

CITY OF FREEPORT, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019**

CITY COUNCIL

Term Expires

Mike Eveslage	Mayor	December 31, 2020
Sarah Blake	Council Member	December 31, 2022
Ben Ettle	Council Member	December 31, 2020
Tim Hennen	Council Member	December 31, 2022
Jake Renneker	Council Member	December 31, 2020

CITY OFFICIALS

Joan Wall	Clerk/Treasurer
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**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

June 1, 2020

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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison information, Schedule of City's Proportionate Share of the Net Pension Liability, and Schedule of City Pension 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, 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 1, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 1, 2020, 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, 2019**

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, 2019. 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 \$113,280 as a result of this year's operations.
- In the City's business-type activities, revenues increased \$2,281 (or 0.84 percent) and program expenses increased \$14,410 (or 6.69 percent) due to increased costs for professional services and maintenance.
- Total cost of all of the City's programs increased \$85,239 (or 10.13 percent).
- The City's General Fund generated more revenue than budgeted of \$31,429, excluding transfers in from other funds. Expenditures were more than budgeted by \$1,053, excluding transfers to other funds. See additional details on page forty-one.

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 in net position. You can think of the City's net position (assets plus deferred outflows, less 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, costs associated with current and future construction projects, 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, 2019**

USING THIS ANNUAL REPORT (Continued)

Reporting the City's Most Significant Funds

Our analysis of the City's 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 governmental 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, 2019**

THE CITY AS A WHOLE

The City's combined net position increased \$113,280 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	
	2019	2018	2019	2018	2019	2018
Current & Other Assets	\$ 2,514,344	\$ 2,833,792	\$ 924,818	\$ 899,729	\$ 3,439,162	\$ 3,733,521
Net Capital Assets	<u>2,803,676</u>	<u>3,001,961</u>	<u>4,669,977</u>	<u>4,802,689</u>	<u>7,473,653</u>	<u>7,804,650</u>
Total Assets	5,318,020	5,835,753	5,594,795	5,702,418	10,912,815	11,538,171
Deferred Outflows of Resources	11,155	16,776	-	-	11,155	16,776
Current & Other Liabilities	130,641	489,147	29,291	30,240	159,932	519,387
Long-Term Debt Outstanding	<u>777,342</u>	<u>1,068,513</u>	<u>1,553,486</u>	<u>1,621,222</u>	<u>2,330,828</u>	<u>2,689,735</u>
Total Liabilities	907,983	1,557,660	1,582,777	1,651,462	2,490,760	3,209,122
Deferred Inflows of Resources	<u>23,102</u>	<u>48,997</u>	<u>-</u>	<u>-</u>	<u>23,102</u>	<u>48,997</u>
Net Position:						
Net Investment in						
Capital Assets	2,026,334	1,933,448	3,116,491	3,181,467	5,142,825	5,114,915
Restricted	888,705	990,828	-	-	888,705	990,828
Unrestricted	<u>1,483,051</u>	<u>1,321,596</u>	<u>895,527</u>	<u>869,489</u>	<u>2,378,578</u>	<u>2,191,085</u>
Total Net Position	<u>\$ 4,398,090</u>	<u>\$ 4,245,872</u>	<u>\$ 4,012,018</u>	<u>\$ 4,050,956</u>	<u>\$ 8,410,108</u>	<u>\$ 8,296,828</u>

The net position of the City's governmental activities increased by \$152,218 (or 3.59 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) increased by \$161,455 (or 12.22 percent) compared to the prior year.

The net position of the City's business-type activities decreased by \$38,938 (or 0.96 percent), while the unrestricted net position increased from \$869,489 to \$895,527 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, 2019**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2019	2018	2019	2018	2019	2018
REVENUE						
Charges for Services	\$ 115,453	\$ 214,370	\$ 257,719	\$ 261,839	\$ 373,172	\$ 476,209
Grants and Contributions	77,607	49,554	7,790	1,348	85,397	50,902
Taxes	435,756	466,859	-	-	435,756	466,859
Franchise Fees	6,244	5,344	-	-	6,244	5,344
Intergovernmental	117,009	126,412	-	2,625	117,009	129,037
Investment Income	17,589	14,013	7,369	4,785	24,958	18,798
Miscellaneous	-	5,554	-	-	-	5,554
Total Revenues	769,658	882,106	272,878	270,597	1,042,536	1,152,703
PROGRAM EXPENSES						
General Government	168,145	156,303	-	-	168,145	156,303
Public Safety	202,556	147,338	-	-	202,556	147,338
Public Works	290,833	261,884	-	-	290,833	261,884
Parks and Recreation	16,977	18,554	-	-	16,977	18,554
Economic Development	4,708	22,969	-	-	4,708	22,969
Debt Service	16,221	21,563	-	-	16,221	21,563
Water	-	-	122,393	122,149	122,393	122,149
Sewer	-	-	107,423	93,257	107,423	93,257
Total Expenses	699,440	628,611	229,816	215,406	929,256	844,017
Transfers	82,000	82,000	(82,000)	(82,000)	-	-
Change in Net Position	<u>\$ 152,218</u>	<u>\$ 335,495</u>	<u>\$ (38,938)</u>	<u>\$ (26,809)</u>	<u>\$ 113,280</u>	<u>\$ 308,686</u>

