

# Annual Financial Report

**City of Tracy**  
Tracy, Minnesota

For the Year Ended  
December 31, 2019

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City of Tracy, Minnesota  
 Annual Financial Report  
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INTRODUCTORY SECTION

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

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City of Tracy, Minnesota  
 Elected and Appointed Officials  
 For the Year Ended December 31, 2019

**ELECTED**

Name	Title	Term Expires
Tony Peterson	Mayor	12/31/20
Kou Thao	Council	12/31/20
George Landuyt	Council	12/31/20
Jeri Schons	Council	12/31/22
Dave Tiegs	Council	12/31/20

**APPOINTED**

Kris Ambuehl	City Administrator	1/1/2019 - 8/12/19
Shane Daniels	Interim City Administrator	8/12/19 - 3/09/2020
Erik Hansen	City Administrator	3/09/2020 - current

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FINANCIAL SECTION

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Tracy, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tracy, Minnesota (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'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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## Other Matters

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employers Contributions, the related note disclosures, the Schedule of Employer's Fire Relief Association Contributions and Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios starting on page 84 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**

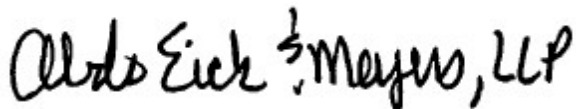
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the Schedule of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
August 17, 2020

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## **Management's Discussion and Analysis**

As management of the City of Tracy, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2019.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,456,037 (net position). Of this amount \$2,206,541 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$790,685. This increase largely relates to an increase in capital grants and contributions relating to the Wastewater Project.
- As of the close of the current fiscal year, the City's governmental fund reported combined ending fund balances of \$8,616,321, an increase of \$4,093,589 in comparison with the prior year. This increase was due to bonds issued the Phase III of the Wastewater Project but not yet expensed. Approximately 11.5 percent of this total amount or \$992,184 is available for spending at the City's discretion including \$357,972 assigned for a specific purpose.

### **Overview of the Financial Statements**

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1**  
**Required Components of the**  
**City's Annual Financial Report**

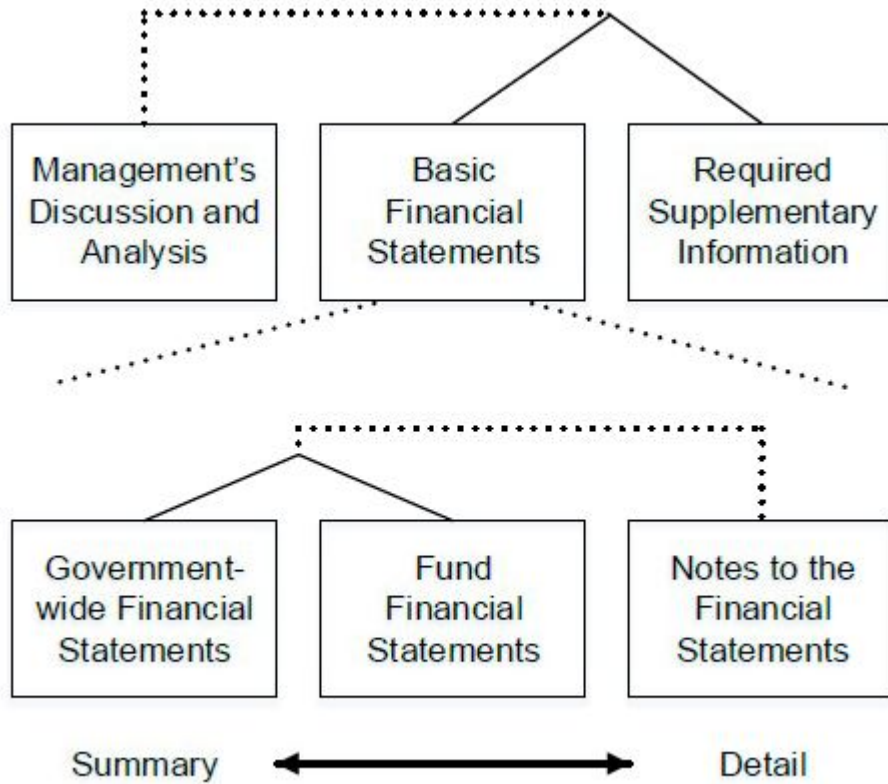


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation and economic development and miscellaneous. The business-type activities of the City include O'Brien Court, Orchard Lane Townhomes, Liquor, Water Utility, Utility Surcharge, Sewer Utility, Refuse Collection and Deputy Register & License operations.

The government-wide financial statements can be found starting on page 31 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 28 individual governmental funds, seven of which are Debt Service funds which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Tracy Medical Center Capital fund, Airport Improvement fund, Wastewater Project Phase II fund and Debt Service fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found starting on page 36 of this report.

**Proprietary Funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its O'Brien Court, Orchard Lane Townhomes, Liquor, Water utility, Utility Surcharge, Sewer Utility, Refuse Collections, Deputy Register and License, and Storm Water.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 44 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 53 of this report.

**Required Supplementary Information.** The required supplementary information can be found starting on page 84 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 92 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,456,037 at the close of the most recent fiscal year.

A large portion of the City's net position (46.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Tracy's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Current and Other Assets	\$ 9,940,848	\$ 5,397,326	\$ 4,543,522	\$ 8,860,686	\$ 2,467,832	\$ 6,392,854
Capital Assets	6,833,227	5,914,126	919,101	16,139,105	13,970,413	2,168,692
Total Assets	<u>16,774,075</u>	<u>11,311,452</u>	<u>5,462,623</u>	<u>24,999,791</u>	<u>16,438,245</u>	<u>8,561,546</u>
Deferred Outflows of Resources	395,195	405,470	(10,275)	28,766	31,147	(2,381)
Long-Term Liabilities Outstanding	10,226,620	5,179,682	5,046,938	20,848,288	12,770,969	8,077,319
Other Liabilities	852,559	243,761	608,798	203,179	636,813	(433,634)
Total Liabilities	<u>11,079,179</u>	<u>5,423,443</u>	<u>5,655,736</u>	<u>21,051,467</u>	<u>13,407,782</u>	<u>7,643,685</u>
Deferred Inflows of Resources	559,249	618,408	(59,159)	51,895	71,329	(19,434)
Net Investment in Capital Assets	1,929,833	1,413,623	516,210	2,478,701	1,415,176	1,063,525
Restricted	2,840,962	3,106,190	(265,228)	-	-	-
Unrestricted	<u>760,047</u>	<u>1,155,258</u>	<u>(395,211)</u>	<u>1,446,494</u>	<u>1,575,105</u>	<u>(128,611)</u>
Total Net Position	<u>\$ 5,530,842</u>	<u>\$ 5,675,071</u>	<u>\$ (144,229)</u>	<u>\$ 3,925,195</u>	<u>\$ 2,990,281</u>	<u>\$ 934,914</u>

An additional portion of the City's net position (30.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (23.3 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$790,685 during the current fiscal year. This increase largely relates to an increase in capital grants and contributions in the current year.

**Governmental Activities.** Governmental activities decreased the City's net position by \$144,229 and Business-type activities increased the City's net position by \$934,914. Key elements of these changes are as follows:

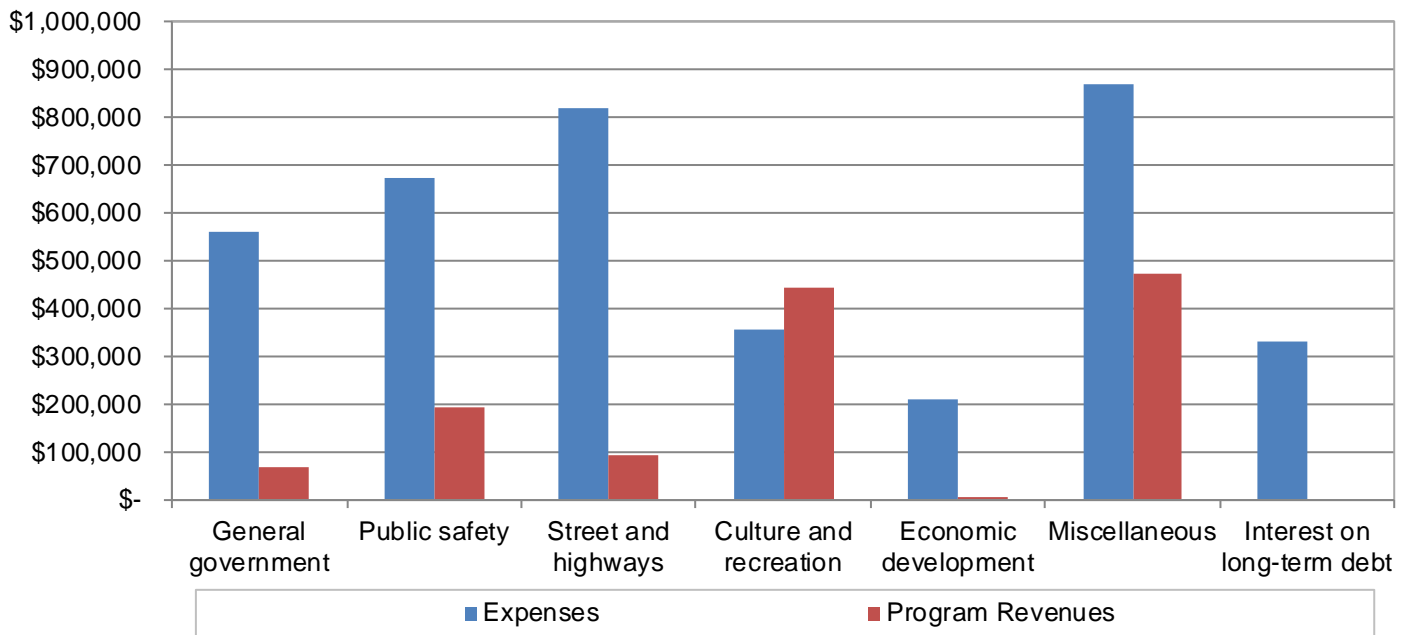
### City of Tracy's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 269,563	\$ 235,030	\$ 34,533	\$ 2,839,361	\$ 2,704,890	\$ 134,471
Operating grants and contributions	392,928	205,907	187,021	29,168	10,145	19,023
Capital grants and contributions	618,806	187,413	431,393	1,277,534	44,945	1,232,589
General Revenues						
Property taxes/tax increments	1,164,988	1,142,097	22,891	-	-	-
Other taxes	29,859	33,374	(3,515)	-	-	-
Grants and contributions not restricted to specific programs	971,419	947,507	23,912	-	-	-
Unrestricted						
investment earnings	90,837	36,574	54,263	121,136	82,607	38,529
Gain on sale of fixed assets	39,270	3,901	35,369	85	158,543	(158,458)
Other	23,832	194,481	(170,649)	-	-	-
Total Revenues	3,601,502	2,986,284	615,218	4,267,284	3,001,130	1,266,154
Expenses						
General government	561,023	479,339	81,684	-	-	-
Public safety	671,935	600,190	71,745	-	-	-
Streets and highways	817,932	771,449	46,483	-	-	-
Culture and recreation	355,219	332,212	23,007	-	-	-
Economic development	210,632	95,419	115,213	-	-	-
Miscellaneous	867,885	605,043	262,842	-	-	-
Interest on long-term debt	330,341	115,440	214,901	-	-	-
O'Brien Court	-	-	-	51,246	67,446	(16,200)
Orchard Lane Townhomes	-	-	-	98,523	110,693	(12,170)
Liquor	-	-	-	643,881	556,848	87,033
Water utility	-	-	-	580,322	451,342	128,980
Utility Surcharge	-	-	-	4,080	9,731	(5,651)
Sewer utility	-	-	-	754,424	323,170	431,254
Storm water	-	-	-	72,371	-	72,371
Eastview Apartments	-	-	-	-	43,613	(43,613)
Refuse Collection	-	-	-	139,836	137,991	1,845
Deputy Register & License	-	-	-	918,451	887,519	30,932
Total Expenses	3,814,967	2,999,092	815,875	3,263,134	2,588,353	674,781
Increase (Decrease) in Net						
Assets Before Transfers	(213,465)	(12,808)	(200,657)	1,004,150	412,777	591,373
Transfers	69,236	339,458	(270,222)	(69,236)	(339,458)	270,222
Change in Net Position	(144,229)	326,650	(470,879)	934,914	73,319	861,595
Net Position - January 1	5,675,071	5,348,421	326,650	2,990,281	2,916,962	73,319
Net Position - December 31	\$ 5,530,842	\$ 5,675,071	\$ (144,229)	\$ 3,925,195	\$ 2,990,281	\$ 934,914

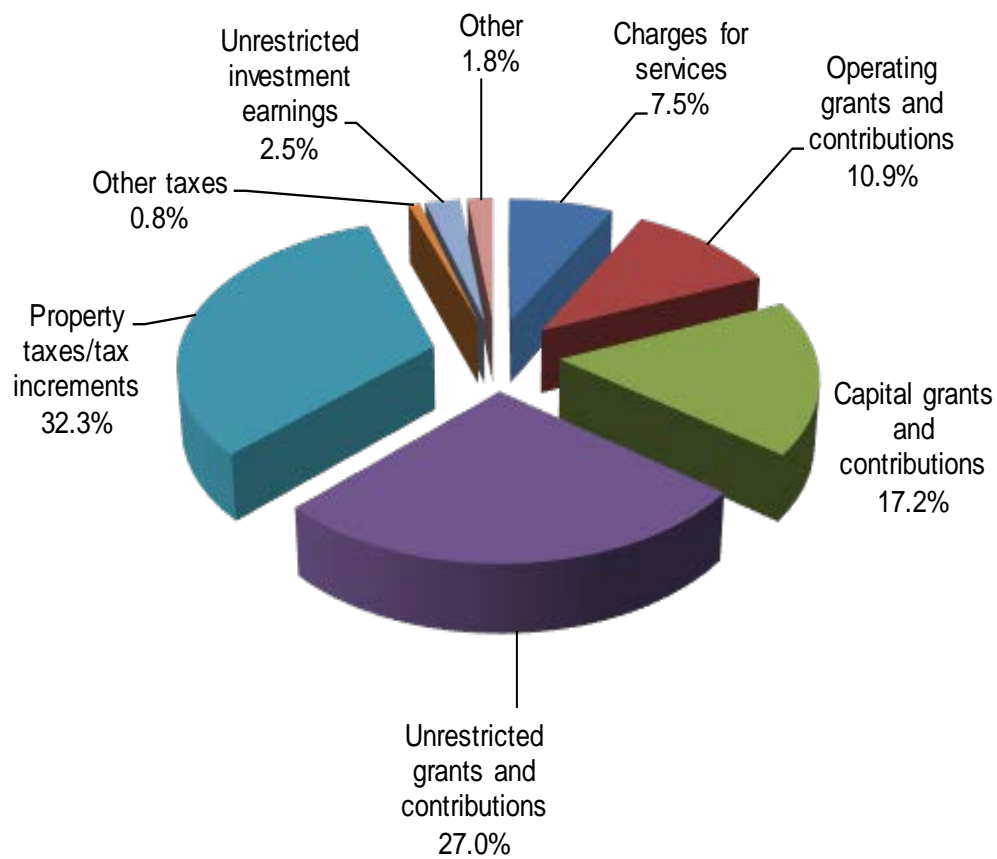
Property tax levies for 2019 increase 3.33 percent over 2018 levies.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities

