

**CITY OF FREEPORT, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net 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 table 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 Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
	\$	\$	\$
Net Pension Liability	154,513	93,989	44,015

Pension Plan Fiduciary Net Position

Detailed information about the 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.

NOTE 4 OTHER NOTES

4.A. 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.B. TAX INCREMENT FINANCING 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.

**CITY OF FREEPORT, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 4 OTHER NOTES

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:	\$ 1,052
Current Net Tax Capacity:	<u>\$ 3,166</u>
Captured Net Tax Capacity:	
Retained by City	<u>\$ 2,114</u>
Shared with Other Taxing Districts	<u>\$ -</u>
Taxes Abated in 2018:	<u>\$ 2,757</u>

4.C. SUBSEQUENT EVENTS

Public Health Emergency

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the City, to date, the City has not experienced any significant negative effects on its operations.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FREEPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 223,365	\$ 223,813	\$ 448
Franchise Taxes	3,000	6,244	3,244
Total Taxes	<u>226,365</u>	<u>230,057</u>	<u>3,692</u>
Special Assessments	-	3,577	3,577
Licenses and Permits	8,925	12,955	4,030
Intergovernmental Revenue			
State Grants			
Local Government Aid	115,558	115,558	-
Market Value Credit	800	816	16
PERA Aid	410	410	-
Total Intergovernmental Revenue	<u>116,768</u>	<u>116,784</u>	<u>16</u>
Charges for Services			
General Government	1,600	2,560	960
Fines and Forfeitures	1,500	1,459	(41)
Miscellaneous Revenue			
Investment Earnings	3,000	6,457	3,457
Contributions and Donations	-	17,071	17,071
Insurance Proceeds	2,200	967	(1,233)
Other Miscellaneous	100	-	(100)
Total Miscellaneous Revenue	<u>5,300</u>	<u>24,495</u>	<u>19,195</u>
TOTAL REVENUES	360,458	391,887	31,429
EXPENDITURES			
General Government			
Mayor and Council	7,448	6,410	(1,038)
Administration and Finance	112,116	99,382	(12,734)
Other General Government	59,695	61,627	1,932
Capital Outlay	-	657	657
Total General Government	<u>179,259</u>	<u>168,076</u>	<u>(11,183)</u>

**CITY OF FREEPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u> </u>	<u> </u>	<u> </u>
Public Safety			
Other Public Safety			
Current	\$ 4,600	\$ 3,394	\$ (1,206)
Public Works			
Street Maintenance and Storm Sewers	108,072	112,646	4,574
Street Lighting	21,500	19,422	(2,078)
Capital Outlay - Other	3,000	16,864	13,864
Total Public Works	<u>132,572</u>	<u>148,932</u>	<u>16,360</u>
Culture and Recreation			
Parks and Recreation			
Current	<u>15,400</u>	<u>12,482</u>	<u>(2,918)</u>
TOTAL EXPENDITURES	<u>331,831</u>	<u>332,884</u>	<u>1,053</u>
EXCESS OF REVENUES OVER EXPENDITURES	28,627	59,003	30,376
OTHER FINANCING SOURCES (USES)			
Transfers			
From Other Funds	90,500	90,500	-
To Other Funds	<u>(159,556)</u>	<u>(159,556)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(69,056)</u>	<u>(69,056)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (40,429)</u>	(10,053)	<u>\$ 30,376</u>
FUND BALANCES - BEGINNING		<u>642,018</u>	
FUND BALANCE - ENDING		<u>\$ 631,965</u>	

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the General Fund of \$332,884 exceeded the final budget expenditures by \$1,053 for the current year. This is primarily due to City expenditures for capital outlay and such expenditures were covered by available fund balance.

**CITY OF FREEPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – AREA FIRE SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
REVENUES			
Intergovernmental Revenue			
State Grants			
Police and Fire Aid	\$ 16,500	\$ 29,849	\$ 13,349
Charges for Services			
Fire Contracts	94,710	98,479	3,769
Miscellaneous Revenue			
Investment Earnings	1,000	3,799	2,799
Contributions and Donations	4,000	23,878	19,878
Total Miscellaneous Revenue	<u>5,000</u>	<u>27,677</u>	<u>22,677</u>
TOTAL REVENUES	116,210	156,005	39,795
EXPENDITURES			
Public Safety			
Fire			
Current	<u>98,492</u>	<u>164,102</u>	<u>65,610</u>
EXCESS (DEFICENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,718	(8,097)	(25,815)
OTHER FINANCING SOURCES (USES)			
Transfers			
From Other Funds	42,056	42,056	-
To Other Funds	<u>(3,500)</u>	<u>(3,500)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>38,556</u>	<u>38,556</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 56,274</u>	30,459	<u>\$ (25,815)</u>
FUND BALANCES - BEGINNING		<u>253,939</u>	
FUND BALANCE - ENDING		<u>\$ 284,398</u>	

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the Area Fire Service Fund of \$164,102 exceeded the final budget expenditures by \$65,610 for the current year. This is primarily due to City expenditures for turnout gear and equipment replacement and such expenditures were covered by available fund balance.