The City's total revenues decreased by \$110,167 (or 9.56 percent), largely due to decreases in charges for services and property taxes levied and collected. The total cost of all programs and services increased by \$85,239 (or 10.13 percent). Our analysis below and on the next page separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities decreased by \$112,448 (or 12.75 percent), and total expenses increased \$70,829 (or 11.27 percent). Revenues were generally consistent with those of the prior year, with the exception of the Xcel easement charges received in 2018. Expenses were also comparable to the prior year, with the overall increase noted above resulting from increases in general government, public safety, and public works.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY AS A WHOLE (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	
	2019	2018	2019	2018
General Government	\$ 168,145	\$ 156,303	\$ 130,523	\$ 43,424
Public Safety	202,556	147,338	50,350	467
Public Works	290,833	261,884	289,866	260,820
Parks and Recreation	16,977	18,554	16,977	18,554
Economic Development	4,708	22,969	4,708	22,969
Debt Service	16,221	21,563	13,956	18,453
Totals	<u>\$ 699,440</u>	<u>\$ 628,611</u>	<u>\$ 506,380</u>	<u>\$ 364,687</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) are comparable to the prior year. Program expenses increased by \$14,410 (or 6.69 percent) due to increased costs for professional services and maintenance. 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 \$1,819,152. This is an increase of \$50,196 (or 2.84 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.

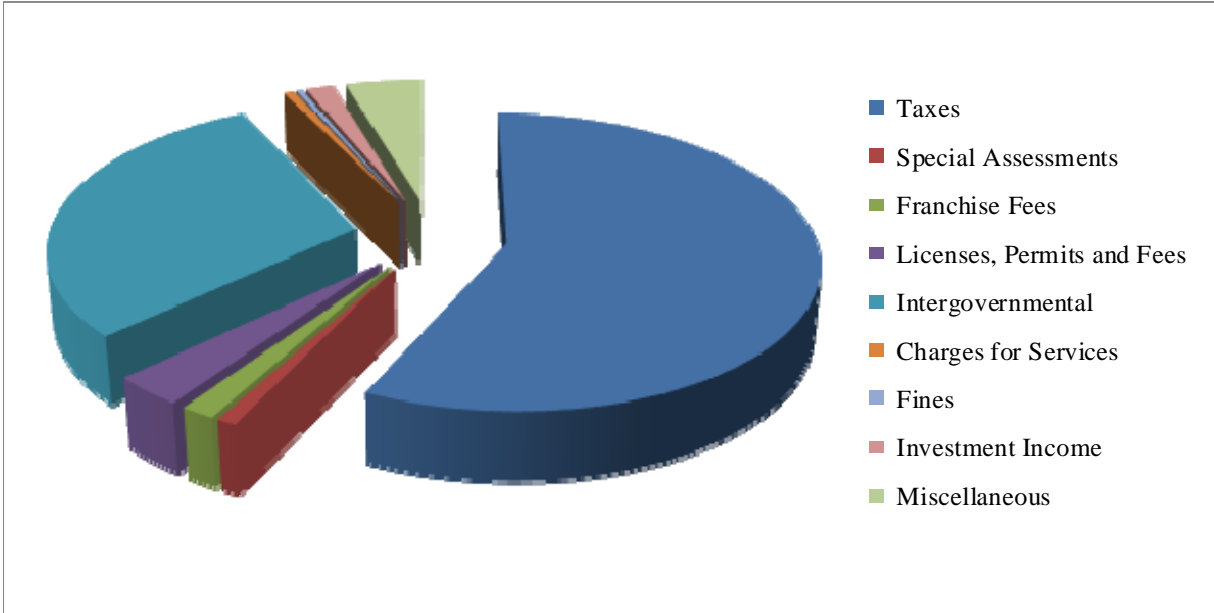
Major Funds	Fund Balance December 31,		Increase (Decrease)
	2019	2018	
General	\$ 631,965	\$ 642,018	\$ (10,053)

The fund balance of the General Fund decreased by \$10,053 compared to 2018. 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, 2019**