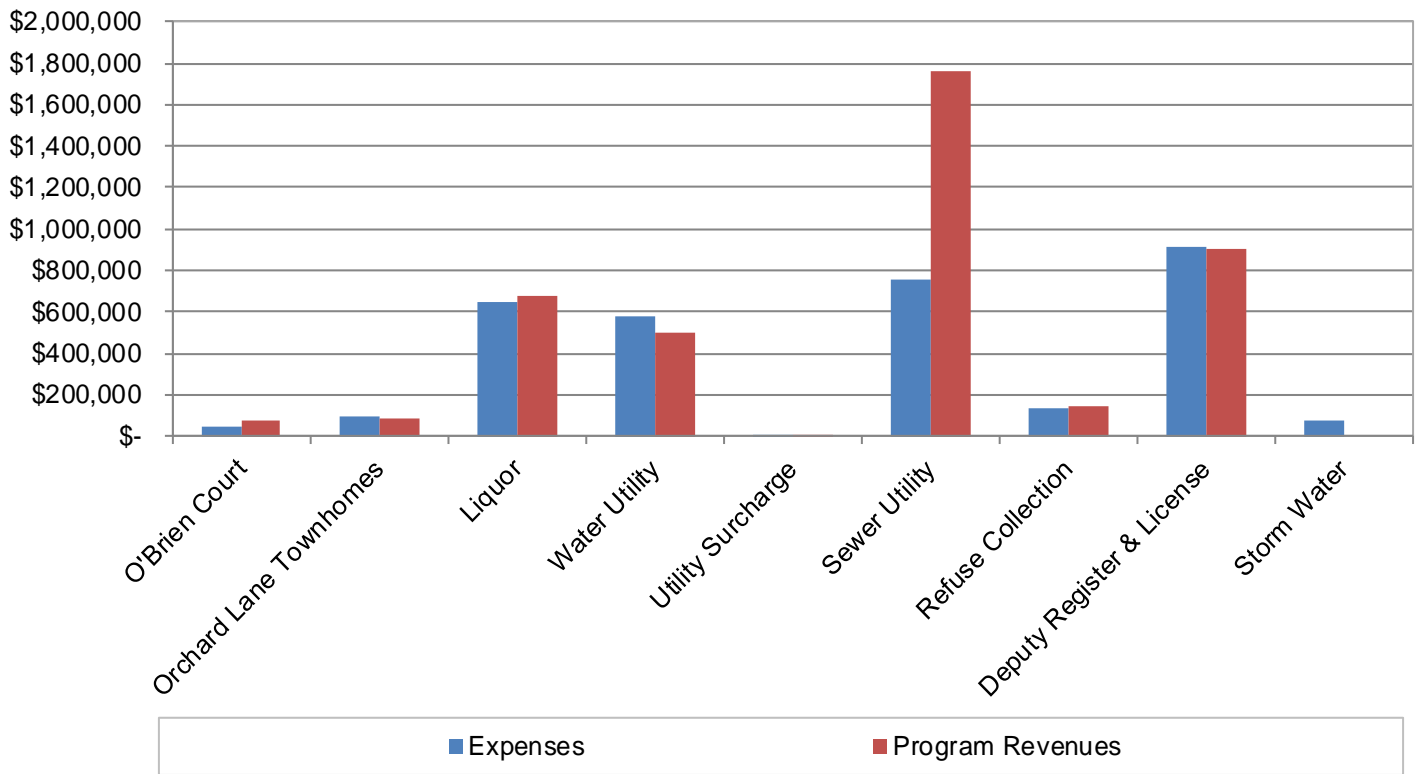


### Revenues by Source - Governmental Activities

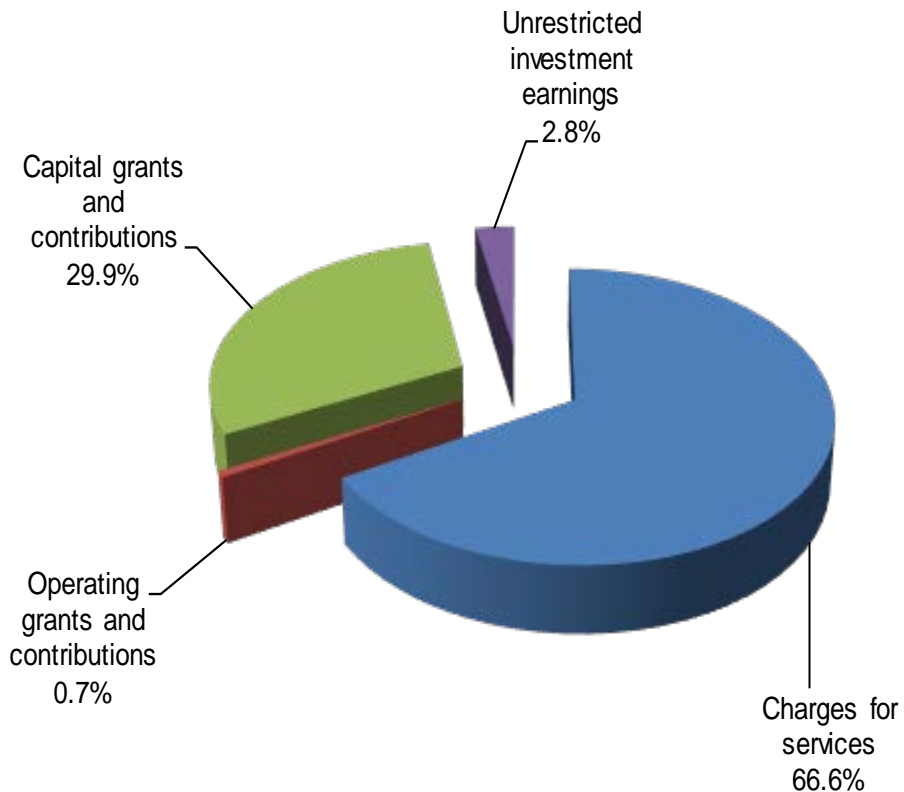


**Business-type Activities.** Business-type activities increased the City's net position by \$934,914.

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities





## Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,616,321, an increase of \$4,093,589 in comparison with the prior year. Approximately 7.4 percent of the total amount, \$634,212, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable (\$14,029) 2) restricted (\$7,131,103), 3) committed (\$479,005), or 4) assigned (\$357,972).

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$870,747, of which \$857,975 was unassigned. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 44.3 percent of fund expenditures.

The fund balance of the City's General fund increased by \$76,632 during the current fiscal year. The key factors in this increase were:

- Revenues increased by \$152,994 mainly due to FEMA grants.
- Expenditures decreased by \$98,809 mainly due to less public safety capital outlay.
- There were budgeted transfers out of \$302,397.

*Debt Service fund* has a total fund balance of \$1,283,740, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in this fund was \$403,286 because of additional special assessment revenue and proceeds for capitalized interest.

*Tracy Medical Center Capital fund* has a total fund balance of \$999,912, all of which is restricted for facility improvements as a part of the agreement when the facility was sold. The net decrease in fund balance during the current year in the Tracy Medical Center fund was \$536,325 due to capital expenditures.

*Airport Improvement fund* has a total fund balance of \$9,378, all of which is assigned for airport improvements. The net decrease in fund balance during the current year in was \$20,099 due to capital expenditures.

*Wastewater Project Phase III fund* has a total fund balance of \$4,607,901, all of which is restricted for Phase III expenditures. The net increase in fund balance during the current year was \$4,607,901 due to bonds issued but not yet spent.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,446,494. The total increase in net position for the funds was \$934,914. The major factor of this increase is increased capital grants and contributions related to the Wastewater Project.

## General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Revenues were over expectations by \$244,404 and expenditures were over the budget by \$140,594 in 2019.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2019, amounts to \$22,972,332 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 15.5 percent (a 15.5 percent increase for governmental activities and a 15.5 percent increase for business-type activities).

Major capital asset event during the current fiscal year included the following:

- Library basement project costing \$133,327.
- Purchase of a fire truck and chassis for \$364,232.
- 2019 Ford Interceptor costing \$42,968.
- Two Chevy Silverado's were purchased for a total of \$77,868.
- Purchase of a 2019 John Deere tractor for \$133,500.
- Phase I of the wastewater project was completed with a total cost of \$4,009,157.
- Phase II of the wastewater project was completed with a total cost of \$7,547,429.
- Costs for Phase III of the wastewater project totaled \$1,744,743.

Additional information on the City's capital assets can be found in Note 3C starting on pages 65 of this report.

### City of Tracy's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Land	\$ 6,712	\$ 6,712	\$ -	\$ 78,693	\$ 78,693	\$ -
Construction in Progress	820,300	652,308	167,992	1,701,583	9,886,491	(8,184,908)
Buildings	980,558	1,034,743	(54,185)	1,359,040	1,415,000	(55,960)
Systems and Infrastructure	964,367	913,833	50,534	-	-	-
Improvements Other Than Buildings	3,006,707	2,774,621	232,086	12,834,757	2,439,671	10,395,086
Equipment and Machinery	1,054,583	531,909	522,674	165,032	150,558	14,474
<b>Total</b>	<b>\$ 6,833,227</b>	<b>\$ 5,914,126</b>	<b>\$ 919,101</b>	<b>\$ 16,139,105</b>	<b>\$ 13,970,413</b>	<b>\$ 2,168,692</b>

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$29,695,000. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Tracy's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
G.O. Special Assessment Bonds	\$ 2,405,000	\$ 3,190,000	\$ (785,000)	\$ 1,095,000	\$ 1,185,000	\$ (90,000)
G.O. Revenue Bonds	-	-	-	9,823,000	176,000	9,647,000
G.O. Bonds	6,732,000	930,000	5,802,000	1,245,000	1,380,000	(135,000)
G.O. Temporary Bonds	-	-	-	8,395,000	9,730,000	(1,335,000)
<b>Total</b>	<b>\$ 9,137,000</b>	<b>\$ 4,120,000</b>	<b>\$ 5,017,000</b>	<b>\$ 20,558,000</b>	<b>\$ 12,471,000</b>	<b>\$ 8,087,000</b>

The City's total debt increased by \$13,104,000 (79.0 percent) during the current fiscal year due to issuance of debt.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$1,663,918. The City currently has \$6,732,000 of general obligation debt subject to this limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 68 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Lyon County is currently 3.5 percent, which is an increase from the prior year rate of 2.9. This compares is the same as the State's average unemployment rate of 3.5 percent and compares unfavorably to the national average rate of 3.4 percent.
- Property valuations within the City remain steady.
- Local Government Aid from the State of Minnesota will increase from \$928,568 in 2019 to \$952,745 in 2020, a 2.6 percent increase.

All of these factors were considered in preparing the City's budget for the 2020 fiscal year.

The General Fund Budget increased from \$2,143,146 in 2019 to \$2,676,109 in 2020, an increase of 24.9 percent.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Tracy, 336 Morgan Street, Tracy, MN 56175.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

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City of Tracy, Minnesota  
Statement of Net Position  
December 31, 2019

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 8,396,181	\$ 8,158,417	\$ 16,554,598
Receivables			
Interest	10,978	1,320	12,298
Delinquent taxes	80,932	-	80,932
Accounts	33,822	210,105	243,927
Notes, net of allowance	180,140	-	180,140
Special assessments	474,237	359,232	833,469
Intergovernmental	587,156	118,056	705,212
Internal balances	93,595	(93,595)	-
Inventories	-	105,251	105,251
Land held for resale	19,162	-	19,162
Prepaid items	14,029	1,900	15,929
Net pension asset - Fire Relief	50,616	-	50,616
Capital assets			
Nondepreciable land and construction in progress	827,012	1,780,276	2,607,288
Depreciable assets (net of accumulated depreciation)	6,006,215	14,358,829	20,365,044
Total Assets	<u>16,774,075</u>	<u>24,999,791</u>	<u>41,773,866</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>395,195</u>	<u>28,766</u>	<u>423,961</u>
<b>Liabilities</b>			
Accounts payable	689,051	64,137	753,188
Deposits payable	-	16,313	16,313
Due to other governments	282	10,712	10,994
Accrued interest payable	133,817	103,094	236,911
Accrued salaries payable	29,409	8,923	38,332
Noncurrent liabilities			
Due within one year	501,326	321,257	822,583
Due in more than one year	9,086,870	20,341,212	29,428,082
Net pension liability	638,424	185,819	824,243
Total Liabilities	<u>11,079,179</u>	<u>21,051,467</u>	<u>32,130,646</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	<u>559,249</u>	<u>51,895</u>	<u>611,144</u>
<b>Net Position</b>			
Net investment in capital assets	1,929,833	2,478,701	4,408,534
Restricted for			
Debt service	1,601,500	-	1,601,500
Economic development	180,140	-	180,140
Cemetery operations	59,410	-	59,410
Future capital improvements to the hospital facilities	999,912	-	999,912
Unrestricted	<u>760,047</u>	<u>1,446,494</u>	<u>2,206,541</u>
Total Net Position	<u>\$ 5,530,842</u>	<u>\$ 3,925,195</u>	<u>\$ 9,456,037</u>

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Activities  
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 561,023	\$ 234	\$ -	\$ 68,027
Public safety	671,935	100,733	91,163	1,760
Streets and highways	817,932	34,769	656	59,964
Culture and recreation	355,219	116,595	260,154	68,266
Economic development	210,632	-	7,676	-
Miscellaneous	867,885	17,232	33,279	420,789
Interest on long-term debt	330,341	-	-	-
<b>Total Governmental Activities</b>	<b>3,814,967</b>	<b>269,563</b>	<b>392,928</b>	<b>618,806</b>
<b>Business-type Activities</b>				
O'Brien Court	51,246	78,835	-	-
Orchard Lane Townhomes	98,523	83,200	-	-
Liquor	643,881	676,020	244	-
Water utility	580,322	470,797	5,524	27,023
Utility Surcharge	4,080	163	-	-
Sewer utility	754,424	508,799	54	1,250,511
Storm water	72,371	-	-	-
Refuse Collection	139,836	143,384	-	-
Deputy Register & License	918,451	878,163	23,346	-
<b>Total Business-type Activities</b>	<b>3,263,134</b>	<b>2,839,361</b>	<b>29,168</b>	<b>1,277,534</b>
<b>Total</b>	<b>\$ 7,078,101</b>	<b>\$ 3,108,924</b>	<b>\$ 422,096</b>	<b>\$ 1,896,340</b>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Other revenues
- Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

The notes to the financial statements are an integral part of this statement.