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

For the Measurement Year Ended June 30	City's Proportion 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 and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>Public Employees Retirement Association</i>							
2019	0.0017%	\$ 93,989	\$ 3,000	\$ 96,989	\$ 118,627	81.8%	80.2%
2018	0.0016%	\$ 88,761	\$ 2,819	\$ 91,580	\$ 105,200	87.1%	79.5%
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 beginning 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 PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Calendar Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>Public Employees Retirement Association</i>					
2019	\$ 9,073	\$ 9,073	\$ -	\$ 120,973	7.50%
2018	\$ 8,083	\$ 8,083	\$ -	\$ 107,773	7.50%
2017	\$ 8,083	\$ 8,083	\$ -	\$ 107,773	7.50%
2016	\$ 8,113	\$ 8,113	\$ -	\$ 108,174	7.50%
2015	\$ 9,315	\$ 9,315	\$ -	\$ 124,200	7.50%

Note: The schedule is provided prospectively beginning 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
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

CITY OF FREEPORT, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

SUPPLEMENTARY INFORMATION

**CITY OF FREEPORT, MINNESOTA
 COMBINING BALANCE SHEET
 ALL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019**

	<u>Nonmajor Special Revenue Funds</u>	<u>Nonmajor Capital Project Funds</u>	<u>Nonmajor Swany White TIF District Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 172,647	\$ 380,904	\$ 1,379	\$ 554,930
Property Taxes Receivable	51	-	-	51
Land Held for Sale	141,357	-	-	141,357
TOTAL ASSETS	<u>\$ 314,055</u>	<u>\$ 380,904</u>	<u>\$ 1,379</u>	<u>\$ 696,338</u>
LIABILITIES				
Accounts Payable	\$ 26	\$ -	\$ 1,379	\$ 1,405
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue: Property Taxes	37	-	-	37
FUND BALANCES				
Nonspendable	141,357	-	-	141,357
Restricted	98,467	-	-	98,467
Committed	74,168	-	-	74,168
Assigned	-	380,904	-	380,904
Total Fund Balances	<u>313,992</u>	<u>380,904</u>	<u>-</u>	<u>694,896</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 314,055</u>	<u>\$ 380,904</u>	<u>\$ 1,379</u>	<u>\$ 696,338</u>

CITY OF FREEPORT, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Swany White TIF District Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 12,002	\$ -	\$ 2,757	\$ 14,759
Notes Receivable - Collections	1,442	-	-	1,442
Investment Income	2,252	3,848	-	6,100
TOTAL REVENUES	<u>15,696</u>	<u>3,848</u>	<u>2,757</u>	<u>22,301</u>
EXPENDITURES				
Current:				
Economic Development	<u>1,951</u>	<u>-</u>	<u>2,757</u>	<u>4,708</u>
EXCESS OF REVENUES OVER EXPENDITURES	13,745	3,848	-	17,593
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	117,500	-	117,500
Operating Transfers Out	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>117,500</u>	<u>-</u>	<u>112,500</u>
NET CHANGE IN FUND BALANCES	8,745	121,348	-	130,093
FUND BALANCES - BEGINNING	<u>305,247</u>	<u>259,556</u>	<u>-</u>	<u>564,803</u>
FUND BALANCES - ENDING	<u>\$ 313,992</u>	<u>\$ 380,904</u>	<u>\$ -</u>	<u>\$ 694,896</u>

**CITY OF FREEPORT, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 DECEMBER 31, 2019**

	Economic Development Authority Fund	Small Cities Grant Fund	Total Nonmajor Special Revenue Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 74,180	\$ 98,467	\$ 172,647
Property Taxes Receivable	51	-	51
Land Held for Sale	141,357	-	141,357
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 215,588</u>	<u>\$ 98,467</u>	<u>\$ 314,055</u>
 LIABILITIES			
Accounts Payable	\$ 26	\$ -	\$ 26
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue:			
Property Taxes	37	-	37
 FUND BALANCES			
Nonspendable	141,357	-	141,357
Restricted	-	98,467	98,467
Committed	74,168	-	74,168
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>215,525</u>	<u>98,467</u>	<u>313,992</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
	<u>\$ 215,588</u>	<u>\$ 98,467</u>	<u>\$ 314,055</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, 2019

