605,203	\$ 2,054,140
Property Taxes Receivable	5,888	-	5,888
Assessments Receivable	687,009	220,961	907,970
Accounts Receivable	14,699	34,046	48,745
Notes Receivable	2,870	-	2,870
Prepays	16,621	1,730	18,351
Land Held for Sale	102,136	-	102,136
Capital Assets:			
Capital Assets not Being Depreciated	399,900	272,968	672,868
Capital Assets Being Depreciated (Net)	<u>2,756,185</u>	<u>4,662,435</u>	<u>7,418,620</u>
TOTAL ASSETS	5,434,245	5,797,343	11,231,588
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	34,214	-	34,214
LIABILITIES			
Accounts Payable	11,554	1,961	13,515
Accrued Payroll	2,435	-	2,435
Accrued Interest	10,953	29,658	40,611
Noncurrent Liabilities:			
Compensated Absences	9,347	-	9,347
Net Pension Liability	108,527	-	108,527
Debt Due Within One Year	285,000	65,000	350,000
Debt Due After One Year	<u>1,069,684</u>	<u>1,622,959</u>	<u>2,692,643</u>
TOTAL LIABILITIES	1,497,500	1,719,578	3,217,078
DEFERRED INFLOWS OF RESOURCES			
Pension	<u>60,582</u>	<u>-</u>	<u>60,582</u>
NET POSITION			
Net Investment in Capital Assets	1,801,401	3,247,444	5,048,845
Restricted	1,097,209	-	1,097,209
Unrestricted	<u>1,011,767</u>	<u>830,321</u>	<u>1,842,088</u>
TOTAL NET POSITION	<u>\$ 3,910,377</u>	<u>\$ 4,077,765</u>	<u>\$ 7,988,142</u>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 148,287	\$ 18,230	\$ 32,000	\$ 769	\$ (97,288)	\$ -	\$ (97,288)
Public Safety	104,560	97,898	44,815	-	38,153	-	38,153
Public Works	281,765	-	-	2,276	(279,489)	-	(279,489)
Parks and Recreation	53,278	-	1,000	-	(52,278)	-	(52,278)
Economic Development	28,643	-	-	-	(28,643)	-	(28,643)
Debt Service	26,478	-	-	2,648	(23,830)	-	(23,830)
Total Governmental Activities	643,011	116,128	77,815	5,693	(443,375)	-	(443,375)
Business-Type Activities:							
Water	119,983	119,715	-	7,330	-	7,062	7,062
Sewer	94,353	134,886	-	-	-	40,533	40,533
Total Business-Type Activities	214,336	254,601	-	7,330	-	47,595	47,595
TOTALS	\$ 857,347	\$ 370,729	\$ 77,815	\$ 13,023	(443,375)	47,595	(395,780)
General Revenues:							
Taxes					450,279	-	450,279
Intergovernmental					121,915	-	121,915
Investment Income					17,972	4,495	22,467
Miscellaneous					100	-	100
Gain on Sale of Assets					14,383	-	14,383
Transfers					82,000	(82,000)	-
Total General Revenues and Transfers					686,649	(77,505)	609,144
CHANGE IN NET POSITION					243,274	(29,910)	213,364
NET POSITION-BEGINNING OF YEAR					3,667,103	4,107,675	7,774,778
NET POSITION-END OF YEAR					\$ 3,910,377	\$ 4,077,765	\$ 7,988,142