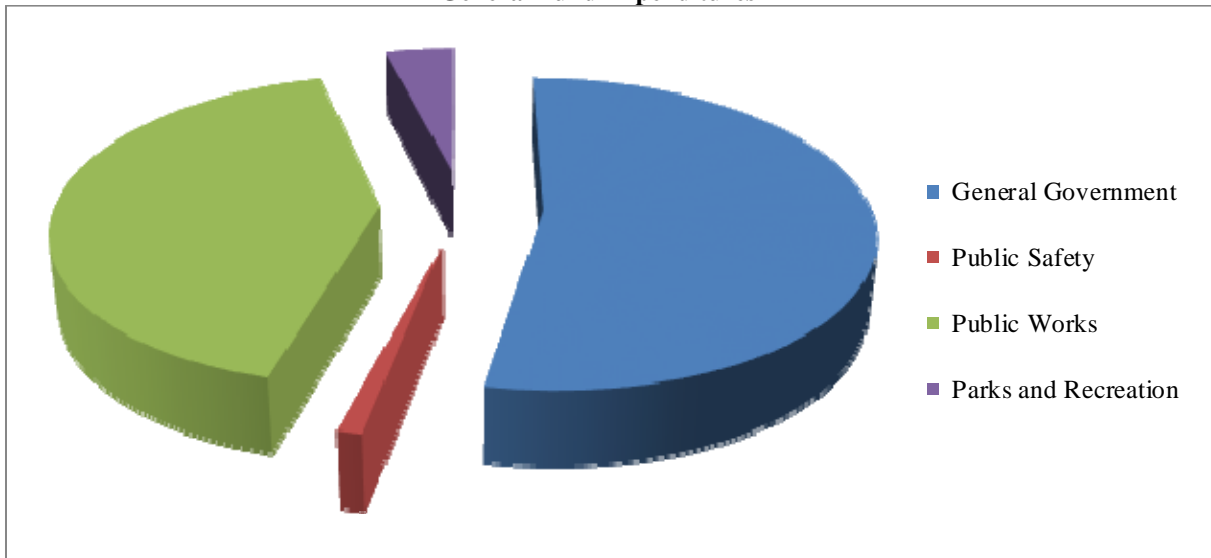
THE CITY'S FUNDS (Continued)

General Fund Revenue



The City received the majority of its funding in the General Fund in the form of funding received from other governmental agencies (29.80 percent) and taxes (57.11 percent). Overall, the City's General Fund revenues decreased \$107,649 compared to the prior year, primarily due to decreases in charges for the Xcel easement received in 2018.

General Fund Expenditures



A significant portion of the City's General Fund expenditures are used for general government operations (50.29 percent). Remaining expenditures are used primarily for public works (39.67 percent). Expenditures have increased from the prior year primarily due to increases in general government and public works spending.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY'S FUNDS (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2019	2018	
Debt Service	\$ 207,893	\$ 308,196	\$ (100,303)

The Debt Service fund balance decreased \$100,303 primarily due to payment of bonds during the current year that exceeded revenues.

Area Fire Service	\$ 284,398	\$ 253,939	\$ 30,459
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The Area Fire Service fund balance increased \$30,459 due to revenues and transfers from other funds exceeding expenditures for the current year.

General Fund Budgetary Highlights

The City's General Fund generated more revenue than budgeted by \$31,429 primarily due to funding from donations being more than anticipated. Expenditures were more than budgeted amounts by \$1,053 primarily due to capital outlay expenditures being more than anticipated.

Proprietary Funds

As the City completed the year, its business-type activities reported a combined net position of \$4,012,018. This is a decrease of \$38,938 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2019	2018	
Water	\$ 1,970,856	\$ 1,997,681	\$ (26,825)

The Water Fund net position decreased \$26,825 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	\$ 2,041,162	\$ 2,053,275	\$ (12,113)
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The Sewer Fund net position decreased \$12,113 during the year as a result of operations and transfers to the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City had \$7,473,653 net investment in a broad range of capital assets, including land, buildings, improvements, infrastructure, machinery, equipment, and vehicles. This amount represents a net decrease of \$330,997 (or 4.24 percent) from last year.

**CITY OF FREEPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 399,900	\$ 399,900	\$ 272,968	\$ 272,968	\$ 672,868	\$ 672,868
Buildings and Improvements	334,123	374,147	1,845,420	1,902,718	2,179,543	2,276,865
Other Improvements and Infrastructure	1,598,926	1,716,474	2,551,589	2,627,003	4,150,515	4,343,477
Machinery and Equipment	6,204	8,254	-	-	6,204	8,254
Vehicles	464,523	503,186	-	-	464,523	503,186
Totals	<u>\$ 2,803,676</u>	<u>\$ 3,001,961</u>	<u>\$ 4,669,977</u>	<u>\$ 4,802,689</u>	<u>\$ 7,473,653</u>	<u>\$ 7,804,650</u>

More detailed information about the City's capital assets is presented in Note 2.B. to the financial statements.