	Economic Development Authority Fund	Small Cities Grant Fund	Total Nonmajor Special Revenue Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 12,002	\$ -	\$ 12,002
Note Receivable - Collections	-	1,442	1,442
Investment Income	1,155	1,097	2,252
TOTAL REVENUES	<u>13,157</u>	<u>2,539</u>	<u>15,696</u>
EXPENDITURES			
Current:			
Economic Development	<u>1,951</u>	<u>-</u>	<u>1,951</u>
EXCESS OF REVENUES OVER EXPENDITURES	11,206	2,539	13,745
OTHER FINANCING SOURCES (USES)			
Operating Transfers Out	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>
NET CHANGE IN FUND BALANCES	6,206	2,539	8,745
FUND BALANCES - BEGINNING	<u>209,319</u>	<u>95,928</u>	<u>305,247</u>
FUND BALANCES - ENDING	<u>\$ 215,525</u>	<u>\$ 98,467</u>	<u>\$ 313,992</u>

**CITY OF FREEPORT, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
 DECEMBER 31, 2019**

	<u>South End Park Fund</u>	<u>North End Park Fund</u>	<u>Old Tower Preservation Fund</u>	<u>Street Improvements Fund</u>	<u>Capital Equipment Fund</u>	<u>Street Light Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
ASSETS							
Cash and Cash Equivalents	\$ 17,518	\$ 2,780	\$ 5,430	\$ 243,340	\$ 40,851	\$ 70,985	\$ 380,904
FUND BALANCES							
Assigned	<u>\$ 17,518</u>	<u>\$ 2,780</u>	<u>\$ 5,430</u>	<u>\$ 243,340</u>	<u>\$ 40,851</u>	<u>\$ 70,985</u>	<u>\$ 380,904</u>

CITY OF FREEPORT, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	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
REVENUES							
Investment Income	\$ 177	\$ 31	\$ 61	\$ 2,468	\$ 422	\$ 689	\$ 3,848
OTHER FINANCING SOURCES							
Operating Transfers In	5,500	-	-	72,000	10,000	30,000	117,500
NET CHANGE IN FUND BALANCES	5,677	31	61	74,468	10,422	30,689	121,348
FUND BALANCES - BEGINNING	11,841	2,749	5,369	168,872	30,429	40,296	259,556
FUND BALANCES - ENDING	<u>\$ 17,518</u>	<u>\$ 2,780</u>	<u>\$ 5,430</u>	<u>\$ 243,340</u>	<u>\$ 40,851</u>	<u>\$ 70,985</u>	<u>\$ 380,904</u>

**CITY OF FREEPORT, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
MAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND
DECEMBER 31, 2019**

	G.O. Improvement Crossover Refunding <u>Bonds of 2012</u>	G.O. Improvement Crossover Refunding <u>Bonds of 2013</u>	Total Debt Service Fund
ASSETS			
Cash and Cash Equivalents	\$ 149,079	\$ 58,577	\$ 207,656
Property Taxes Receivable	429	421	850
Assessments Receivable	<u>551,009</u>	<u>37,371</u>	<u>588,380</u>
TOTAL ASSETS	<u><u>\$ 700,517</u></u>	<u><u>\$ 96,369</u></u>	<u><u>\$ 796,886</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue:			
Property Taxes	\$ 306	\$ 307	\$ 613
Special Assessments	<u>551,009</u>	<u>37,371</u>	<u>588,380</u>
Total Deferred Inflows of Resources	551,315	37,678	588,993
FUND BALANCE			
Restricted	<u>149,202</u>	<u>58,691</u>	<u>207,893</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 700,517</u></u>	<u><u>\$ 96,369</u></u>	<u><u>\$ 796,886</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, 2019**

	G.O. Improvement Crossover Refunding Bonds of 2012	G.O. Improvement Crossover Refunding Bonds of 2013	Total Debt Service Fund
REVENUES			
Taxes	\$ 105,073	\$ 95,584	\$ 200,657
Special Assessments	-	7,439	7,439
Investment Income	1,144	89	1,233
TOTAL REVENUES	<u>106,217</u>	<u>103,112</u>	<u>209,329</u>
EXPENDITURES			
Debt Service:			
Principal	170,000	120,000	290,000
Interest and Other Charges	12,937	6,695	19,632
TOTAL EXPENDITURES	<u>182,937</u>	<u>126,695</u>	<u>309,632</u>
NET CHANGE IN FUND BALANCE	(76,720)	(23,583)	(100,303)
FUND BALANCE - BEGINNING	<u>225,922</u>	<u>82,274</u>	<u>308,196</u>
FUND BALANCE - ENDING	<u>\$ 149,202</u>	<u>\$ 58,691</u>	<u>\$ 207,893</u>