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

	General Fund	Debt Service Fund	Area Fire Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 576,173	\$ 410,762	\$ 154,140	\$ 307,862	\$ 1,448,937
Property Taxes Receivable	3,301	2,452	-	135	5,888
Assessments Receivable	85,760	601,249	-	-	687,009
Accounts Receivable	4,010	-	10,689	-	14,699
Prepays	12,752	-	3,869	-	16,621
Land Held for Sale	-	-	-	102,136	102,136
Notes Receivable	-	-	-	2,870	2,870
TOTAL ASSETS	<u>\$ 681,996</u>	<u>\$ 1,014,463</u>	<u>\$ 168,698</u>	<u>\$ 413,003</u>	<u>\$ 2,278,160</u>
LIABILITIES					
Accounts Payable	\$ 10,714	\$ -	\$ 840	\$ -	\$ 11,554
Accrued Payroll	2,435	-	-	-	2,435
Total Liabilities	13,149	-	840	-	13,989
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	2,247	1,664	-	93	4,004
Special Assessments	85,760	600,947	-	-	686,707
Notes Receivable	-	-	-	2,870	2,870
Total Deferred Inflows of Resources	88,007	602,611	-	2,963	693,581
FUND BALANCES					
Nonspendable	12,752	-	3,869	102,136	118,757
Restricted	-	411,852	-	93,699	505,551
Committed	-	-	163,989	28,951	192,940
Assigned	-	-	-	185,254	185,254
Unassigned	568,088	-	-	-	568,088
Total Fund Balances	<u>580,840</u>	<u>411,852</u>	<u>167,858</u>	<u>410,040</u>	<u>1,570,590</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 681,996</u>	<u>\$ 1,014,463</u>	<u>\$ 168,698</u>	<u>\$ 413,003</u>	<u>\$ 2,278,160</u>

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

Total fund balance for governmental funds \$ 1,570,590

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of accumulated depreciation of \$3,534,396) used in governmental activities are not financial resources and, therefore are not reported in the funds: 3,156,085

Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:

Taxes Receivable	4,004	
Special Assessments Receivable	686,707	
Notes Receivable	<u>2,870</u>	
		693,581

Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds Balance Sheet: (10,953)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds:

Compensated Absences	(9,347)	
Unamortized Bond Premium	(4,684)	
Debt Due Within One Year	(285,000)	
Debt Due In More Than One Year	<u>(1,065,000)</u>	
		(1,364,031)

The net pension asset/liability and related deferred outflows/inflows of resources represent the allocation of the pension obligation to the City. Such balances are not reported in the funds:

Net Pension Liability	(108,527)	
Deferred Outflows - Pensions	34,214	
Deferred Inflows - Pensions	<u>(60,582)</u>	
		<u>(134,895)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 3,910,377

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

	General Fund	Debt Service Fund	Area Fire Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 251,665	\$ 217,000	\$ -	\$ 12,957	\$ 481,622
Licenses, Permits, and Fees	15,986	-	-	-	15,986
Intergovernmental	112,896	-	21,098	8,980	142,974
Charges for Services	880	-	97,898	-	98,778
Fines	1,364	-	-	-	1,364
Investment Income	3,920	2,560	9,097	2,395	17,972
Miscellaneous	35,145	-	23,717	2,146	61,008
TOTAL REVENUES	<u>421,856</u>	<u>219,560</u>	<u>151,810</u>	<u>26,478</u>	<u>819,704</u>
EXPENDITURES					
Current:					
General Government	138,673	-	-	-	138,673
Public Safety	5,253	-	82,975	-	88,228
Public Works	125,558	-	-	10,280	135,838
Parks and Recreation	44,604	-	-	50	44,654
Economic Development	-	-	-	28,643	28,643
Debt Service:					
Principal	-	275,000	-	-	275,000
Interest and Other Charges	-	29,507	-	-	29,507
Capital Outlay	-	-	433,930	-	433,930
TOTAL EXPENDITURES	<u>314,088</u>	<u>304,507</u>	<u>516,905</u>	<u>38,973</u>	<u>1,174,473</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	107,768	(84,947)	(365,095)	(12,495)	(354,769)
OTHER FINANCING SOURCES (USES)					
Proceeds on Sale of Assets	-	-	-	14,383	14,383
Operating Transfers In	90,500	-	39,924	95,000	225,424
Operating Transfers Out	(134,924)	-	(3,500)	(5,000)	(143,424)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(44,424)</u>	<u>-</u>	<u>36,424</u>	<u>104,383</u>	<u>96,383</u>
NET CHANGE IN FUND BALANCES	63,344	(84,947)	(328,671)	91,888	(258,386)
FUND BALANCES - BEGINNING	<u>517,496</u>	<u>496,799</u>	<u>496,529</u>	<u>318,152</u>	<u>1,828,976</u>
FUND BALANCES - ENDING	<u>\$ 580,840</u>	<u>\$ 411,852</u>	<u>\$ 167,858</u>	<u>\$ 410,040</u>	<u>\$ 1,570,590</u>