Debt

At year-end, the City had \$2,320,000 in debt versus \$2,676,000 last year (a decrease of 13.30 percent), as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General Obligation Debt	<u>\$ 775,000</u>	<u>\$ 1,065,000</u>	<u>\$ 1,545,000</u>	<u>\$ 1,611,000</u>	<u>\$ 2,320,000</u>	<u>\$ 2,676,000</u>

See additional information at Note 2.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 2020 budget, including tax rates and fees that will be charged for the business-type activities. The Council elected to increase the 2020 tax levy from \$435,865 in 2019 to \$478,100 due in part to the planned purchase of a \$20,000 SCADA computer. There has been no change to the 2020 water rates, so overall utility bills should remain consistent with 2019. It is currently unknown how the coronavirus pandemic will affect 2020 operations, including any impact on property taxes and utility billing receipts. Overall budget amounts for 2020 are consistent with 2019'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, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,665,383	\$ 713,964	\$ 2,379,347
Property Taxes Receivable	1,955	-	1,955
Assessments Receivable	674,140	182,654	856,794
Accounts Receivable	13,690	26,584	40,274
Prepays	17,819	1,616	19,435
Land Held for Sale	141,357	-	141,357
Capital Assets:			
Capital Assets not Being Depreciated	399,900	272,968	672,868
Capital Assets Being Depreciated (Net)	<u>2,403,776</u>	<u>4,397,009</u>	<u>6,800,785</u>
TOTAL ASSETS	5,318,020	5,594,795	10,912,815
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	11,155	-	11,155
LIABILITIES			
Accounts Payable	15,036	1,445	16,481
Accrued Payroll	4,585	-	4,585
Accrued Interest	6,648	27,846	34,494
Noncurrent Liabilities:			
Compensated Absences	10,383	-	10,383
Net Pension Liability	93,989	-	93,989
Debt Due Within One Year	295,000	71,000	366,000
Debt Due After One Year	<u>482,342</u>	<u>1,482,486</u>	<u>1,964,828</u>
TOTAL LIABILITIES	907,983	1,582,777	2,490,760
DEFERRED INFLOWS OF RESOURCES			
Pension	<u>23,102</u>	<u>-</u>	<u>23,102</u>
NET POSITION			
Net Investment in Capital Assets	2,026,334	3,116,491	5,142,825
Restricted	888,705	-	888,705
Unrestricted	<u>1,483,051</u>	<u>895,527</u>	<u>2,378,578</u>
TOTAL NET POSITION	<u>\$ 4,398,090</u>	<u>\$ 4,012,018</u>	<u>\$ 8,410,108</u>

**CITY OF FREEPORT, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

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		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 168,145	\$ 16,974	\$ 17,071	\$ 3,577	\$ (130,523)	\$ -	\$ (130,523)
Public Safety	202,556	98,479	53,727	-	(50,350)	-	(50,350)
Public Works	290,833	-	-	967	(289,866)	-	(289,866)
Parks and Recreation	16,977	-	-	-	(16,977)	-	(16,977)
Economic Development	4,708	-	-	-	(4,708)	-	(4,708)
Debt Service	16,221	-	-	2,265	(13,956)	-	(13,956)
Total Governmental Activities	699,440	115,453	70,798	6,809	(506,380)	-	(506,380)
Business-Type Activities:							
Water	122,393	122,832	-	7,790	-	8,229	8,229
Sewer	107,423	134,887	-	-	-	27,464	27,464
Total Business-Type Activities	229,816	257,719	-	7,790	-	35,693	35,693
TOTALS	\$ 929,256	\$ 373,172	\$ 70,798	\$ 14,599	(506,380)	35,693	(470,687)
General Revenues:							
Taxes					435,756	-	435,756
Franchise Fees					6,244	-	6,244
Intergovernmental					117,009	-	117,009
Investment Income					17,589	7,369	24,958
Transfers					82,000	(82,000)	-
Total General Revenues and Transfers					658,598	(74,631)	583,967
CHANGE IN NET POSITION					152,218	(38,938)	113,280
NET POSITION-BEGINNING OF YEAR					4,245,872	4,050,956	8,296,828
NET POSITION-END OF YEAR					<u>\$ 4,398,090</u>	<u>\$ 4,012,018</u>	<u>\$ 8,410,108</u>

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

	General Fund	Debt Service Fund	Area Fire Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 626,284	\$ 207,656	\$ 276,513	\$ 554,930	\$ 1,665,383
Property Taxes Receivable	1,054	850	-	51	1,955
Assessments Receivable	85,760	588,380	-	-	674,140
Accounts Receivable	4,149	-	9,541	-	13,690
Prepays	13,363	-	4,456	-	17,819
Land Held for Sale	-	-	-	141,357	141,357
TOTAL ASSETS	<u>\$ 730,610</u>	<u>\$ 796,886</u>	<u>\$ 290,510</u>	<u>\$ 696,338</u>	<u>\$ 2,514,344</u>
LIABILITIES					
Accounts Payable	\$ 7,519	\$ -	\$ 6,112	\$ 1,405	\$ 15,036
Accrued Payroll	4,585	-	-	-	4,585
Total Liabilities	12,104	-	6,112	1,405	19,621
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	781	613	-	37	1,431
Special Assessments	85,760	588,380	-	-	674,140
Total Deferred Inflows of Resources	86,541	588,993	-	37	675,571
FUND BALANCES					
Nonspendable	13,363	-	4,456	141,357	159,176
Restricted	-	207,893	-	98,467	306,360
Committed	-	-	279,942	74,168	354,110
Assigned	-	-	-	380,904	380,904
Unassigned	618,602	-	-	-	618,602
Total Fund Balances	<u>631,965</u>	<u>207,893</u>	<u>284,398</u>	<u>694,896</u>	<u>1,819,152</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 730,610</u>	<u>\$ 796,886</u>	<u>\$ 290,510</u>	<u>\$ 696,338</u>	<u>\$ 2,514,344</u>