**CITY OF FREEPORT, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 1/1/2019	Issued	Paid	Outstanding Balance 12/31/2019	Principal Due in 2020
GENERAL OBLIGATION BONDS									
GO Improvement Crossover Refunding Bonds - 2012A	2/1/2012	1.15-2.25%	2/1/2022	\$ 1,200,000	\$ 695,000	\$ -	\$ 170,000	\$ 525,000	\$ 170,000
GO Refunding Bonds - 2013A	1/1/2013	2.00%	2/1/2021	<u>715,000</u>	<u>370,000</u>	<u>-</u>	<u>120,000</u>	<u>250,000</u>	<u>125,000</u>
TOTAL GENERAL OBLIGATION BONDS				1,915,000	1,065,000	-	290,000	775,000	295,000
ENTERPRISE DEBT									
GO Water and Sewer Revenue Bonds - 2012	6/28/2012	2.00%	1/1/2052	1,352,000	1,231,000	-	26,000	1,205,000	26,000
GO Refunding Bonds - 2013A	1/1/2013	2.00-3.25%	2/1/2033	<u>525,000</u>	<u>380,000</u>	<u>-</u>	<u>40,000</u>	<u>340,000</u>	<u>45,000</u>
TOTAL ENTERPRISE DEBT				<u>1,877,000</u>	<u>1,611,000</u>	<u>-</u>	<u>66,000</u>	<u>1,545,000</u>	<u>71,000</u>
TOTAL INDEBTEDNESS				<u>\$ 3,792,000</u>	<u>\$ 2,676,000</u>	<u>\$ -</u>	<u>\$ 356,000</u>	<u>\$ 2,320,000</u>	<u>\$ 366,000</u>

OTHER REQUIRED 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 1, 2020

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, 2019, 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 1, 2020.

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 material weaknesses and significant deficiencies.

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

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 1, 2020

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, 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, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2020.

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*. 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 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

**CITY OF FREEPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Limited Segregation of Duties

Condition: The City has limited segregation of accounting duties.

Criteria: The basic premise of proper segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction.

Cause: There are a limited number of employees.

Effect: The City's lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of employees may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitors all financial information.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2014-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: We believe management would require additional training in order to prepare the financial statements and year-end adjustments internally.

Effect: The outsourcing of these services is not unusual in entities of the size of the City of Freeport and is the result of management's cost benefit decision to rely on our expertise rather than incurring this internal resource cost. However, errors can occur in the financial statements that may not be detected by management.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review, we recommend a disclosure checklist be utilized to ensure all required disclosures are presented, and the City should agree the financial statement numbers to their accounting software. The City may not have the ability to implement controls that fully eliminate this finding.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF FREEPORT, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review current procedures and implement additional controls where possible.
3. Official Responsible
Joan Wall, Clerk-Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

Finding 2014-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis.
3. Official Responsible
Joan Wall, Clerk-Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

CITY OF FREEPORT, MINNESOTA

**REPORT TO THE MEMBERS
OF GOVERNANCE**

JUNE 1, 2020

**SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants**

**CITY OF FREEPORT, MINNESOTA
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June 1, 2020

Members of Governance
City of Freeport, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of the City of Freeport (the City) as of and for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the members of governance and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF FREEPORT, MINNESOTA
REQUIRED COMMUNICATIONS**

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 14, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated February 17, 2020 regarding the planned scope and timing of our audit and have discussed with you our identification of significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The only estimate we have deemed significant to the financial statements is the estimate included in the calculation of overall net pension liability and deferred outflows/inflows of resources for the pension plan.

Audit Adjustments

We did not propose any adjustments to the original trial balance provided to us for the audit.

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

**CITY OF FREEPORT, MINNESOTA
REQUIRED COMMUNICATIONS**

Departure From the Auditor's Standard Report

Our Independent Auditors' Report includes several additional or non-standard paragraphs that you should be aware of as follows:

- Other Matters related to Required Supplementary Information and Supplementary Information
- Other Reporting Required by *Government Auditing Standards*
- Report on Other Legal and Regulatory Requirements

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Letter Communicating Deficiencies in Internal Control over Financial Reporting

We have separately communicated the material weakness and significant deficiency in internal control over financial reporting identified during our audit of the financial statements as required by *Government Auditing Standards*, and this communication is included within the compliance section of the City's financial report for the year ended December 31, 2019.

Significant Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated June 1, 2020.