**CITY OF FREEPORT, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds \$ (258,386)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital Outlay	\$	433,930	
Depreciation Expense		<u>(183,904)</u>	
			250,026

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

Change in Long-term Receivables	(29,841)
---------------------------------	----------

Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

Bond Payments	275,000
---------------	---------

Net change in accrued interest on bonds is not reported as an expenditure in the funds:

	1,858
--	-------

The effects of bond premiums and discounts are reported in the governmental fund financial statements upon issuance of the debt. These amounts are deferred and amortized in the Statement of Activities:

	1,171
--	-------

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

Change in Accrued Compensated Absences	(2,380)
--	---------

Net pension asset/liability balances do not represent the impending use or acquisition of current resources. Therefore, the change in the asset/liability and the related deferrals is not reported in the governmental funds:

	<u>5,826</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>243,274</u>
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**CITY OF FREEPORT, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 526,289	\$ 78,914	\$ 605,203
Accounts Receivable	16,177	17,869	34,046
Assessments Receivable	9,958	-	9,958
Prepays	<u>632</u>	<u>1,098</u>	<u>1,730</u>
Total Current Assets	553,056	97,881	650,937
Noncurrent Assets			
Assessments Receivable	211,003	-	211,003
Capital Assets not Depreciated	51,600	221,368	272,968
Capital Assets Being Depreciated (Net)	<u>2,759,385</u>	<u>1,903,050</u>	<u>4,662,435</u>
Total Noncurrent Assets	<u>3,021,988</u>	<u>2,124,418</u>	<u>5,146,406</u>
TOTAL ASSETS	3,575,044	2,222,299	5,797,343
LIABILITIES			
Current Liabilities			
Accounts Payable	1,177	784	1,961
Accrued Interest	28,116	1,542	29,658
Debt Due Within One Year	<u>40,000</u>	<u>25,000</u>	<u>65,000</u>
Total Current Liabilities	69,293	27,326	96,619
Noncurrent Liabilities			
Debt Due After One Year	<u>1,478,469</u>	<u>144,490</u>	<u>1,622,959</u>
TOTAL LIABILITIES	<u>1,547,762</u>	<u>171,816</u>	<u>1,719,578</u>
NET POSITION			
Net Investment in Capital Assets	1,292,516	1,954,928	3,247,444
Unrestricted	<u>734,766</u>	<u>95,555</u>	<u>830,321</u>
TOTAL NET POSITION	<u>\$ 2,027,282</u>	<u>\$ 2,050,483</u>	<u>\$ 4,077,765</u>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 119,715	\$ 134,886	\$ 254,601
OPERATING EXPENSES			
Materials and Supplies	1,226	2,808	4,034
Professional Services	1,726	4,994	6,720
Repairs and Maintenance	2,064	19,400	21,464
Other Services and Charges	5,933	2,540	8,473
Utilities	5,843	993	6,836
Depreciation	<u>71,080</u>	<u>61,633</u>	<u>132,713</u>
TOTAL OPERATING EXPENSES	<u>87,872</u>	<u>92,368</u>	<u>180,240</u>
NET OPERATING INCOME	31,843	42,518	74,361
NONOPERATING INCOME (EXPENSE)			
Special Assessments	7,330	-	7,330
Investment Income	4,066	429	4,495
Interest and Other Charges	<u>(32,111)</u>	<u>(1,985)</u>	<u>(34,096)</u>
TOTAL NONOPERATING INCOME (EXPENSE)	<u>(20,715)</u>	<u>(1,556)</u>	<u>(22,271)</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	11,128	40,962	52,090
TRANSFERS			
Operating Transfers Out	<u>(41,000)</u>	<u>(41,000)</u>	<u>(82,000)</u>
CHANGE IN NET POSITION	(29,872)	(38)	(29,910)
NET POSITION-BEGINNING OF YEAR	<u>2,057,154</u>	<u>2,050,521</u>	<u>4,107,675</u>
NET POSITION-END OF YEAR	<u>\$ 2,027,282</u>	<u>\$ 2,050,483</u>	<u>\$ 4,077,765</u>