CITY OF FREEPORT, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019

Total fund balance for governmental funds	\$	1,819,152
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of accumulated depreciation of \$3,933,185) used in governmental activities are not financial resources and, therefore are not reported in the funds:		2,803,676
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:		
Taxes Receivable	1,431	
Special Assessments Receivable	674,140	
		675,571

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:		(6,648)
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Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds:		
Compensated Absences	(10,383)	
Unamortized Bond Premium	(2,342)	
Debt Due Within One Year	(295,000)	
Debt Due In More Than One Year	(480,000)	
		(787,725)

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	(93,989)	
Deferred Outflows - Pensions	11,155	
Deferred Inflows - Pensions	(23,102)	
		(105,936)

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>4,398,090</u>
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CITY OF FREEPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Debt Service Fund	Area Fire Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 223,813	\$ 200,657	\$ -	\$ 14,759	\$ 439,229
Special Assessments	3,577	7,439	-	-	11,016
Franchise Fees	6,244	-	-	-	6,244
Licenses, Permits, and Fees	12,955	-	-	-	12,955
Intergovernmental	116,784	-	29,849	-	146,633
Charges for Services	2,560	-	98,479	-	101,039
Fines	1,459	-	-	-	1,459
Investment Income	6,457	1,233	3,799	6,100	17,589
Miscellaneous	18,038	-	23,878	1,442	43,358
TOTAL REVENUES	391,887	209,329	156,005	22,301	779,522
EXPENDITURES					
Current:					
General Government	167,419	-	-	-	167,419
Public Safety	3,394	-	164,102	-	167,496
Public Works	132,068	-	-	-	132,068
Parks and Recreation	12,482	-	-	-	12,482
Economic Development	-	-	-	4,708	4,708
Debt Service:					
Principal	-	290,000	-	-	290,000
Interest and Other Charges	-	19,632	-	-	19,632
Capital Outlay	17,521	-	-	-	17,521
TOTAL EXPENDITURES	332,884	309,632	164,102	4,708	811,326
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	59,003	(100,303)	(8,097)	17,593	(31,804)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	90,500	-	42,056	117,500	250,056
Operating Transfers Out	(159,556)	-	(3,500)	(5,000)	(168,056)
TOTAL OTHER FINANCING SOURCES (USES)	(69,056)	-	38,556	112,500	82,000
NET CHANGE IN FUND BALANCES	(10,053)	(100,303)	30,459	130,093	50,196
FUND BALANCES - BEGINNING	642,018	308,196	253,939	564,803	1,768,956
FUND BALANCES - ENDING	\$ 631,965	\$ 207,893	\$ 284,398	\$ 694,896	\$ 1,819,152

**CITY OF FREEPORT, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances - total governmental funds	\$ 50,196
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:	
Depreciation Expense	(198,285)
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	(10,089)
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:	
Debt Principal Payments	290,000
Net change in accrued interest on bonds is not reported as an expenditure in the funds:	2,240
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	1,939
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:	15,046
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 152,218</u>

CITY OF FREEPORT, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 572,032	\$ 141,932	\$ 713,964
Accounts Receivable	11,977	14,607	26,584
Assessments Receivable	104	-	104
Prepays	676	940	1,616
Total Current Assets	584,789	157,479	742,268
Noncurrent Assets			
Assessments Receivable	182,550	-	182,550
Capital Assets not Depreciated	51,600	221,368	272,968
Capital Assets Being Depreciated (Net)	2,617,224	1,779,785	4,397,009
Total Noncurrent Assets	2,851,374	2,001,153	4,852,527
TOTAL ASSETS	3,436,163	2,158,632	5,594,795
LIABILITIES			
Current Liabilities			
Accounts Payable	1,301	144	1,445
Accrued Interest	26,846	1,000	27,846
Debt Due Within One Year	41,000	30,000	71,000
Total Current Liabilities	69,147	31,144	100,291
Noncurrent Liabilities			
Debt Due After One Year	1,396,160	86,326	1,482,486
TOTAL LIABILITIES	1,465,307	117,470	1,582,777
NET POSITION			
Net Investment in Capital Assets	1,231,664	1,884,827	3,116,491
Unrestricted	739,192	156,335	895,527
TOTAL NET POSITION	\$ 1,970,856	\$ 2,041,162	\$ 4,012,018