Net (Expenses) Revenues and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (492,762)		\$ (492,762)
(478,279)		(478,279)
(722,543)		(722,543)
89,796		89,796
(202,956)		(202,956)
(396,585)		(396,585)
(330,341)		(330,341)
<u>(2,533,670)</u>		<u>(2,533,670)</u>
	\$ 27,589	27,589
	(15,323)	(15,323)
	32,383	32,383
	(76,978)	(76,978)
	(3,917)	(3,917)
	1,004,940	1,004,940
	(72,371)	(72,371)
	3,548	3,548
	<u>(16,942)</u>	<u>(16,942)</u>
	<u>882,929</u>	<u>882,929</u>
<u>(2,533,670)</u>	<u>882,929</u>	<u>(1,650,741)</u>
745,334	-	745,334
419,654	-	419,654
29,859	-	29,859
971,419	-	971,419
90,837	121,136	211,973
23,832	-	23,832
39,270	85	39,355
69,236	(69,236)	-
<u>2,389,441</u>	<u>51,985</u>	<u>2,441,426</u>
(144,229)	934,914	790,685
<u>5,675,071</u>	<u>2,990,281</u>	<u>8,665,352</u>
<u>\$ 5,530,842</u>	<u>\$ 3,925,195</u>	<u>\$ 9,456,037</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

City of Tracy, Minnesota  
Balance Sheet  
Governmental Funds  
December 31, 2019

	<b>101</b>		<b>408</b>	<b>410</b>
	General	Debt Service	Tracy Medical Center Capital	Airport Improvement
<b>Assets</b>				
Cash and temporary investments	\$ 128,851	\$ 1,288,714	\$ 998,767	\$ -
Receivables				
Interest	4,116	4,134	1,145	-
Delinquent taxes	80,932	-	-	-
Accounts	24,403	-	-	-
Notes, net of allowance	-	-	-	-
Special assessments	22,660	451,577	-	-
Intergovernmental	74,812	3,437	-	442,243
Due from other funds	685,301	-	-	-
Prepaid items	12,772	-	-	-
Assets held for resale	-	-	-	-
	<u>1,033,847</u>	<u>1,747,862</u>	<u>999,912</u>	<u>442,243</u>
<b>Total Assets</b>	<b>\$ 1,033,847</b>	<b>\$ 1,747,862</b>	<b>\$ 999,912</b>	<b>\$ 442,243</b>
<b>Liabilities</b>				
Accounts payable	\$ 30,115	\$ 12,545	\$ -	\$ -
Accrued salaries payable	29,156	-	-	-
Due to other funds	-	-	-	432,865
Due to other governments	237	-	-	-
<b>Total Liabilities</b>	<b>59,508</b>	<b>12,545</b>	<b>-</b>	<b>432,865</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	80,932	-	-	-
Unavailable revenue - special assessments	22,660	451,577	-	-
<b>Total Deferred Inflows of Resources</b>	<b>103,592</b>	<b>451,577</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>				
Nonspendable for				
Prepaid items	12,772	-	-	-
Restricted for				
Economic development	-	-	-	-
Debt service	-	1,283,740	-	-
Cemetery operations	-	-	-	-
Future capital improvements to the hospital facilities	-	-	999,912	-
Capital outlay	-	-	-	-
Committed for				
Economic development	-	-	-	-
Library improvements	-	-	-	-
Multi-purpose operations	-	-	-	-
Cemetery operations	-	-	-	-
Public Safety	-	-	-	-
Capital outlay	-	-	-	-
Assigned for				
Cemetery operations	-	-	-	-
Aquatic center operations	-	-	-	-
Capital outlay	-	-	-	9,378
Unassigned	857,975	-	-	-
<b>Total Fund Balances</b>	<b>870,747</b>	<b>1,283,740</b>	<b>999,912</b>	<b>9,378</b>
	<u>1,033,847</u>	<u>1,747,862</u>	<u>999,912</u>	<u>442,243</u>
<b>Total Liabilities, Deferred Inflows     of Resources and Fund Balances</b>	<b>\$ 1,033,847</b>	<b>\$ 1,747,862</b>	<b>\$ 999,912</b>	<b>\$ 442,243</b>

The notes to the financial statements are an integral part of this statement.

<b>417</b>		
Wastewater Project Phase III	Other Governmental Funds	Totals
\$ 5,179,767	\$ 800,082	\$ 8,396,181
-	1,583	10,978
-	-	80,932
7,676	1,743	33,822
-	180,140	180,140
-	-	474,237
-	66,664	587,156
-	-	685,301
-	1,257	14,029
-	19,162	19,162
<u>\$ 5,187,443</u>	<u>\$ 1,070,631</u>	<u>\$ 10,481,938</u>
\$ 579,542	\$ 66,849	\$ 689,051
-	253	29,409
-	158,841	591,706
-	45	282
<u>579,542</u>	<u>225,988</u>	<u>1,310,448</u>
-	-	80,932
-	-	474,237
-	-	555,169
-	1,257	14,029
-	180,140	180,140
-	-	1,283,740
-	59,410	59,410
-	-	999,912
4,607,901	-	4,607,901
-	393,963	393,963
-	16,659	16,659
-	24,534	24,534
-	9,539	9,539
-	10,386	10,386
-	23,924	23,924
-	56,430	56,430
-	41,035	41,035
-	251,129	260,507
-	(223,763)	634,212
<u>4,607,901</u>	<u>844,643</u>	<u>8,616,321</u>
<u>\$ 5,187,443</u>	<u>\$ 1,070,631</u>	<u>\$ 10,481,938</u>

The notes to the financial statements are an integral part of this statement.

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City of Tracy, Minnesota  
 Reconciliation of the Balance Sheet  
 to the Statement of Net Position  
 Governmental Funds  
 December 31, 2019

Amounts reported for governmental activities in the statement  
 of net position are different because

Total Fund Balances - Governmental Funds	\$ 8,616,321
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	6,833,227
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bond premiums, net of amortization	(113,251)
Compensated absences	(76,901)
Net pension liability	(587,808)
Bonds payable	(9,398,044)
Long-term assets are not available to pay current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Delinquent property taxes receivable	80,932
Special assessments receivable	474,237
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	395,195
Deferred inflows of pension resources	(559,249)
Governmental funds do not report a liability for accrued interest until due and payable.	(133,817)
Total Net Position - Governmental Activities	\$ 5,530,842

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2019

	<b>101</b>		<b>408</b>	<b>410</b>
	General	Debt Service	Tracy Medical Center Capital	Airport Improvement
<b>Revenues</b>				
Taxes	\$ 643,655	\$ 419,654	\$ -	\$ -
Special assessments	4,785	88,913	-	-
Licenses and permits	35,501	-	-	-
Intergovernmental	1,310,920	-	-	420,789
Charges for services	157,387	-	-	-
Fines and forfeits	9,337	-	-	-
Investment earnings	15,293	14,332	16,080	-
Miscellaneous	104,987	-	-	4,140
Total Revenues	<u>2,281,865</u>	<u>522,899</u>	<u>16,080</u>	<u>424,929</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	486,781	-	-	-
Public safety	555,348	-	-	-
Streets and highways	451,239	-	-	-
Culture and recreation	132,286	-	-	-
Economic development	114,060	-	-	-
Miscellaneous	168,912	-	-	-
<b>Capital outlay</b>				
General government	-	-	-	-
Public safety	2,400	-	-	-
Streets and highways	-	-	-	-
Culture and recreation	620	-	-	-
Economic development	-	-	-	-
Miscellaneous	4,697	-	552,405	470,196
<b>Debt service</b>				
Principal	50,000	405,000	-	-
Interest and other	-	139,175	-	-
Bond issuance costs paid	-	-	-	-
Total Expenditures	<u>1,966,343</u>	<u>544,175</u>	<u>552,405</u>	<u>470,196</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>315,522</u>	<u>(21,276)</u>	<u>(536,325)</u>	<u>(45,267)</u>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	-	939,141	-	-
Bond premiums	-	-	-	-
Transfers in	63,507	421	-	25,168
Sale of capital assets	-	-	-	-
Transfers out	(302,397)	-	-	-
Payment to refunded bond escrow agent	-	(515,000)	-	-
Total Other Financing Sources (Uses)	<u>(238,890)</u>	<u>424,562</u>	<u>-</u>	<u>25,168</u>
Net Change in Fund Balances	76,632	403,286	(536,325)	(20,099)
Fund Balances, January 1	<u>794,115</u>	<u>880,454</u>	<u>1,536,237</u>	<u>29,477</u>
Fund Balances, December 31	<u>\$ 870,747</u>	<u>\$ 1,283,740</u>	<u>\$ 999,912</u>	<u>\$ 9,378</u>

The notes to the financial statements are an integral part of this statement.



<b>417</b>		
Wastewater Project Phase III	Other Governmental Funds	Totals
\$ -	\$ 105,000	\$ 1,168,309
-	-	93,698
-	-	35,501
-	67,204	1,798,913
-	86,407	243,794
-	-	9,337
32,709	12,423	90,837
-	53,872	162,999
<u>32,709</u>	<u>324,906</u>	<u>3,603,388</u>
-	-	486,781
-	2,132	557,480
-	-	451,239
-	171,561	303,847
-	77,969	192,029
-	26,423	195,335
-	7,516	7,516
-	444,870	447,270
320,225	235,023	555,248
-	141,327	141,947
-	18,493	18,493
-	-	1,027,298
-	-	455,000
-	205	139,380
113,972	-	113,972
<u>434,197</u>	<u>1,125,519</u>	<u>5,092,835</u>
<u>(401,488)</u>	<u>(800,613)</u>	<u>(1,489,447)</u>
4,956,859	41,000	5,937,000
52,530	-	52,530
-	441,990	531,086
-	39,270	39,270
-	(159,453)	(461,850)
-	-	(515,000)
<u>5,009,389</u>	<u>362,807</u>	<u>5,583,036</u>
4,607,901	(437,806)	4,093,589
-	1,282,449	4,522,732
<u>\$ 4,607,901</u>	<u>\$ 844,643</u>	<u>\$ 8,616,321</u>

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
 Reconciliation of the Statement of  
 Revenues, Expenditures and Changes in Fund Balances  
 to the Statement of Activities  
 Governmental Funds  
 For the Year Ended December 31, 2019

Amounts reported for governmental activities in the statement of activities are different because

Net change in fund balances - governmental funds	\$ 4,093,589
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	1,514,279
Depreciation expense	(595,178)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Bonds and loans issued	(5,937,000)
Principal repayments	970,000
Premiums on bonds issued, net of amortization	(43,792)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(85,727)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(10,965)
Direct aid contribution	3,463
<p>Delinquent property taxes receivable will be collected this year, but is not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	26,538
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(67,694)
<p>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.</p>	
Compensated absences	(11,742)
Change in Net Position - Governmental Activities	\$ (144,229)

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
General Fund  
For the Year Ended December 31, 2019

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 791,003	\$ 791,003	\$ 643,655	\$ (147,348)
Special assessments	5,000	5,000	4,785	(215)
Licenses and permits	19,900	19,900	35,501	15,601
Intergovernmental	1,031,508	1,031,508	1,310,920	279,412
Charges for services	120,600	120,600	157,387	36,787
Fines and forfeits	13,100	13,100	9,337	(3,763)
Investment earnings	15,000	15,000	15,293	293
Miscellaneous	41,350	41,350	104,987	63,637
Total Revenues	<u>2,037,461</u>	<u>2,037,461</u>	<u>2,281,865</u>	<u>244,404</u>
Expenditures				
Current				
General government	421,175	421,175	486,781	(65,606)
Public safety	591,548	591,548	555,348	36,200
Streets and highways	430,933	430,933	451,239	(20,306)
Culture and recreation	133,650	133,650	132,286	1,364
Economic development	105,533	105,533	114,060	(8,527)
Miscellaneous	131,105	131,105	168,912	(37,807)
Capital outlay				
General government	3,200	3,200	-	3,200
Public safety	3,000	3,000	2,400	600
Culture and recreation	200	200	620	(420)
Miscellaneous	5,405	5,405	4,697	708
Debt Service				
Principal	-	-	50,000	(50,000)
Total Expenditures	<u>1,825,749</u>	<u>1,825,749</u>	<u>1,966,343</u>	<u>(140,594)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>211,712</u>	<u>211,712</u>	<u>315,522</u>	<u>103,810</u>
Other Financing Sources (Uses)				
Transfers in	63,507	63,507	63,507	-
Transfers out	(306,230)	(306,230)	(302,397)	3,833
Total Other Financing Sources (Uses)	<u>(242,723)</u>	<u>(242,723)</u>	<u>(238,890)</u>	<u>3,833</u>
Net Change in Fund Balances	(31,011)	(31,011)	76,632	107,643
Fund Balances, January 1	<u>794,115</u>	<u>794,115</u>	<u>794,115</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 763,104</u>	<u>\$ 763,104</u>	<u>\$ 870,747</u>	<u>\$ 107,643</u>

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2019

	Business-type Activities - Enterprise Funds		
	601	602	608
	Liquor	Water Utility	Sewer Utility
Assets			
Current Assets			
Cash and temporary investments	\$ -	\$ 2,868,212	\$ 3,460,756
Receivables			
Interest	-	48	1,272
Accounts	-	92,777	85,952
Special assessments	-	161,547	197,685
Intergovernmental	-	601	117,455
Inventories	105,251	-	-
Prepaid items	455	895	550
Total Current Assets	<u>105,706</u>	<u>3,124,080</u>	<u>3,863,670</u>
Noncurrent Assets			
Capital assets, at cost			
Land	26,920	6,400	-
Construction in Progress	-	553,742	1,007,576
Buildings	235,529	98,348	29,706
Improvements other than buildings	-	4,226,408	11,689,337
Machinery and equipment	109,171	1,186,159	85,774
Less accumulated depreciation	<u>(289,155)</u>	<u>(3,588,345)</u>	<u>(1,371,468)</u>
Total capital assets (net of accumulated depreciation)	<u>82,465</u>	<u>2,482,712</u>	<u>11,440,925</u>
Total Assets	<u>188,171</u>	<u>5,606,792</u>	<u>15,304,595</u>
Deferred Outflow of Resources			
Deferred pension resources	<u>6,089</u>	<u>10,394</u>	<u>3,644</u>
Liabilities			
Current Liabilities			
Accounts payable	14,661	18,724	24,401
Deposits payable	-	15,000	-
Due to other governments	10,712	-	-
Due to other funds	58,814	-	-
Accrued salaries payable	2,418	2,883	487
Accrued interest payable	-	20,258	59,016
Bonds payable, current	-	110,500	168,500
Compensated absences payable, current	529	3,790	833
Total Current Liabilities	<u>87,134</u>	<u>171,155</u>	<u>253,237</u>
Noncurrent Liabilities			
Compensated absences payable, noncurrent	2,653	11,767	5,683
Net pension liability	39,334	67,140	23,539
Bonds payable, noncurrent	<u>-</u>	<u>4,626,161</u>	<u>12,204,252</u>
Total Noncurrent Liabilities	<u>41,987</u>	<u>4,705,068</u>	<u>12,233,474</u>
Total Liabilities	<u>129,121</u>	<u>4,876,223</u>	<u>12,486,711</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>10,985</u>	<u>18,751</u>	<u>6,574</u>
Net Position			
Net investment in capital assets	82,465	719,941	1,239,254
Unrestricted	<u>(28,311)</u>	<u>2,271</u>	<u>1,575,700</u>
Total Net Position	<u>\$ 54,154</u>	<u>\$ 722,212</u>	<u>\$ 2,814,954</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities  
Enterprise Funds