**CITY OF FREEPORT, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 119,856	\$ 132,310	\$ 252,166
Cash Paid to Suppliers	(25,187)	(30,996)	(56,183)
NET CASH PROVIDED BY OPERATING ACTIVITIES	94,669	101,314	195,983
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net Operating Subsidies and Transfers to Other Funds	(41,000)	(41,000)	(82,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special Assessments	38,910	-	38,910
Payments on Bond Principal	(40,000)	(25,000)	(65,000)
Cash Paid for Interest	(32,959)	(3,650)	(36,609)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(34,049)	(28,650)	(62,699)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	4,066	429	4,495
Net Increase in Cash and Cash Equivalents	23,686	32,093	55,779
Cash and Cash Equivalents-Beginning of Year	502,603	46,821	549,424
Cash and Cash Equivalents-End of Year	\$ 526,289	\$ 78,914	\$ 605,203
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income	\$ 31,843	\$ 42,518	\$ 74,361
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	71,080	61,633	132,713
Change in Assets and Liabilities:			
Accounts Receivable	141	(2,576)	(2,435)
Accounts Payable	(8,404)	(441)	(8,845)
Prepays	9	180	189
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 94,669	\$ 101,314	\$ 195,983

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Freeport (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, recreation, public improvements, public safety, planning and zoning, economic development, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Freeport, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. The City has the following blended component unit:

Economic Development Authority – The City created an Economic Development Authority (EDA) by resolution of its City Council. The EDA is governed by a five-member board appointed by the City Council. Although it is legally separate from the City, the EDA is reported as if it were part of the primary government because its purpose is to analyze and approve the City's redevelopment plans. The EDA cannot issue bonded debt without the City's approval.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are generally organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The City does not have any fiduciary funds at this time.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's indebtedness.

The *Area Fire Service Fund* is a special revenue fund used to account for the activities associated with providing fire protection services for the City and various other local governments.

The City reports the following major proprietary funds:

The *Water Fund* and *Sewer Fund* account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Additionally, the government reports the following non-major fund types:

The *Special Revenue Funds* account for funds received by the City with a specific purpose.

The *Capital Project Funds* account for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The *Debt Service TIF District Fund* accounts for the receipt of tax increment financing dollars and the use of such dollars for pay-as-you-go debt or eligible administrative costs incurred by the City.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the "economic resources" measurement focus as defined in the second bullet point below.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Measurement Focus (Continued)

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual” basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, liabilities, and deferred outflows/inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the “modified accrual” basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

1.D. 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, deferred outflows, liabilities, and deferred inflows, and disclosure of contingencies related to these balances at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings, and money market accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand, savings, and money market accounts.

See Note 3.A. for additional information related to Cash and Cash Equivalents.

**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)

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities and interfund receivables and payables between funds within business-type activities are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

Prepays

Prepays represent costs paid during the current year to be recognized in future periods.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include charges for services, fines, fees, taxes, and special assessments. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred inflows in the fund financial statements in accordance with modified accrual, but not deferred inflows in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City based on each individual asset’s initial cost and must have an estimated useful life in excess of two years. The City’s cost thresholds for capitalization of acquisitions within various categories are as follows:

Land and Improvements	\$10,000
Buildings and Improvements	\$10,000
Other Improvements and Infrastructures	\$25,000
Vehicles, Machinery, and Equipment	\$5,000

The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	10-50 years
Other Improvements and Infrastructures	20-50 years
Vehicles, Machinery, and Equipment	5-20 years

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)

Capital Assets (Continued)

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused leave. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of general obligation bonds and certificates payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

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)

Net Pension Liability

The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration.

PERA

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.

Deferred Inflows/Outflows of Resources

In addition to assets, the Statements of Net Position report 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 proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes, special assessments, and notes receivable as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of 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.

See Note 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City's policy to consider restricted net position to its depletion before unrestricted net position is applied.