CITY OF FREEPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Water Fund	Sewer Fund	Totals
OPERATING REVENUES			
Charges for Services	\$ 122,832	\$ 134,887	\$ 257,719
OPERATING EXPENSES			
Materials and Supplies	2,047	3,811	5,858
Professional Services	3,733	8,124	11,857
Repairs and Maintenance	3,252	28,276	31,528
Other Services and Charges	5,923	3,595	9,518
Utilities	5,797	1,125	6,922
Depreciation	71,080	61,632	132,712
TOTAL OPERATING EXPENSES	91,832	106,563	198,395
NET OPERATING INCOME	31,000	28,324	59,324
NONOPERATING INCOME (EXPENSE)			
Special Assessments	7,790	-	7,790
Investment Income	5,946	1,423	7,369
Interest and Other Charges	(30,561)	(860)	(31,421)
TOTAL NONOPERATING INCOME (EXPENSE)	(16,825)	563	(16,262)
CHANGE IN NET POSITION PRIOR TO TRANSFERS	14,175	28,887	43,062
TRANSFERS			
Operating Transfers Out	(41,000)	(41,000)	(82,000)
CHANGE IN NET POSITION	(26,825)	(12,113)	(38,938)
NET POSITION-BEGINNING OF YEAR	1,997,681	2,053,275	4,050,956
NET POSITION-END OF YEAR	<u>\$ 1,970,856</u>	<u>\$ 2,041,162</u>	<u>\$ 4,012,018</u>

**CITY OF FREEPORT, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 126,249	\$ 137,950	\$ 264,199
Cash Paid to Suppliers	<u>(20,602)</u>	<u>(45,126)</u>	<u>(65,728)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	105,647	92,824	198,471
CASH FLOW 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	18,770	-	18,770
Payments on Bond Principal	(41,000)	(25,000)	(66,000)
Cash Paid for Interest	<u>(31,360)</u>	<u>(2,650)</u>	<u>(34,010)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(53,590)	(27,650)	(81,240)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	<u>5,946</u>	<u>1,423</u>	<u>7,369</u>
Net Increase in Cash and Cash Equivalents	17,003	25,597	42,600
Cash and Cash Equivalents-Beginning of Year	<u>555,029</u>	<u>116,335</u>	<u>671,364</u>
Cash and Cash Equivalents-End of Year	<u><u>\$ 572,032</u></u>	<u><u>\$ 141,932</u></u>	<u><u>\$ 713,964</u></u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income	\$ 31,000	\$ 28,324	\$ 59,324
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	71,080	61,632	132,712
Change in Assets and Liabilities:			
Accounts Receivable	3,417	3,063	6,480
Prepays	(37)	88	51
Accounts Payable	<u>187</u>	<u>(283)</u>	<u>(96)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 105,647</u></u>	<u><u>\$ 92,824</u></u>	<u><u>\$ 198,471</u></u>

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

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 Statement 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 of the City of Freeport

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, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 on the next page.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 financial resources during a given period. These funds use fund balance as their measure of available 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), financial position, and cash flows. 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 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 contingent assets and liabilities 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 savings 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 2.A. for additional information related to Cash and Cash Equivalents.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, as well as interfund receivables and payables between funds within business-type activities are eliminated in the Statement of Net Position. See Note 2.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 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, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Noncurrent Liabilities

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.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows/Outflows of Resources

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

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes and special assessments 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 Statement of Net Position in relation to the activity of pension funds in which City employees participate.

See Note 3 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.

Fund Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. The nonspendable fund balance at December 31, 2019 consists of prepaid expenditures and land held for sale.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

See Note 2.E. for additional disclosures.

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

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

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

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

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Funds - By Character	Current (further classified by Function)
	Capital Outlay
	Debt Service
Proprietary Fund - By Operating and Nonoperating	

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

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 2.D.

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

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

At December 31, 2019, the City's deposits, including certificates of deposit, were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the City's agent in the City's name.

As of December 31, 2019, the City had the following deposits:

Cash in Checking	\$ 2,320,827
Money Market Savings	<u>58,520</u>
 Total Deposits	 <u>\$ 2,379,347</u>

Investments

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

At December 31, 2019, the City does not hold any investments.