<b>605</b>	<b>609</b>	Other	Totals
Deputy Register and License	Storm Water	Enterprise Funds	
\$ -	\$ 1,632,385	\$ 197,064	\$ 8,158,417
-	-	-	1,320
-	-	31,376	210,105
-	-	-	359,232
-	-	-	118,056
-	-	-	105,251
-	-	-	1,900
-	1,632,385	228,440	8,954,281
-	-	45,373	78,693
-	140,265	-	1,701,583
-	-	2,562,473	2,926,056
-	617,135	53,404	16,586,284
22,340	-	165,915	1,569,359
(19,496)	(20,571)	(1,433,835)	(6,722,870)
2,844	736,829	1,393,330	16,139,105
2,844	2,369,214	1,621,770	25,093,386
8,639	-	-	28,766
-	3,598	2,753	64,137
-	-	1,313	16,313
-	-	-	10,712
9,807	-	24,974	93,595
3,135	-	-	8,923
-	7,987	15,833	103,094
-	-	35,000	314,000
2,105	-	-	7,257
15,047	11,585	79,873	618,031
-	-	-	20,103
55,806	-	-	185,819
-	2,430,000	1,060,696	20,321,109
55,806	2,430,000	1,060,696	20,527,031
70,853	2,441,585	1,140,569	21,145,062
15,585	-	-	51,895
2,844	136,563	297,634	2,478,701
(77,799)	(208,934)	183,567	1,446,494
\$ (74,955)	\$ (72,371)	\$ 481,201	\$ 3,925,195

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds		
	601	602	608
	Liquor	Water Utility	Sewer Utility
Operating Revenues			
Sales	\$ 676,020	\$ -	\$ -
Cost of sales	(458,739)	-	-
Gross Profit	217,281	-	-
Charges for services	-	469,117	508,799
Pension revenue	91	155	54
Total Operating Revenues	<u>217,372</u>	<u>469,272</u>	<u>508,853</u>
Operating Expenses			
Personal services	72,738	144,091	56,099
Supplies	1,818	3,434	2,342
Other services and charges	85,807	88,343	72,133
Insurance	2,937	4,312	2,703
Utilities	12,600	44,070	1,810
Depreciation	9,242	192,468	407,758
Total Operating Expenses	<u>185,142</u>	<u>476,718</u>	<u>542,845</u>
Operating Income (Loss)	<u>32,230</u>	<u>(7,446)</u>	<u>(33,992)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental	-	-	-
Other income	153	5,369	-
Investment earnings	-	19,920	98,866
Rental income	-	1,680	-
Gain from the sale of capital asset	-	35	50
Bond issuance costs paid	-	(42,720)	(40,980)
Amortization of bond premium	-	2,977	1,947
Interest and other expense	-	(63,861)	(172,546)
Total Nonoperating Revenues (Expenses)	<u>153</u>	<u>(76,600)</u>	<u>(112,663)</u>
Income (Loss) Before Transfers and Capital Contributions	32,383	(84,046)	(146,655)
Capital Contributions			
Special assessments	-	27,023	10,002
Federal grants	-	-	1,240,509
Transfers in	-	-	-
Transfers out	-	(22,507)	(10,000)
Change in Net Position	32,383	(79,530)	1,093,856
Net Position, January 1	<u>21,771</u>	<u>801,742</u>	<u>1,721,098</u>
Net Position, December 31	<u>\$ 54,154</u>	<u>\$ 722,212</u>	<u>\$ 2,814,954</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities  
Enterprise Funds

<b>605</b>	<b>609</b>	Other	Total
Deputy Register and License	Storm Water	Enterprise Funds	
\$ 878,163	\$ -	\$ -	\$ 1,554,183
(811,961)	-	-	(1,270,700)
66,202	-	-	283,483
-	-	270,890	1,248,806
130	-	-	430
66,332	-	270,890	1,532,719
102,626	-	-	375,554
3,341	-	5,313	16,248
167	-	161,317	407,767
-	-	-	9,952
-	-	1,848	60,328
356	20,571	88,453	718,848
106,490	20,571	256,931	1,588,697
(40,158)	(20,571)	13,959	(55,978)
21,110	-	-	21,110
2,106	-	34,692	42,320
67	-	2,283	121,136
-	-	-	1,680
-	-	-	85
-	(23,364)	-	(107,064)
-	-	2,204	7,128
-	(28,436)	(38,958)	(303,801)
23,283	(51,800)	221	(217,406)
(16,875)	(72,371)	14,180	(273,384)
-	-	-	37,025
-	-	-	1,240,509
-	-	23,176	23,176
-	-	(59,905)	(92,412)
(16,875)	(72,371)	(22,549)	934,914
(58,080)	-	503,750	2,990,281
<u>\$ (74,955)</u>	<u>\$ (72,371)</u>	<u>\$ 481,201</u>	<u>\$ 3,925,195</u>

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Cash Flows (Continued on the Following Pages)  
Proprietary Funds  
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds		
	601	602	608
	Liquor	Water Utility	Sewer Utility
Cash Flows from Operating Activities			
Receipts from customers	\$ 676,020	\$ 465,460	\$ 386,713
Payments to suppliers and vendors	(570,243)	(175,405)	(79,795)
Payments to and on behalf of employees	(99,203)	(155,976)	(63,826)
Other receipts	153	7,049	-
Net Cash Provided (Used) by Operating Activities	<u>6,727</u>	<u>141,128</u>	<u>243,092</u>
Cash Flows from Noncapital Financing Activities			
Increase (decrease) in due from other funds	-	-	154,163
Increase (decrease) in due to other funds	26,273	(154,163)	-
Transfers from other funds	-	-	-
Transfers to other funds	-	(22,507)	(10,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>26,273</u>	<u>(176,670)</u>	<u>144,163</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(33,000)	(472,151)	(2,062,886)
Principal paid on bonds payable	-	(684,537)	(9,322,463)
Interest and fees paid on bonds payable	-	(52,116)	(132,944)
Issuance cost paid on bonds issued	-	(42,720)	(40,980)
Proceeds from the sale of capital assets	-	35	50
Proceeds from bonds issued, net of premium	-	4,097,000	11,602,000
Intergovernmental contributions for capital assets	-	-	1,240,509
Payments received on special assessments	-	38,371	30,717
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,000)</u>	<u>2,883,882</u>	<u>1,314,003</u>
Cash Flows from Investing Activities			
Interest received on cash and temporary investments	-	19,872	97,594
Net Increase (Decrease) in Cash and Cash Equivalents	-	2,868,212	1,798,852
Cash and Cash Equivalents, January 1	-	-	1,661,904
Cash and Cash Equivalents, December 31	<u>\$ -</u>	<u>\$ 2,868,212</u>	<u>\$ 3,460,756</u>

The notes to the financial statements are an integral part of this statement.



Business-type Activities  
Enterprise Funds

<b>605</b>	<b>609</b>	Other	Total
Deputy Register and License	Storm Water	Enterprise Funds	
\$ 878,163	\$ -	\$ 270,542	\$ 2,676,898
(816,847)	-	(166,884)	(1,809,174)
(73,979)	-	-	(392,984)
23,216	-	34,692	65,110
10,553	-	138,350	539,850
-	-	13,596	167,759
(10,620)	-	17,214	(121,296)
-	-	23,176	23,176
-	-	(59,905)	(92,412)
(10,620)	-	(5,919)	(22,773)
-	(753,802)	(36,340)	(3,358,179)
-	-	(35,000)	(10,042,000)
-	(20,449)	(39,250)	(244,759)
-	(23,364)	-	(107,064)
-	-	-	85
-	2,430,000	-	18,129,000
-	-	-	1,240,509
-	-	-	69,088
-	1,632,385	(110,590)	5,686,680
67	-	2,283	119,816
-	1,632,385	24,124	6,323,573
-	-	172,940	1,834,844
<u>\$ -</u>	<u>\$ 1,632,385</u>	<u>\$ 197,064</u>	<u>\$ 8,158,417</u>

The notes to the financial statements are an integral part of this statement.

City of Tracy, Minnesota  
Statement of Cash Flows  
Proprietary Funds (Continued)  
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds		
	601	602	608
	Liquor	Water Utility	Sewer Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 32,230	\$ (7,446)	\$ (33,992)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Other income related to operations	153	7,049	-
Depreciation	9,242	192,468	407,758
(Increase) decrease in assets			
Accounts receivable	-	(4,332)	(4,916)
Due from other governments	-	675	(117,170)
Inventories	(22,958)	-	-
Prepaid items	836	985	741
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	3,845	2,431	171
Increase (decrease) in liabilities			
Accounts payable	8,062	(36,995)	(1,548)
Due to other governments	5,718	(236)	-
Deposits payable	-	1,000	-
Accrued salaries payable	577	459	(226)
Compensated absences payable	891	5,283	(6,278)
Net pension liability	(20,104)	(9,594)	714
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	(11,765)	(10,619)	(2,162)
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,727</u>	<u>\$ 141,128</u>	<u>\$ 243,092</u>
Noncash Investing, Capital and Financing Activities			
Capital Assets Acquired on Account	<u>\$ -</u>	<u>\$ 13,447</u>	<u>\$ 22,822</u>
Amortization of Bond (Premium) Discount	<u>\$ -</u>	<u>\$ (2,977)</u>	<u>\$ (1,947)</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities  
Enterprise Funds

<b>605</b> Deputy Register and License	<b>609</b> Storm Water	Other Enterprise Funds	Total
\$ (40,158)	\$ (20,571)	\$ 13,959	\$ (55,978)
23,216	-	34,692	65,110
356	20,571	88,453	718,848
-	-	(348)	(9,596)
-	-	-	(116,495)
-	-	-	(22,958)
-	-	-	2,562
(4,066)	-	-	2,381
(4)	-	2,573	(27,912)
(1,374)	-	(979)	3,129
-	-	-	1,000
936	-	-	1,746
(1,912)	-	-	(2,016)
28,447	-	-	(537)
<u>5,112</u>	<u>-</u>	<u>-</u>	<u>(19,434)</u>
<u>\$ 10,553</u>	<u>\$ -</u>	<u>\$ 138,350</u>	<u>\$ 539,850</u>
<u>\$ -</u>	<u>\$ 3,598</u>	<u>\$ -</u>	<u>\$ 39,867</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,204)</u>	<u>\$ (7,128)</u>

The notes to the financial statements are an integral part of this statement.

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City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Tracy (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1886. The City was formed and operated pursuant to applicable Minnesota laws and statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

**Blended Component Unit.** The Tracy Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The EDA has a December 31 year-end and is reported as a major special revenue fund. Separate financial statements are not issued for the EDA. The EDA is considered blended because the City has significant influence on the EDA activities, the governing body of the EDA consists of a five-member board with two council members and three appointed by the City Council, there is a financial benefit or burden relationship between the EDA and the City and the EDA provides benefits exclusively to the City.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## Note 1: Summary of Significant Accounting Policies (Continued)

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

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 resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Tracy Medical Center Capital fund* accounts for the lease revenue resources to be used for the medical center capital improvements.

The *Airport Improvement fund* accounts for the funding sources and capital costs associated with the Airport Improvement project.

The *Wastewater Project Phase III fund* accounts for the funding sources and capital costs associated with the Wastewater Project Phase III.

The City reports the following major proprietary funds:

The *Liquor fund* accounts for the costs associated with the City's liquor store and ensure that revenues are sufficient to pay for those costs.

The *Water Utility fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

The *Deputy Register and License fund* accounts for the collections and costs associated with various state wide licensing.

The *Storm Water fund* accounts for costs associated with the City's storm water system and ensure that user charges are sufficient to pay for those costs.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## Note 1: Summary of Significant Accounting Policies (Continued)

### D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

#### *Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase 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.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 63 and are valued using quoted market prices (Level 1 inputs).

The City has the following recurring fair value measurements as of December 31, 2019:

- Broker certificate of deposits of \$2,765,901 are valued using quoted market prices (Level 1 inputs)



## **Note 1: Summary of Significant Accounting Policies (Continued)**

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

### ***Property Taxes***

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

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

### ***Accounts Receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2019. The City annually certifies delinquent utility accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

### ***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

### ***Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General fund or a restricted, committed or assigned account in applicable governmental funds to indicate the constraint on these resources.

### ***Inventories and Prepaid Items***

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose not to record any assets acquired prior to December 31, 2003. As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation.

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Land Improvements	\$ 10,000
Other Improvements	25,000
Buildings and Improvements	25,000
Infrastructure	100,000
Machinery and Equipment	5,000
Vehicles	5,000
Other Assets	5,000

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Infrastructure	15 - 50
Buildings	10 - 40
Machinery and Equipment	5 - 15
Other Improvements	15 - 20

**Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

**Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused vacation, comp time and sick pay benefits. All vacation and comp time pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Sick time is only paid out upon death, retirement or voluntary termination after the employee has completed 5 continuous years of service with the City and the employee receives 33.3 percent of the accumulated sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount of compensated absences accrued for 2019 was \$104,261. The General fund is typically used to liquidate governmental compensated absences payable.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Pensions***

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP, PEPFP, and Tracy Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Fire Relief Association	Total All Plans
	GERP	PEPFP		
Pension Expense	\$ 58,304	\$ 35,506	\$ 28,684	\$ 122,494

***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

***Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Fund Balance***

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 35-50 percent of budgeted operating expenditures for cash-flow timing needs.

***Net Position***

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "Net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 2: Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Administrator/Clerk/Treasurer so that a budget may be prepared. At least 10 days prior to October 1st, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator/Clerk/Treasurer. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2019 expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 1,825,749	\$ 1,966,343	\$ 140,594

These excess expenditures were funded by excess revenues.

**C. Deficit Fund Equity**

The following funds had fund equity deficits at December 31, 2019:

Fund	Amount
Nonmajor Governmental Funds	
Capital Projects	
Equipment Replacement	176,436
Fire Department Replacement	47,327
Major Business-type	
Deputy Registrar and License	74,955
Storm Water	72,371
Nonmajor Business-type	
Orchard Lane Townhomes	270,672
Utility Surcharge	4,386

The above deficits will be eliminated through the following ways:

- Equipment Replacement: through future levies or transfers
- Fire Department Replacement: through future levies or transfers
- Deputy Registrar and License: through future administrative charges
- Storm Water: through future charges for services
- Orchard Lane Townhomes: through rent revenue
- Utility Surcharge: through future charges for services

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds**

**A. Deposits and Investments**

***Deposits***

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

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, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

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;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

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

At year end, the City's carrying amount of deposits was \$1,690,906 and the bank balance was \$2,055,719. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized with securities held by the pledging financial institution's trust department in the City's name.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

**Investments**

As of December 31, 2019 the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using Level 1
<b>Pooled Investments at Amortized Costs</b>				
Minnesota Municipal Money				
Market (4M) fund	N/A	less than 6 months	\$ 20,445	
Broker Money Market	N/A	less than 6 months	12,075,041	
<b>Non-pooled Investments at Fair Value</b>				
Broker Certificates of Deposits	NA	less than 6 months	746,403	\$ 746,403
Broker Certificates of Deposits	N/A	6 months to 1 year	758,616	758,616
Broker Certificates of Deposits	N/A	1 to 3 years	1,067,040	1,067,040
Broker Certificates of Deposits	N/A	more than 3 years	193,842	193,842
<b>Total Investments</b>			<b>\$ 14,861,387</b>	<b>\$ 2,765,901</b>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has not adopted a formal investment policy outlining objectives and procedures for investing idle funds or that addresses interest rate and credit risk.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

***Cash on Hand***

Cash in the possession of the City, consisting of petty cash and change funds, totals \$2,305.

***Cash and Investments Summary***

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Deposits	\$ 1,690,906
Investments	14,861,387
Cash on Hand	<u>2,305</u>
 Total Cash and Temporary Investments	 <u><u>\$ 16,554,598</u></u>

**B. Notes Receivable**

The Economic Development Authority of the City has established an Economic Development Fund, to provide loans to assist businesses to expand or locate within the City. The loans will be paid back to the City at various monthly payments with interest that ranges from 1.625 to 5 percent on all unpaid balances. The balance on these loans as of December 31, 2019, is \$125,837.

Notes receivable have also been recorded for Community Development Block Grants that are being paid back to the City. These Grants were disbursed from an outside agency with the payments to be made to the City. The interest rates on these loans are 1 percent. The City will use these funds for additional loans in the future. The loans have been collateralized and call for periodic payments of principle and interest. The balance of these loans as of December 31, 2019, is \$54,303.

The City also has a Small Cities Development Program Grant through the Minnesota Department of Trade and Economic Development. Loans are made to eligible homeowners to assist with home purchases and improvements. The City will collect these loans if there is an ownership change of the improved property. If the homeowners do not sell their property over an eight to ten year period the loans are forgiven. There is an allowance for these loans in the amount of \$306,544. The balance on these loans receivable as of December 31, 2019, is \$306,544.



City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

**C. Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 6,712	\$ -	\$ -	\$ 6,712
Construction in progress	652,308	721,469	(553,477)	820,300
Total Capital Assets not being Depreciated	<u>659,020</u>	<u>721,469</u>	<u>(553,477)</u>	<u>827,012</u>
Capital assets being depreciated				
Buildings	3,708,929	-	-	3,708,929
Systems and infrastructure	4,544,103	553,477	-	5,097,580
Improvements other than buildings	3,995,050	141,327	-	4,136,377
Equipment and machinery	2,746,954	651,483	(150,358)	3,248,079
Total Capital Assets being Depreciated	<u>14,995,036</u>	<u>1,346,287</u>	<u>(150,358)</u>	<u>16,190,965</u>
Less accumulated depreciation for				
Buildings	(2,674,186)	(54,185)	-	(2,728,371)
Systems and infrastructure	(1,769,482)	(321,391)	-	(2,090,873)
Improvements other than buildings	(3,081,217)	(90,793)	-	(3,172,010)
Equipment and machinery	(2,215,045)	(128,809)	150,358	(2,193,496)
Total Accumulated Depreciation	<u>(9,739,930)</u>	<u>(595,178)</u>	<u>150,358</u>	<u>(10,184,750)</u>
Total Capital Assets being Depreciated, Net	<u>5,255,106</u>	<u>751,109</u>	<u>-</u>	<u>6,006,215</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,914,126</u>	<u>\$ 1,472,578</u>	<u>\$ (553,477)</u>	<u>\$ 6,833,227</u>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

	Beginning Balance	Increases	Decreases	Prior Period Adjustment	Ending Balance
<b>Business-type Activities</b>					
Capital assets not being depreciated					
Land	\$ 78,693	\$ -	\$ -	\$ -	\$ 78,693
Construction in progress	9,886,491	2,818,200	(11,003,108)	-	1,701,583
Total Capital Assets not being Depreciated	<u>9,965,184</u>	<u>2,818,200</u>	<u>(11,003,108)</u>	<u>-</u>	<u>1,780,276</u>
Capital assets being depreciated					
Buildings	2,893,056	33,000	-	-	2,926,056
Improvements other than buildings	5,583,176	11,003,108	-	-	16,586,284
Equipment and machinery	1,537,149	36,340	(4,130)	-	1,569,359
Total Capital Assets being Depreciated	<u>10,013,381</u>	<u>11,072,448</u>	<u>(4,130)</u>	<u>-</u>	<u>21,081,699</u>
Less accumulated depreciation for					
Buildings and improvements	(1,478,056)	(88,960)	-	-	(1,567,016)
Improvements other than buildings	(3,143,505)	(608,022)	-	-	(3,751,527)
Equipment and machinery	(1,386,591)	(21,866)	4,130	-	(1,404,327)
Total Accumulated Depreciation	<u>(6,008,152)</u>	<u>(718,848)</u>	<u>4,130</u>	<u>-</u>	<u>(6,722,870)</u>
Total Capital Assets being Depreciated, Net	<u>4,005,229</u>	<u>10,353,600</u>	<u>-</u>	<u>-</u>	<u>14,358,829</u>
Business-type Activities Capital Assets, Net	<u>\$ 13,970,413</u>	<u>\$ 13,171,800</u>	<u>\$ (11,003,108)</u>	<u>\$ -</u>	<u>\$ 16,139,105</u>

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

**Governmental Activities**

General government	\$ 64,741
Public safety	74,629
Streets and highways	357,846
Culture and recreation	48,036
Miscellaneous	49,926
Total Depreciation Expense - Governmental Activities	<u>\$ 595,178</u>

**Business-type Activities**

Liquor	\$ 9,242
Water Utility	192,468
Sewer Utility	407,758
Storm Water	20,571
Deputy Register and License	356
Other enterprise funds	88,453
Total Depreciation Expense - Business-type Activities	<u>\$ 718,848</u>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

**Construction Commitment**

The City has an active construction project as of December 31, 2019. At year end the City's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
Phase III - Infrastructure Improvements	\$ 860,188	\$ 4,852,377

**D. Interfund Receivables, Payables and Transfers**

**Due to/from Other Funds**

Receivable Fund	Payable Fund	Amount
General	Airport Improvements	\$ 432,865
	Nonmajor governmental	158,841
	Liquor	58,814
	Deputy Register and License	9,807
	Nonmajor enterprise	24,974
Totals		<u>\$ 685,301</u>

The above outstanding balances between funds are to fund current cash deficits.

**Interfund Transfers**

Fund	Transfers In					Total
	General Fund	Debt Service Fund	Airport Improvements	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
Transfer Out						
Governmental						
General	\$ -	\$ -	\$ 25,168	\$ 277,229	\$ -	\$ 302,397
Nonmajor governmental	-	421	-	159,032	-	159,453
Business-type						
Water Utility	22,507	-	-	-	-	22,507
Sewer Utility	10,000	-	-	-	-	10,000
Nonmajor enterprise	31,000	-	-	5,729	23,176	59,905
Total	<u>\$ 63,507</u>	<u>\$ 421</u>	<u>\$ 25,168</u>	<u>\$ 441,990</u>	<u>\$ 23,176</u>	<u>\$ 554,262</u>

During the year, transfers are used to 1) reserve money for future capital purchases, 2) support funds for operations, 3) offset the tax levy, 4) transfer profits from enterprise funds and 5) close funds.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

**E. Long-term Debt**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bond of 2016B	\$ 1,120,000	2.00 %	02/25/16	02/01/22	\$ 525,000
Housing Development Refunding Bond of 2016A	1,140,000	2.00 - 4.00	04/01/16	02/01/42	1,045,000
G.O Bonds of 2016D	530,000	1.35 - 2.75	12/06/16	02/01/32	470,000
G.O Bonds of 2019B	5,365,000	2.00 - 3.13	05/15/19	02/01/42	5,365,000
G.O Bonds of 2019E	572,000	2.15	10/30/19	02/01/25	<u>572,000</u>
 Total G.O. Bonds					 <u><u>\$ 7,977,000</u></u>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

Annual requirement to maturity for general obligation are as follows:

Year Ending December 31,	G.O. Bonds Governmental Activities			G.O. Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 219,000	\$ 207,017	\$ 426,017	\$ 135,000	\$ 41,150	\$ 176,150
2021	238,000	173,280	411,280	135,000	37,950	172,950
2022	242,000	168,451	410,451	30,000	36,150	66,150
2023	361,000	162,273	523,273	30,000	35,250	65,250
2024	364,000	154,873	518,873	35,000	34,275	69,275
2025 - 2029	1,508,000	670,326	2,178,326	185,000	155,125	340,125
2030 - 2034	1,530,000	460,469	1,990,469	230,000	117,000	347,000
2035 - 2039	1,450,000	233,359	1,683,359	280,000	66,000	346,000
2040 - 2042	820,000	38,906	858,906	185,000	11,300	196,300
<b>Total</b>	<b>\$ 6,732,000</b>	<b>\$ 2,268,954</b>	<b>\$ 9,000,954</b>	<b>\$ 1,245,000</b>	<b>\$ 534,200</b>	<b>\$ 1,779,200</b>

General Obligation Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014A	\$ 2,400,000	2.00 - 3.10	12/04/14	02/01/31	\$ 1,985,000
G.O. Improvement Refunding Bonds of 2015A	1,895,000	2.00 - 3.00	04/16/15	02/01/28	1,515,000
<b>Total General Obligation Special Assessment (Improvement) Bonds</b>					<b>\$ 3,500,000</b>

Annual requirement to maturity for general obligation special assessment (improvement) bonds are is as follows:

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities			G.O. Special Assessment Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 205,000	\$ 63,450	\$ 268,450	\$ 90,000	\$ 29,125	\$ 119,125
2021	215,000	59,250	274,250	85,000	27,375	112,375
2022	210,000	54,910	264,910	85,000	25,620	110,620
2023	235,000	49,575	284,575	95,000	23,530	118,530
2024	230,000	42,980	272,980	95,000	20,920	115,920
2025 - 2029	1,080,000	109,000	1,189,000	500,000	58,175	558,175
2030 - 2031	230,000	7,131	237,131	145,000	4,572	149,572
<b>Total</b>	<b>\$ 2,405,000</b>	<b>\$ 386,296</b>	<b>\$ 2,791,296</b>	<b>\$ 1,095,000</b>	<b>\$ 189,317</b>	<b>\$ 1,284,317</b>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be retired from net revenue of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Utility Revenue Note of 2000 (PFA)	\$ 1,434,769	2.11 %	06/30/00	08/20/20	\$ 89,000
G.O. Utility Revenue Refunding Bond 2019C	2,663,000	2.13	09/13/19	01/01/59	2,663,000
G.O. Utility Revenue Refunding Bond 2019D	7,071,000	2.13	09/13/19	01/01/59	<u>7,071,000</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 9,823,000</u></u>

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31,	<b>G.O. Revenue Bonds</b> Business-type Activities		
	Principal	Interest	Total
2020	\$ 89,000	\$ 1,878	\$ 90,878
2021	163,000	206,848	369,848
2022	166,000	203,384	369,384
2023	170,000	199,856	369,856
2024	173,000	196,244	369,244
2025 - 2029	924,000	924,375	1,848,375
2030 - 2034	1,027,000	821,886	1,848,886
2035 - 2039	1,139,000	708,156	1,847,156
2040 - 2044	1,267,000	581,846	1,848,846
2045 - 2049	1,406,000	441,405	1,847,405
2050 - 2054	1,563,000	285,494	1,848,494
2055 - 2059	1,736,000	112,200	1,848,200
 Total	 <u><u>\$ 9,823,000</u></u>	 <u><u>\$ 4,683,572</u></u>	 <u><u>\$ 14,506,572</u></u>

General Obligation Temporary Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be retired from a USDA loan in 2022.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Temporary Bonds of 2019A	\$ 8,395,000	1.75 %	05/15/19	05/01/22	<u><u>\$ 8,395,000</u></u>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

The annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31,	<b>G.O. Temporary Bonds</b> Business-type Activities		
	Principal	Interest	Total
2020	\$ -	\$ 146,913	\$ 146,913
2021	-	146,913	146,913
2022	8,395,000	73,455	8,468,455
Total	<u>\$ 8,395,000</u>	<u>\$ 367,281</u>	<u>\$ 8,762,281</u>

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Nonmajor Enterprise
Revenues	\$ 469,117	\$ 508,799	\$ 83,200
Principal and Interest	736,653	9,455,407	74,250
Percentage of Revenues	157.0%	1858.4%	89.2%

DEED Loan Payable

The following DEED loan payable was issued to demolition the abandoned Masonic Temple building so that the land can be used for future development.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
DEED Loan	\$ 61,044	2.00 %	12/15/17	02/15/32	\$ 61,044
League of MN Cities Loan	250,000	0.00 - 3.00	08/01/18	08/01/23	<u>200,000</u>
Total Notes					<u>\$ 261,044</u>

The annual debt service requirements to maturity for the DEED loan payable are as follows:

Year Ending December 31,	<b>Notes Payable</b> Governmental Activities		
	Principal	Interest	Total
2020	\$ 52,226	\$ 7,177	\$ 59,403
2021	53,704	5,654	59,358
2022	55,226	4,087	59,313
2023	56,793	2,475	59,268
2024	4,600	816	5,416
2025 - 2029	23,699	2,672	26,371
2030 - 2032	14,796	446	15,242
Total	<u>\$ 261,044</u>	<u>\$ 23,327</u>	<u>\$ 284,371</u>

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 3: Detailed Notes on all Funds (Continued)**

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds Payable					
G.O. special assessment bonds	\$ 3,190,000	\$ -	\$ (785,000)	\$ 2,405,000	\$ 205,000
G.O. bonds	930,000	5,937,000	(135,000)	6,732,000	219,000
Total bonds payable	<u>4,120,000</u>	<u>5,937,000</u>	<u>(920,000)</u>	<u>9,137,000</u>	<u>424,000</u>
Loan Payable	311,044	-	(50,000)	261,044	52,226
Bond Premiums	69,459	52,530	(8,738)	113,251	-
Compensated Absences Payable	<u>65,159</u>	<u>47,448</u>	<u>(35,706)</u>	<u>76,901</u>	<u>25,100</u>
 Governmental Activities Long-term Liabilities	 <u>\$ 4,565,662</u>	 <u>\$ 6,036,978</u>	 <u>\$ (1,014,444)</u>	 <u>\$ 9,588,196</u>	 <u>\$ 501,326</u>
<b>Business-type Activities</b>					
Bonds Payable					
G.O. special assessment bonds	\$ 1,185,000	\$ -	\$ (90,000)	\$ 1,095,000	\$ 90,000
G.O. bonds	1,380,000	-	(135,000)	1,245,000	135,000
G.O. temporary bonds	9,730,000	8,395,000	(9,730,000)	8,395,000	-
G.O. revenue bonds	176,000	9,734,000	(87,000)	9,823,000	89,000
Total Bonds Payable	<u>12,471,000</u>	<u>18,129,000</u>	<u>(10,042,000)</u>	<u>20,558,000</u>	<u>314,000</u>
Bond Premiums	84,237	-	(7,128)	77,109	-
Compensated Absences Payable	<u>29,376</u>	<u>17,445</u>	<u>(19,461)</u>	<u>27,360</u>	<u>7,257</u>
 Business-type Activities Long-term Liabilities	 <u>\$ 12,584,613</u>	 <u>\$ 18,146,445</u>	 <u>\$ (10,068,589)</u>	 <u>\$ 20,662,469</u>	 <u>\$ 321,257</u>



City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

## **Note 4: Defined Benefit Pension Plans - Statewide**

### **A. 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 (GERP)

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

#### Public Employees Police and Fire Plan (PEPFP)

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

### **B. Benefits Provided**

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

#### GERP Benefits

GERP 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 for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

PEPFP Benefits

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

Annuities, disability benefits and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months 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 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**C. 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 years ending December 31, 2019, 2018 and 2017 were \$62,272, \$56,453 and \$54,135 respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.80 percent of pay to 11.30 percent and employer rates increased from 16.20 percent to 16.95 percent on January 1, 2019. The City's contributions to the Police and Fire Fund for the years ending December 31, 2019, 2018 and 2017 were \$31,775, \$32,544 and \$33,906, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

City of Tracy, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$635,809 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 \$19,666. 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 0.0115 percent which was a 0.0008 percent increase from its proportion measured as of June 30, 2018.