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is as follows:

	Balance at 01/01/19	Additions	Disposals	Transfers	Balance at 12/31/19
Governmental Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 399,900	\$ -	\$ -	\$ -	\$ 399,900
Capital Assets Being Depreciated					
Buildings and Improvements	1,269,051	-	-	-	1,269,051
Other Improvements and					
Infrastructure	3,976,363	-	-	-	3,976,363
Machinery and Equipment	204,357	-	-	-	204,357
Vehicles	887,190	-	-	-	887,190
Total Capital Assets Being					
Depreciated	6,336,961	-	-	-	6,336,961
Less: Accumulated Depreciation					
Buildings and Improvements	(894,904)	(40,024)	-	-	(934,928)
Other Improvements and					
Infrastructure	(2,259,889)	(117,548)	-	-	(2,377,437)
Machinery and Equipment	(196,103)	(2,050)	-	-	(198,153)
Vehicles	(384,004)	(38,663)	-	-	(422,667)
Total Accumulated					
Depreciation	(3,734,900)	(198,285)	-	-	(3,933,185)
Total Capital Assets Being					
Depreciated, Net	2,602,061	(198,285)	-	-	2,403,776
Capital Assets, Net	<u>\$ 3,001,961</u>	<u>\$ (198,285)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,803,676</u>

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

	Balance at 01/01/19	Additions	Disposals	Transfers	Balance at 12/31/19
Business-Type Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 272,968	\$ -	\$ -	\$ -	\$ 272,968
Capital Assets Being Depreciated					
Buildings and Improvements	2,916,487	-	-	-	2,916,487
Other Improvements and					
Infrastructure	3,801,072	-	-	-	3,801,072
Total Capital Assets Being					
Depreciated	6,717,559	-	-	-	6,717,559
Less: Accumulated Depreciation					
Buildings and Improvements	(1,013,769)	(57,298)	-	-	(1,071,067)
Other Improvements and					
Infrastructure	(1,174,069)	(75,414)	-	-	(1,249,483)
Total Accumulated					
Depreciation	(2,187,838)	(132,712)	-	-	(2,320,550)
Total Capital Assets Being					
Depreciated, Net	4,529,721	(132,712)	-	-	4,397,009
Capital Assets, Net	<u>\$ 4,802,689</u>	<u>\$ (132,712)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,669,977</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 12,750
Public Safety	35,060
Public Works	145,980
Parks and Recreation	4,495
	<u> </u>
Total Depreciation Expense	<u>\$ 198,285</u>

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES

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

Debt Detail

As of December 31, 2019, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2012A Crossover Refunding Bonds	02/12	\$20,000 - \$180,000	1.15-2.25%	02/22	\$ 1,200,000	\$ 525,000
2013A Refunding Bonds	01/13	\$10,000 - \$170,000	2.00%	02/21	715,000	250,000
Total Governmental Activities Bonds Payable						775,000
Bonds Due Within One Year						295,000
Bonds Due After One Year						<u>\$ 480,000</u>

Business Type Activities

General Obligation Bonds						
	Issue Date	Annual Payment	Interest Rate(s)	Maturity Date	Original Amount	Remaining Amount
2012 Water and Sewer Revenue Bonds (USDA)	06/12	\$23,000 - \$49,000	2.00%	01/52	\$ 1,352,000	\$ 1,205,000
2013A Refunding Bonds	01/13	\$40,000 - \$45,000	2.00-3.25%	02/33	525,000	340,000
Total Business-Type Activities Bonds Payable						1,545,000
Bonds Due Within One Year						71,000
Bonds Due After One Year						<u>\$ 1,474,000</u>

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2019:

Type of Debt	Balance 01/01/19	Additions	Deductions	Balance 12/31/19	Amounts Due Within One Year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 1,065,000	\$ -	\$ (290,000)	\$ 775,000	\$ 295,000
Unamortized Bond Premium	3,513	-	(1,171)	2,342	-
Compensated Absences	12,322	5,589	(7,528)	10,383	-
Total	<u>\$ 1,080,835</u>	<u>\$ 5,589</u>	<u>\$ (298,699)</u>	<u>\$ 787,725</u>	<u>\$ 295,000</u>
<i>Business-Type Activities</i>					
General Obligation Bonds	\$ 1,611,000	\$ -	\$ (66,000)	\$ 1,545,000	\$ 71,000
Unamortized Bond Premium	10,222	-	(1,736)	8,486	-
Total	<u>\$ 1,621,222</u>	<u>\$ -</u>	<u>\$ (67,736)</u>	<u>\$ 1,553,486</u>	<u>\$ 71,000</u>

Interest and other fiscal charges total \$49,560 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest and other fiscal charges total \$18,642 in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$33,157 in the Statement of Revenues, Expenses, and Changes and Net Position – Proprietary Funds (included in the line Interest and Other Charges).