City's Proportionate Share of the Net Pension Liability	\$ 635,809
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>19,666</u>
<b>Total</b>	<b><u><u>\$ 655,475</u></u></b>

For the year ended December 31, 2019, the City recognized pension expense of \$56,831 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$1,473 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019 the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 24,792	\$ 7,718
Changes in Actuarial Assumptions	5,599	57,910
Net Difference Between Projected and Actual Earnings on Plan Investments	-	63,978
Changes in Proportion	37,337	47,961
Contributions Paid to PERA Subsequent to the Measurement Date	<u>30,699</u>	<u>-</u>
<b>Total</b>	<b><u><u>\$ 98,427</u></u></b>	<b><u><u>\$ 177,567</u></u></b>

The \$30,699 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ (48,528)
2021	(64,074)
2022	1,739
2023	1,024
2024	-
Thereafter	

City of Tracy, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$188,434 for its proportionate share of the Police and Fire Fund's net pension liability. 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 0.0177 percent which was a 0.0017 decrease from its proportionate share measured as of June 30, 2018.

The City also recognized \$2,390 for the year ended December 31, 2019, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$35,506 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2019, the City reported its proportionate share of Police and Fire Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 17,564	\$ 32,557
Changes in Actuarial Assumptions	205,579	263,997
Net Difference Between Projected and Actual Earnings on Plan Investments	-	45,137
Changes in Proportion	8,781	33,624
Contributions Paid to PERA Subsequent to the Measurement Date	17,455	-
Total	\$ 249,379	\$ 375,315

The \$17,455 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ (17,572)
2021	(30,753)
2022	(85,448)
2023	(4,650)
2024	(4,968)
Thereafter	-

City of Tracy, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**E. 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:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for 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 General Employees Plan and 1.0 percent per year for Police and Fire 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. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions 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.

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	35.50 %	5.10 %
Private Markets	25.00	5.90
Fixed Income	20.00	0.75
International Equity	17.50	5.90
Cash Equivalents	2.00	-
Total	100.00 %	

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**F. 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 position of the General Employees Fund and the Police and Fire Fund were 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.

**G. Pension Liability Sensitivity**

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	General Employees Fund	\$ 1,045,236	\$ 635,809
Police and Fire Fund	411,883	188,434	4

**H. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**Note 5: Defined Benefit Pension Plan - Fire Relief Association**

**A. Plan Description**

All members of the Tracy Fire Department (the Department) are covered by a defined benefit plan administered by the Tracy Firefighters Relief Association (the Association). As of December 31, 2017, the plan covered 27 active firefighters and 5 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

**B. Benefits Provided**

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

City of Tracy, Minnesota  
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**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**C. Contributions**

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$28,099 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2018, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2018 were \$28,099. The City's contributions were equal to the required contributions as set by state statute. The City made voluntary contributions of \$4,000 to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

**D. Pension Costs**

At December 31, 2019 the City reported a net pension liability (asset) of (\$50,616) for the Volunteer Firefighter Fund. The net pension liability (asset) was measured as of December 31, 2018. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by Van Iwaarden Associates, applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2018	\$ 400,927	\$ 483,525	\$ (82,598)
Changes for the Year			
Service cost	21,069	-	21,069
Interest on pension liability (asset)	21,733	-	21,733
Differences between expected and actual experience	(16,029)	-	(16,029)
Change of assumptions	10,458	-	10,458
Contributions - State and local	-	28,099	(28,099)
Contributions - member	-	400	(400)
Net investment income	-	(22,850)	22,850
Benefit payments	(53,700)	(53,700)	-
Administrative expenses	-	(400)	400
Total Net Changes	(16,469)	(48,451)	31,982
Ending Balance December 31, 2018	\$ 384,458	\$ 435,074	\$ (50,616)

For the year ended December 31, 2018 the City recognized pension expense of \$28,684.

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

At December 31, 2018 the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 48,884
Changes in Actuarial Assumptions	9,379	9,378
Net Difference Between Projected and Actual Earnings on Plan Investments	35,708	-
Contributions to Plan Subsequent to the Measurement Date	31,068	-
Total	\$ 76,155	\$ 58,262

Deferred outflows of resources totaling \$31,068 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

2020	\$ 6,274
2021	713
2022	(583)
2023	2,964
2024	(6,585)
Thereafter	(15,958)

**E. Actuarial Assumptions**

The total pension liability at December 31, 2018 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at the later of age 50 or after completion of 20 years of service. If a member is both age 50 and has 5 years of service, but not 20 years of service, the lump sum pension will be reduced by 4 percent for each year of service less than 20 years.

Cost of Living Increases	2.50% per year
Investment Rate of Return	5.50%
20 Year Municipal Bond Yield	3.71%

In 2019, the following changes in assumptions occurred:

- The expected investment return and discount rate decreased from 5.50% to 5.00% to reflect updated capital market assumptions.
- The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.75% to 2.50%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.



City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Long-term Expected Nominal Rate of Return
Domestic Equity	35.00 %	4.76 %	7.26 %
International Equity	15.00	5.41	7.91
Fixed Income	35.00	2.01	4.51
Real Estate and Alternatives	-	4.53	7.03
Cash and Equivalents	<u>15.00</u>	0.74	<u>3.24</u>
Total	<u>100.00 %</u>		6.18 %
Reduced for assumed investment expense			<u>(1.10)</u>
Net assumed investment return (weighted average, rounded to 1/4%)			5.00 %

**F. Discount Rate**

The discount rate used to measure the total pension liability was 5.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive 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.

**G. Pension Liability Sensitivity**

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (4.00%)	Current (5.00%)	1 Percent Increase (6.00%)
Defined Benefit Plan	\$ (32,776)	\$ (50,616)	\$ (67,828)

**H. Pension Plan Fiduciary Net Position**

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Tracy Firefighters' Relief Association, 336 Morgan Street, Tracy, MN 56175

City of Tracy, Minnesota  
Notes to the Financial Statements  
December 31, 2019

**Note 6: Other Information**

**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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal 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 (IBNRs). The City's management is aware of a claim related to an appeal of assessments of 10 property owners.

**B. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**C. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2019, the City is under the legal debt margin.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2019 was \$928,568. This accounted for 41 percent of General fund revenues.

**Note 7: Tax Abatements**

As of December 31, 2019, the City has entered into an agreement that abate City property taxes. Below is the information specific to the agreements:

The City entered into a tax abatement agreement on May 9, 2016 with a private buyer. In return, the City will reimburse the buyer for some costs as the city collects future taxes for the increased property value and tax capacity related to the economic development. The agreement has a maximum return to the buyer of \$200,000 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.1813). The amount of taxes abated during 2019 totaled \$21,543.

**Note 8: Subsequent Event**

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the City is unable to determine if it will have a material impact to its operations.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

City of Tracy, Minnesota  
 Required Supplementary Information  
 For the Year Ended December 31, 2019

**Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0115 %	\$ 635,809	\$ 19,666	\$ 655,475	\$ 812,173	80.7 %	80.2 %
06/30/18	0.0107	593,592	19,557	613,149	720,659	85.1	79.5
06/30/17	0.0120	766,072	9,630	775,702	772,886	100.4	75.9
06/30/16	0.0124	1,006,818	13,085	1,019,903	760,515	134.1	68.9
06/30/15	0.0132	684,093	-	684,093	789,986	86.6	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions - General Employees Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/19	\$ 62,272	\$ 62,272	\$ -	\$ 830,295	7.5 %
12/31/18	56,453	56,453	-	752,710	7.5
12/31/17	54,135	54,135	-	721,796	7.5
12/31/16	57,395	57,395	-	765,264	7.5
12/31/15	59,400	59,400	-	819,310	7.3

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

City of Tracy, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2019

**Notes to the Required Supplementary Information - General Employee Fund**

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2019 - 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 - 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 - 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.

2017 - The State's special funding contribution increased from \$6 million to \$16 million.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Tracy, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year Ended December 31, 2019

**Schedule of Employer's Share of PERA Net Pension Liability - Police and Fire Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0177 %	\$ 188,434	\$ -	\$ 188,434	\$ 187,203	100.7 %	89.3 %
06/30/18	0.0194	206,784	-	206,784	204,410	101.2	88.8
06/30/17	0.0200	270,024	-	270,024	204,695	131.9	85.4
06/30/16	0.0190	762,503	-	762,503	185,171	411.8	63.9
06/30/15	0.0190	215,884	-	215,884	180,967	119.3	86.6

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions - Police and Fire Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/19	\$ 31,775	\$ 31,775	\$ -	\$ 187,462	17.0 %
12/31/18	32,544	32,544	-	200,886	16.2
12/31/17	33,906	33,906	-	209,296	16.2
12/31/16	30,298	30,298	-	187,025	16.2
12/31/15	30,456	30,456	-	188,003	16.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

City of Tracy, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2019

**Notes to the Required Supplementary Information - Police and Fire Fund**

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2016 to MP-2017. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

City of Tracy, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2019

**Notes to the Required Supplementary Information - Police and Fire Fund (Continued)**

Changes in Plan Provisions

2018 - As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. 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. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.



City of Tracy, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2019

**Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios**

	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
<b>Total Pension Liability</b>					
Service cost	\$ 21,069	\$ 20,505	\$ 19,110	\$ 20,712	\$ 20,158
Interest on pension liability (asset)	21,733	20,901	19,277	14,733	15,117
Differences between expected and actual experience	(16,029)	-	(47,682)	-	-
Changes of assumptions	10,458	-	-	(15,854)	-
Changes of benefit terms	-	-	37,436	-	-
Benefit payments	(53,700)	-	-	(28,300)	(61,448)
<b>Net Change in Total Pension Liability</b>	<b>(16,469)</b>	<b>41,406</b>	<b>28,141</b>	<b>(8,709)</b>	<b>(26,173)</b>
<b>Total Pension Liability - January 1</b>	<b>400,927</b>	<b>359,521</b>	<b>331,380</b>	<b>340,089</b>	<b>366,262</b>
<b>Total Pension Liability - December 31 (A)</b>	<b>\$ 384,458</b>	<b>\$ 400,927</b>	<b>\$ 359,521</b>	<b>\$ 331,380</b>	<b>\$ 340,089</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	28,099	31,926	32,361	33,693	31,564
Nonemployer contributions	\$ 400	\$ 22	\$ 222	\$ 182	\$ 197
Projected investment return	(22,850)	40,501	13,926	(11,707)	8,639
Benefit payments	(53,700)	-	-	(28,300)	(61,448)
Administrative expenses	(400)	(22)	(307)	(182)	(197)
Other	-	-	-	-	(40)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(48,451)</b>	<b>72,427</b>	<b>46,202</b>	<b>(6,314)</b>	<b>(21,285)</b>
<b>Plan Fiduciary Net Position - January 1</b>	<b>483,525</b>	<b>411,098</b>	<b>364,896</b>	<b>371,210</b>	<b>392,495</b>
<b>Plan Fiduciary Net Position - December 31 (B)</b>	<b>\$ 435,074</b>	<b>\$ 483,525</b>	<b>\$ 411,098</b>	<b>\$ 364,896</b>	<b>\$ 371,210</b>
<b>Fire Relief's Net Pension Liability (Asset) - December 31 (A-B)</b>	<b>\$ (50,616)</b>	<b>\$ (82,598)</b>	<b>\$ (51,577)</b>	<b>\$ (33,516)</b>	<b>\$ (31,121)</b>
<b>Plan Fiduciary Net Position As a Percentage of the Total Pension Liability (B/A)</b>	113.17%	120.60%	114.35%	110.11%	109.15%
<b>Covered Payroll</b>	N/A	N/A	N/A	N/A	N/A
<b>Fire Relief's Net Pension Liability (Asset) As a Percentage of Covered Payroll</b>	N/A	N/A	N/A	N/A	N/A

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

City of Tracy, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year Ended December 31, 2019

**Notes to the Required Supplementary Information - Fire Relief Association**

Changes in Actuarial Assumptions

2019 - The expected investment return and discount rate decreased from 5.50% to 5.00% to reflect updated capital market assumptions. The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation. The inflation assumption decreased from 2.75% to 2.50%.

2016 - The discount rate increased from 4.25% to 5.50%.

2015 - Amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. Amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. Amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

Changes in Benefits

2017 - Benefit was increased from \$1,500 to \$1,700.

2015 - The benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**Schedule of Employer's Contributions - Tracy Firefighters Relief Association**

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/19	\$ 27,068	\$ 31,068	\$ (4,000)
12/31/18	28,099	28,099	-
12/31/17	27,926	31,926	(4,000)
12/31/16	29,861	29,861	-
12/31/15	33,993	33,993	-
12/31/14	31,564	31,564	-

COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

City of Tracy, Minnesota  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2019

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
<b>Assets</b>			
Cash and temporary investments	\$ 526,772	\$ 273,310	\$ 800,082
Receivables			
Interest	1,583	-	1,583
Accounts	-	1,743	1,743
Notes	180,140	-	180,140
Intergovernmental	66,664	-	66,664
Due from other funds	-	-	-
Prepaid items	1,257	-	1,257
Assets held for resale	19,162	-	19,162
	<u>\$ 795,578</u>	<u>\$ 275,053</u>	<u>\$ 1,070,631</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,927	\$ 64,922	\$ 66,849
Accrued salaries payable	253	-	253
Due to other funds	-	158,841	158,841
Due to other governments	45	-	45
Total Liabilities	<u>2,225</u>	<u>223,763</u>	<u>225,988</u>
<b>Fund Balances</b>			
Nonspendable for			
Prepaid items	1,257	-	1,257
Restricted for			
Economic development	180,140	-	180,140
Cemetery operations	59,410	-	59,410
Committed for			
Economic development	393,963	-	393,963
Library improvements	16,659	-	16,659
Multi-purpose center operations	24,534	-	24,534
Cemetery operations	9,539	-	9,539
Public safety	10,386	-	10,386
Capital outlay	-	23,924	23,924
Assigned for			
Cemetery operations	56,430	-	56,430
Aquatic center operations	41,035	-	41,035
Capital outlay	-	251,129	251,129
Unassigned	-	(223,763)	(223,763)
Total Fund Balances	<u>793,353</u>	<u>51,290</u>	<u>844,643</u>
	<u>\$ 795,578</u>	<u>\$ 275,053</u>	<u>\$ 1,070,631</u>

City of Tracy, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the Year Ended December 31, 2019

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
<b>Revenues</b>			
Taxes	\$ -	\$ 105,000	\$ 105,000
Intergovernmental	67,204	-	67,204
Charges for services	64,409	21,998	86,407
Investment earnings	7,770	4,653	12,423
Miscellaneous	14,001	39,871	53,872
Total Revenues	153,384	171,522	324,906
<b>Expenditures</b>			
<b>Current</b>			
Public safety	59	2,073	2,132
Culture and recreation	168,881	2,680	171,561
Economic development	77,969	-	77,969
Miscellaneous	26,423	-	26,423
<b>Capital outlay</b>			
General government	-	7,516	7,516
Public safety	-	444,870	444,870
Streets and highways	-	235,023	235,023
Culture and recreation	133,327	8,000	141,327
Economic development	18,493	-	18,493
Miscellaneous	-	-	-
<b>Debt service</b>			
Interest and other	205	-	205
Total Expenditures	425,357	700,162	1,125,519
Excess (Deficiency) of Revenues Over (Under) Expenditures	(271,973)	(528,640)	(800,613)
<b>Other Financing Sources (Uses)</b>			
Bonds issued	-	41,000	41,000
Sale of capital assets	33,214	6,056	39,270
Transfer in	174,558	267,432	441,990
Transfer out	(300)	(159,153)	(159,453)
Total Other Financing Sources (Uses)	207,472	155,335	362,807
Net Change in Fund Balances	(64,501)	(373,305)	(437,806)
Fund Balances, January 1	857,854	424,595	1,282,449
Fund Balances, December 31	\$ 793,353	\$ 51,290	\$ 844,643

City of Tracy, Minnesota  
 Nonmajor Proprietary Funds  
 Combining Statement of Net Position  
 December 31, 2019

	Business-type Activities - Enterprise Funds				Totals
	303 O'Brien Court	411 Orchard Lane Townhomes	603 Utility Surcharge	604 Refuse Collection	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and temporary investments	\$ 170,528	\$ 26,536	\$ -	\$ -	\$ 197,064
Receivables					
Accounts	-	700	5,630	25,046	31,376
<b>Total Current Assets</b>	<u>170,528</u>	<u>27,236</u>	<u>5,630</u>	<u>25,046</u>	<u>228,440</u>
<b>Noncurrent Assets</b>					
<b>Capital assets, at cost</b>					
Land	131	35,042	10,200	-	45,373
Buildings	1,399,688	1,162,785	-	-	2,562,473
Improvements other than buildings	53,404	-	-	-	53,404
Equipment and machinery	165,915	-	-	-	165,915
Less accumulated depreciation	<u>(1,053,287)</u>	<u>(380,548)</u>	<u>-</u>	<u>-</u>	<u>(1,433,835)</u>
<b>Total capital assets     (net of accumulated depreciation)</b>	<u>565,851</u>	<u>817,279</u>	<u>10,200</u>	<u>-</u>	<u>1,393,330</u>
<b>Total Assets</b>	<u>736,379</u>	<u>844,515</u>	<u>15,830</u>	<u>25,046</u>	<u>1,621,770</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	-	2,345	408	-	2,753
Deposits payable	-	1,313	-	-	1,313
Due to other funds	-	-	19,808	5,166	24,974
Accrued interest payable	-	15,833	-	-	15,833
Bonds payable - current	-	35,000	-	-	35,000
<b>Total Current Liabilities</b>	<u>-</u>	<u>54,491</u>	<u>20,216</u>	<u>5,166</u>	<u>79,873</u>
<b>Noncurrent Liabilities</b>					
Bonds payable, noncurrent	-	1,060,696	-	-	1,060,696
<b>Total Liabilities</b>	<u>-</u>	<u>1,115,187</u>	<u>20,216</u>	<u>5,166</u>	<u>1,140,569</u>
<b>Net Position</b>					
Net investment in capital assets	565,851	(278,417)	10,200	-	297,634
Unrestricted	<u>170,528</u>	<u>7,745</u>	<u>(14,586)</u>	<u>19,880</u>	<u>183,567</u>
<b>Total Net Position</b>	<u>\$ 736,379</u>	<u>\$ (270,672)</u>	<u>\$ (4,386)</u>	<u>\$ 19,880</u>	<u>\$ 481,201</u>

City of Tracy, Minnesota  
 Nonmajor Proprietary Funds  
 Combining Statement of Revenues, Expenses and Changes in Net Position  
 For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds				Totals
	303 O'Brien Court	411 Orchard Lane Townhomes	603 Utility Surcharge	604 Refuse Collection	
Operating Revenues					
Charges for services	\$ 45,000	\$ 83,200	\$ 163	\$ 142,527	\$ 270,890
Operating Expenses					
Supplies	-	-	613	4,700	5,313
Other services and charges	5,077	17,637	3,467	135,136	161,317
Utilities	-	1,848	-	-	1,848
Depreciation	46,169	42,284	-	-	88,453
Total Operating Expenses	<u>51,246</u>	<u>61,769</u>	<u>4,080</u>	<u>139,836</u>	<u>256,931</u>
Operating Income (Loss)	<u>(6,246)</u>	<u>21,431</u>	<u>(3,917)</u>	<u>2,691</u>	<u>13,959</u>
Nonoperating Revenues (Expenses)					
Other income	33,835	-	-	857	34,692
Investment earnings	2,014	253	-	16	2,283
Amortization of bond premium	-	2,204	-	-	2,204
Interest and other expense	-	(38,958)	-	-	(38,958)
Total Nonoperating Revenues (Expenses)	<u>35,849</u>	<u>(36,501)</u>	<u>-</u>	<u>873</u>	<u>221</u>
Income (Loss) Before Transfers	29,603	(15,070)	(3,917)	3,564	14,180
Transfers in	-	23,176	-	-	23,176
Transfers out	<u>(28,905)</u>	<u>-</u>	<u>(31,000)</u>	<u>-</u>	<u>(59,905)</u>
Change in Net Position	698	8,106	(34,917)	3,564	(22,549)
Net Position, January 1	<u>735,681</u>	<u>(278,778)</u>	<u>30,531</u>	<u>16,316</u>	<u>503,750</u>
Net Position, December 31	<u>\$ 736,379</u>	<u>\$ (270,672)</u>	<u>\$ (4,386)</u>	<u>\$ 19,880</u>	<u>\$ 481,201</u>

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City of Tracy, Minnesota  
Nonmajor Proprietary Funds  
Combining Statement of Cash Flows  
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds				Totals
	303 O'Brien Court	411 Orchard Lane Townhomes	603 Utility Surcharge	604 Refuse Collection	
Cash Flows from Operating Activities					
Receipts from customers	\$ 45,000	\$ 82,600	\$ 402	\$ 142,540	\$ 270,542
Payments to suppliers and vendors	(5,081)	(17,312)	(3,672)	(140,819)	(166,884)
Other receipts	33,835	-	-	857	34,692
Net Cash Provided (Used) by Operating Activities	<u>73,754</u>	<u>65,288</u>	<u>(3,270)</u>	<u>2,578</u>	<u>138,350</u>
Cash Flows from Noncapital Financing Activities					
Increase (decrease) in due from other funds	13,596	-	-	-	13,596
Increase (decrease) in due to other funds	-	-	19,808	(2,594)	17,214
Transfers from other funds	-	23,176	-	-	23,176
Transfers to other funds	(28,905)	-	(31,000)	-	(59,905)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(15,309)</u>	<u>23,176</u>	<u>(11,192)</u>	<u>(2,594)</u>	<u>(5,919)</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets	(36,340)	-	-	-	(36,340)
Principal paid on bonds payable	-	(35,000)	-	-	(35,000)
Interest and fees paid on bonds payable	-	(39,250)	-	-	(39,250)
Net Cash Provided (Used) by Capital And Related Financing Activities	<u>(36,340)</u>	<u>(74,250)</u>	<u>-</u>	<u>-</u>	<u>(110,590)</u>
Cash Flows from Investing Activities					
Interest received on cash and temporary investments	2,014	253	-	16	2,283
Net Increase (Decrease) in Cash and Cash Equivalents	24,119	14,467	(14,462)	-	24,124
Cash and Cash Equivalents, January 1	146,409	12,069	14,462	-	172,940
Cash and Cash Equivalents, December 31	<u>\$ 170,528</u>	<u>\$ 26,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,064</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ (6,246)	\$ 21,431	\$ (3,917)	\$ 2,691	\$ 13,959
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Other income related to operations	33,835	-	-	857	34,692
Depreciation	46,169	42,284	-	-	88,453
(Increase) decrease in assets					
Accounts receivable	-	(600)	239	13	(348)
Increase (decrease) in liabilities					
Accounts payable	(4)	2,173	408	(4)	2,573
Due to other governments	-	-	-	(979)	(979)
Net Cash Provided (Used) by Operating Activities	<u>\$ 73,754</u>	<u>\$ 65,288</u>	<u>\$ (3,270)</u>	<u>\$ 2,578</u>	<u>\$ 138,350</u>
Noncash Investing, Capital and Financing Activities					
Amortization of Bond (Premium) Discount	<u>\$ -</u>	<u>\$ (2,204)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,204)</u>

City of Tracy, Minnesota  
 Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 December 31, 2019

	201 Multi- Purpose Center	203 Cemetery Operating	204 Cemetery Memorial	406 Library
<b>Assets</b>				
Cash and temporary investments	\$ 26,264	\$ 55,673	\$ 9,539	\$ (50,005)
Receivables				
Interest	-	-	-	-
Notes	-	-	-	-
Intergovernmental	-	-	-	66,664
Prepaid items	218	-	-	-
Assets held for resale	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 26,482</u></u>	<u><u>\$ 55,673</u></u>	<u><u>\$ 9,539</u></u>	<u><u>\$ 16,659</u></u>
<b>Liabilities</b>				
Accounts payable	\$ 1,432	\$ 30	\$ -	\$ -
Accrued salaries payable	253	-	-	-
Due to other governments	45	-	-	-
<b>Total Liabilities</b>	<u>1,730</u>	<u>30</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Nonspendable for				
Prepaid items	218	-	-	-
Restricted for				
Economic development	-	-	-	-
Cemetery operations	-	-	-	-
Committed for				
Economic development	-	-	-	-
Library improvements	-	-	-	16,659
Multi-purpose center operations	24,534	-	-	-
Cemetery operations	-	-	9,539	-
Public Safety	-	-	-	-
Assigned for				
Cemetery operations	-	55,643	-	-
Aquatic center operations	-	-	-	-
<b>Total Fund Balances</b>	<u>24,752</u>	<u>55,643</u>	<u>9,539</u>	<u>16,659</u>
	<u>24,752</u>	<u>55,643</u>	<u>9,539</u>	<u>16,659</u>
<b>Total Liabilities and     Fund Balances</b>	<u><u>\$ 26,482</u></u>	<u><u>\$ 55,673</u></u>	<u><u>\$ 9,539</u></u>	<u><u>\$ 16,659</u></u>

<b>607</b> Aquatic Center Operations	<b>802</b> CDBG Grant	<b>803</b> Cemetery Reserve	<b>806</b> Economic Development	<b>808</b> Code Enforcement	Total Nonmajor Funds
\$ 41,158	\$ 104,311	\$ 60,197	\$ 269,249	\$ 10,386	\$ 526,772
-	-	-	1,583	-	1,583
-	54,303	-	125,837	-	180,140
-	-	-	-	-	66,664
1,039	-	-	-	-	1,257
-	-	-	19,162	-	19,162
<u>\$ 42,197</u>	<u>\$ 158,614</u>	<u>\$ 60,197</u>	<u>\$ 415,831</u>	<u>\$ 10,386</u>	<u>\$ 795,578</u>
\$ 123	\$ -	\$ -	\$ 342	\$ -	\$ 1,927
-	-	-	-	-	253
-	-	-	-	-	45
<u>123</u>	<u>-</u>	<u>-</u>	<u>342</u>	<u>-</u>	<u>2,225</u>
1,039	-	-	-	-	1,257
-	54,303	-	125,837	-	180,140
-	-	59,410	-	-	59,410
-	104,311	-	289,652	-	393,963
-	-	-	-	-	16,659
-	-	-	-	-	24,534
-	-	-	-	-	9,539
-	-	-	-	10,386	10,386
-	-	787	-	-	56,430
41,035	-	-	-	-	41,035
<u>42,074</u>	<u>158,614</u>	<u>60,197</u>	<u>415,489</u>	<u>10,386</u>	<u>793,353</u>
<u>\$ 42,197</u>	<u>\$ 158,614</u>	<u>\$ 60,197</u>	<u>\$ 415,831</u>	<u>\$ 10,386</u>	<u>\$ 795,578</u>

City of Tracy, Minnesota  
 Nonmajor Special Revenue Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the Year Ended December 31, 2019