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

Annual Debt Service Requirements

At December 31, 2019, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 295,000	\$ 13,090	\$ 308,090
2021	300,000	7,138	307,138
2022	180,000	2,025	182,025
Totals	<u>\$ 775,000</u>	<u>\$ 22,253</u>	<u>\$ 797,253</u>

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 71,000	\$ 32,640	\$ 103,640
2021	72,000	31,285	103,285
2022	67,000	29,750	96,750
2023	68,000	28,250	96,250
2024	43,000	27,030	70,030
2025-2029	225,000	120,161	345,161
2030-2034	246,000	90,605	336,605
2035-2039	183,000	68,157	251,157
2040-2044	202,000	49,089	251,089
2045-2049	224,000	28,031	252,031
2050-2052	144,000	5,800	149,800
Totals	<u>\$ 1,545,000</u>	<u>\$ 510,797</u>	<u>\$ 2,055,797</u>

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2019:

Major Funds	Transfers Out	Transfers In			
		Major Funds		Nonmajor	Total
		General	Area Fire Service	Other Governmental	
General	\$ 159,556	\$ -	\$ 42,056	\$ 117,500	\$ 159,556
Area Fire Service	3,500	3,500	-	-	3,500
Water	41,000	41,000	-	-	41,000
Sewer	41,000	41,000	-	-	41,000
	<u>245,056</u>	<u>85,500</u>	<u>42,056</u>	<u>117,500</u>	<u>245,056</u>
Nonmajor Funds					
Governmental	5,000	5,000	-	-	5,000
	<u>\$ 250,056</u>	<u>\$ 90,500</u>	<u>\$ 42,056</u>	<u>\$ 117,500</u>	<u>\$ 250,056</u>

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

There are no interfund balances at December 31, 2019.

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.E. FUND EQUITY

At December 31, 2019, governmental cash fund equity consists of the following:

General Fund	
Nonspendable - Prepaids	\$ 13,363
Unassigned	<u>618,602</u>
Total General Fund Balance	<u><u>\$ 631,965</u></u>
Debt Service Fund	
Restricted for Debt Service	<u><u>\$ 207,893</u></u>
Area Fire Service Fund	
Nonspendable - Prepaids	\$ 4,456
Committed for Fire Service	<u>279,942</u>
Total Area Fire Service Fund Balance	<u><u>\$ 284,398</u></u>
Other Governmental Funds	
Nonspendable - Land Held for Sale	\$ 141,357
Restricted for Loan Subsidization	98,467
Committed for Economic Development	74,168
Assigned for Capital Projects	<u>380,904</u>
Total Other Governmental Funds Balance	<u><u>\$ 694,896</u></u>

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan

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

Benefits Provided

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

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

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

General Employees Plan Benefits

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019, and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019 total \$9,073. The City's contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$93,989 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$3,000. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 the City's proportionate share was 0.0016 percent which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2018.

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

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>Rates</u>
Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

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

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	<u>100%</u>	

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:

	<u>Sensitivity of Net Pension Liability at Current Single Discount Rate</u>		
	1% Decrease in		1% Increase in
	<u>Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>Discount Rate (8.5%)</u>
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:	\$ 3,166
Captured Net Tax Capacity:	
Retained by City	\$ 2,114
Shared with Other Taxing Districts	\$ -
Taxes Abated in 2018:	\$ 2,757

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	226,365	230,057	3,692
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	116,768	116,784	16
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	5,300	24,495	19,195
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	179,259	168,076	(11,183)

**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)
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	132,572	148,932	16,360
Culture and Recreation			
Parks and Recreation			
Current	15,400	12,482	(2,918)
TOTAL EXPENDITURES	331,831	332,884	1,053
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	(159,556)	(159,556)	-
TOTAL OTHER FINANCING SOURCES (USES)	(69,056)	(69,056)	-
NET CHANGE IN FUND BALANCE	\$ (40,429)	(10,053)	\$ 30,376
FUND BALANCES - BEGINNING		642,018	
FUND BALANCE - ENDING		\$ 631,965	

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**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
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**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Swany White TIF District Fund	Total Nonmajor Governmental Funds
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
ASSETS			
Cash and Cash Equivalents	\$ 74,180	\$ 98,467	\$ 172,647
Property Taxes Receivable	51	-	51
Land Held for Sale	141,357	-	141,357
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
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
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><u>\$ 215,525</u></u>	<u><u>\$ 98,467</u></u>	<u><u>\$ 313,992</u></u>

**CITY OF FREEPORT, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
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
ASSETS							
Cash and Cash Equivalents	\$ 17,518	\$ 2,780	\$ 5,430	\$ 243,340	\$ 40,851	\$ 70,985	\$ 380,904
FUND BALANCES							
Assigned	\$ 17,518	\$ 2,780	\$ 5,430	\$ 243,340	\$ 40,851	\$ 70,985	\$ 380,904

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	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>72,000</u>	<u>10,000</u>	<u>30,000</u>	<u>117,500</u>
NET CHANGE IN FUND BALANCES	5,677	31	61	74,468	10,422	30,689	121,348
FUND BALANCES - BEGINNING	<u>11,841</u>	<u>2,749</u>	<u>5,369</u>	<u>168,872</u>	<u>30,429</u>	<u>40,296</u>	<u>259,556</u>
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 Bonds of 2012	G.O. Improvement Crossover Refunding Bonds of 2013	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 accompanying *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.