	<b>201</b> Multi- Purpose Center	<b>203</b> Cemetery Operating	<b>204</b> Cemetery Memorial	<b>406</b> Library
<b>Revenues</b>				
Intergovernmental				
State grants	\$ -	\$ -	\$ -	\$ 66,664
Charges for services	14,149	2,175	-	-
Investment earnings	266	629	120	256
Miscellaneous				
Contributions and donations	690	-	-	1,700
Refunds and reimbursements	6	2,550	-	-
Other	693	-	-	-
<b>Total Revenues</b>	<u>15,804</u>	<u>5,354</u>	<u>120</u>	<u>68,620</u>
<b>Expenditures</b>				
Current				
Public safety	-	-	-	-
Culture and recreation	44,199	-	-	8,812
Economic development	-	-	-	-
Miscellaneous	-	26,423	-	-
Capital outlay				
Culture and recreation	-	-	-	133,327
Economic development	-	-	-	-
Debt service				
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<u>44,199</u>	<u>26,423</u>	<u>-</u>	<u>142,139</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(28,395)</u>	<u>(21,069)</u>	<u>120</u>	<u>(73,519)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of capital assets	-	2,925	-	-
Transfers in	38,149	29,706	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>38,149</u>	<u>32,631</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	9,754	11,562	120	(73,519)
Fund Balances, January 1	<u>14,998</u>	<u>44,081</u>	<u>9,419</u>	<u>90,178</u>
Fund Balances, December 31	<u>\$ 24,752</u>	<u>\$ 55,643</u>	<u>\$ 9,539</u>	<u>\$ 16,659</u>

<b>607</b> Aquatic Center Operations	<b>802</b> CDBG Grant	<b>803</b> Cemetery Reserve	<b>806</b> Economic Development	<b>808</b> Code Enforcement	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ 540	\$ -	\$ 67,204
48,085	-	-	-	-	64,409
356	1,166	762	4,143	72	7,770
-	-	-	-	-	2,390
1,226	-	-	335	-	4,117
-	6,801	-	-	-	7,494
<u>49,667</u>	<u>7,967</u>	<u>762</u>	<u>5,018</u>	<u>72</u>	<u>153,384</u>
-	-	-	-	59	59
115,870	-	-	-	-	168,881
-	1,928	-	76,041	-	77,969
-	-	-	-	-	26,423
-	-	-	-	-	133,327
-	-	-	18,493	-	18,493
-	-	-	205	-	205
<u>115,870</u>	<u>1,928</u>	<u>-</u>	<u>94,739</u>	<u>59</u>	<u>425,357</u>
<u>(66,203)</u>	<u>6,039</u>	<u>762</u>	<u>(89,721)</u>	<u>13</u>	<u>(271,973)</u>
-	-	325	29,964	-	33,214
91,674	-	-	5,729	9,300	174,558
-	-	(300)	-	-	(300)
<u>91,674</u>	<u>-</u>	<u>25</u>	<u>35,693</u>	<u>9,300</u>	<u>207,472</u>
25,471	6,039	787	(54,028)	9,313	(64,501)
<u>16,603</u>	<u>152,575</u>	<u>59,410</u>	<u>469,517</u>	<u>1,073</u>	<u>857,854</u>
<u>\$ 42,074</u>	<u>\$ 158,614</u>	<u>\$ 60,197</u>	<u>\$ 415,489</u>	<u>\$ 10,386</u>	<u>\$ 793,353</u>

City of Tracy, Minnesota  
Multi-Purpose Center  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Charges for services	\$ 10,700	\$ 10,700	\$ 14,149	\$ 3,449	\$ 17,429
Investment earnings	100	100	266	166	3
Miscellaneous					
Contributions and donations	600	600	690	90	650
Refunds and reimbursements	100	100	6	(94)	74
Other	800	800	693	(107)	767
Total Revenues	<u>12,300</u>	<u>12,300</u>	<u>15,804</u>	<u>3,504</u>	<u>18,923</u>
Expenditures					
Current					
Culture and recreation	51,403	51,403	44,199	7,204	44,429
Capital outlay					
Culture and recreation	1,500	1,500	-	1,500	74
Total Expenditures	<u>52,903</u>	<u>52,903</u>	<u>44,199</u>	<u>8,704</u>	<u>44,503</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(40,603)	(40,603)	(28,395)	12,208	63,426
Other Financing Sources					
Transfer in	<u>38,149</u>	<u>38,149</u>	<u>38,149</u>	<u>-</u>	<u>38,149</u>
Net Change in Fund Balances	(2,454)	(2,454)	9,754	12,208	12,569
Fund Balance, January 1	<u>14,998</u>	<u>14,998</u>	<u>14,998</u>	<u>-</u>	<u>2,429</u>
Fund Balance, December 31	<u>\$ 12,544</u>	<u>\$ 12,544</u>	<u>\$ 24,752</u>	<u>\$ 12,208</u>	<u>\$ 14,998</u>

City of Tracy, Minnesota  
Cemetery Operating  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Charges for services	\$ -	\$ -	\$ 2,175	\$ 2,175	\$ 1,160
Investment earnings	-	-	629	629	1
Miscellaneous					
Refunds and reimbursements	4,500	4,500	2,550	(1,950)	5,276
Total Revenues	<u>4,500</u>	<u>4,500</u>	<u>5,354</u>	<u>854</u>	<u>6,437</u>
Expenditures					
Current					
Miscellaneous	<u>36,962</u>	<u>36,962</u>	<u>26,423</u>	<u>10,539</u>	<u>29,532</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(32,462)</u>	<u>(32,462)</u>	<u>(21,069)</u>	<u>11,393</u>	<u>(23,095)</u>
Other Financing Sources					
Sale of capital asset	2,000	2,000	2,925	925	3,510
Transfer in	<u>29,706</u>	<u>29,706</u>	<u>29,706</u>	<u>-</u>	<u>29,706</u>
Total Other Financing Sources	<u>31,706</u>	<u>31,706</u>	<u>32,631</u>	<u>925</u>	<u>33,216</u>
Net Change in Fund Balances	(756)	(756)	11,562	12,318	10,121
Fund Balance, January 1	<u>44,081</u>	<u>44,081</u>	<u>44,081</u>	<u>-</u>	<u>33,960</u>
Fund Balance, December 31	<u>\$ 43,325</u>	<u>\$ 43,325</u>	<u>\$ 55,643</u>	<u>\$ 12,318</u>	<u>\$ 44,081</u>

City of Tracy, Minnesota  
 Aquatic Center Operations  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended December 31, 2019  
 (With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019			Variance with Final Budget	2018
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Revenues					
Charges for services	\$ 49,200	\$ 49,200	\$ 48,085	\$ (1,115)	\$ 48,255
Investment earnings	-	-	356	356	-
Miscellaneous					
Contributions and donations	600	600	-	(600)	550
Refunds and reimbursements	1,500	1,500	1,226	(274)	3,728
<b>Total Revenues</b>	<b>51,300</b>	<b>51,300</b>	<b>49,667</b>	<b>(1,633)</b>	<b>52,533</b>
Expenditures					
Current					
Culture and recreation	135,361	135,361	115,870	19,491	121,126
Capital outlay					
Culture and recreation	60,000	60,000	-	60,000	-
<b>Total Expenditures</b>	<b>195,361</b>	<b>195,361</b>	<b>115,870</b>	<b>79,491</b>	<b>121,126</b>
Deficiency of Revenues Over (Under) Expenditures	(144,061)	(144,061)	(66,203)	77,858	(68,593)
Other Financing Sources					
Transfer in	91,674	91,674	91,674	-	91,674
Net Change in Fund Balances	(52,387)	(52,387)	25,471	77,858	23,081
Fund Balance, January 1	16,603	16,603	16,603	-	(6,478)
Fund Balance, December 31	<u>\$ (35,784)</u>	<u>\$ (35,784)</u>	<u>\$ 42,074</u>	<u>\$ 77,858</u>	<u>\$ 16,603</u>



City of Tracy, Minnesota  
Cemetery Reserve  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ 300	\$ 300	\$ 762	\$ 462	\$ 644
Other Financing Sources (Uses)					
Sale of capital asset	-	-	325	325	390
Transfer out	(300)	(300)	(300)	-	(300)
Total Other Financing Sources (Uses)	(300)	(300)	25	325	90
Net Change in Fund Balances	-	-	787	787	734
Fund Balance, January 1	59,410	59,410	59,410	-	58,676
Fund Balance, December 31	\$ 59,410	\$ 59,410	\$ 60,197	\$ 787	\$ 59,410

City of Tracy, Minnesota  
Economic Development  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ -	\$ -	\$ 540	\$ 540	\$ -
Investment earnings	1,995	1,995	4,143	2,148	2,579
Miscellaneous					
Refunds and reimbursements	-	-	335	335	200
Loan payments received	33,000	33,000	-	(33,000)	-
Total Revenues	<u>34,995</u>	<u>34,995</u>	<u>5,018</u>	<u>(29,977)</u>	<u>2,779</u>
Expenditures					
Current					
Economic development	49,906	49,906	76,041	(26,135)	13,879
Capital outlay					
Economic development	48,193	48,193	18,493	29,700	4,433
Debt service					
Interest	-	-	205	(205)	-
Total Expenditures	<u>98,099</u>	<u>98,099</u>	<u>94,739</u>	<u>3,360</u>	<u>18,312</u>
Deficiency of Revenues Over (Under) Expenditures	<u>(63,104)</u>	<u>(63,104)</u>	<u>(89,721)</u>	<u>(26,617)</u>	<u>(15,533)</u>
Other Financing Sources (Uses)					
Sale of capital asset	-	-	29,964	29,964	1
Transfer in	5,729	5,729	5,729	-	289,693
Total Other Financing Sources (Uses)	<u>5,729</u>	<u>5,729</u>	<u>35,693</u>	<u>29,964</u>	<u>289,694</u>
Net Change in Fund Balances	(57,375)	(57,375)	(54,028)	3,347	274,161
Fund Balance, January 1	<u>469,517</u>	<u>469,517</u>	<u>469,517</u>	<u>-</u>	<u>195,356</u>
Fund Balance, December 31	<u>\$ 412,142</u>	<u>\$ 412,142</u>	<u>\$ 415,489</u>	<u>\$ 3,347</u>	<u>\$ 469,517</u>

City of Tracy, Minnesota  
Code Enforcement  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 72	\$ 72	\$ -
Expenditures					
Current					
Public safety	\$ 350	\$ 350	\$ 59	\$ 291	\$ 105
Capital outlay					
Public safety	9,040	9,040	-	9,040	2,146
Total Expenditures	<u>9,390</u>	<u>9,390</u>	<u>59</u>	<u>9,331</u>	<u>2,251</u>
Deficiency of Revenues Over (Under) Expenditures	<u>(9,390)</u>	<u>(9,390)</u>	<u>13</u>	<u>9,403</u>	<u>(2,251)</u>
Other Financing Sources					
Transfer in	<u>9,300</u>	<u>9,300</u>	<u>9,300</u>	<u>-</u>	<u>9,300</u>
Net Change in Fund Balances	(90)	(90)	9,313	9,403	7,049
Fund Balance, January 1	<u>1,073</u>	<u>1,073</u>	<u>1,073</u>	<u>-</u>	<u>(5,976)</u>
Fund Balance, December 31	<u>\$ 983</u>	<u>\$ 983</u>	<u>\$ 10,386</u>	<u>\$ 9,403</u>	<u>\$ 1,073</u>

City of Tracy, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 December 31, 2019

	<b>403</b>	<b>409</b>	<b>412</b>	<b>414</b>
	<u>Permanent Improvement</u>	<u>Park</u>	<u>2014 Street Improvements</u>	<u>2016 Street Project</u>
<b>Assets</b>				
Cash and temporary investments	\$ 44,183	\$ 29,613	\$ -	\$ -
Receivables				
Accounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 44,183</u></u>	<u><u>\$ 29,613</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>Fund Balances</b>				
Committed for				
Capital outlay	23,924	-	-	-
Assigned for				
Capital outlay	20,259	29,613	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balances</b>	<u><u>44,183</u></u>	<u><u>29,613</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 44,183</u></u>	<u><u>\$ 29,613</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<b>800</b> Police Equipment Replacement	<b>801</b> Equipment Replacement	<b>804</b> Fire Department Replacement	<b>810</b> Infrastructure Replacement Reserve	Total Nonmajor Funds
\$ 40,973	\$ -	\$ -	\$ 158,541	\$ 273,310
-	-	-	1,743	1,743
<u>\$ 40,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,284</u>	<u>\$ 275,053</u>
\$ -	\$ 48,559	\$ 16,363	\$ -	\$ 64,922
-	127,877	30,964	-	158,841
-	176,436	47,327	-	223,763
-	-	-	-	23,924
40,973	-	-	160,284	251,129
-	(176,436)	(47,327)	-	(223,763)
<u>40,973</u>	<u>(176,436)</u>	<u>(47,327)</u>	<u>160,284</u>	<u>51,290</u>
<u>\$ 40,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,284</u>	<u>\$ 275,053</u>

City of Tracy, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2019

	<b>403</b>	<b>409</b>	<b>412</b> 2014 Street Improvements	<b>414</b> 2016 Street Project
	Permanent Improvement	Park		
<b>Revenues</b>				
Taxes	\$ 50,000	\$ -	\$ -	\$ -
Investment earnings	1,237	388	-	-
Charges for services	-	-	-	-
Miscellaneous				
Refunds and reimbursements	-	-	38,745	-
Other	-	-	-	-
<b>Total Revenues</b>	<u>51,237</u>	<u>388</u>	<u>38,745</u>	<u>-</u>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	-	-	-	-
Culture and recreation	-	2,680	-	-
<b>Capital outlay</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Streets and highways	-	-	-	-
Culture and recreation	-	8,000	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>10,680</u>	<u>-</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>51,237</u>	<u>(10,292)</u>	<u>38,745</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	-	-	-	-
Transfers in	-	8,700	-	158,732
Transfers out	(158,732)	-	(421)	-
Sale of capital asset	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(158,732)</u>	<u>8,700</u>	<u>(421)</u>	<u>158,732</u>
<b>Net Change in Fund Balances</b>	(107,495)	(1,592)	38,324	158,732
<b>Fund Balances, January 1</b>	<u>151,678</u>	<u>31,205</u>	<u>(38,324)</u>	<u>(158,732)</u>
<b>Fund Balances, December 31</b>	<u>\$ 44,183</u>	<u>\$ 29,613</u>	<u>\$ -</u>	<u>\$ -</u>

<b>800</b> Police Equipment Replacement	<b>801</b> Equipment Replacement	<b>804</b> Fire Department Replacement	<b>810</b> Infrastructure Replacement Reserve	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ 55,000	\$ 105,000
782	531	209	1,506	4,653
-	-	-	21,998	21,998
470	516	-	-	39,731
-	140	-	-	140
<u>1,252</u>	<u>1,187</u>	<u>209</u>	<u>78,504</u>	<u>171,522</u>
2,073	-	-	-	2,073
-	-	-	-	2,680
-	7,516	-	-	7,516
45,694	246,532	152,644	-	444,870
-	235,023	-	-	235,023
-	-	-	-	8,000
<u>47,767</u>	<u>489,071</u>	<u>152,644</u>	<u>-</u>	<u>700,162</u>
<u>(46,515)</u>	<u>(487,884)</u>	<u>(152,435)</u>	<u>78,504</u>	<u>(528,640)</u>
-	41,000	-	-	41,000
5,000	55,000	40,000	-	267,432
-	-	-	-	(159,153)
-	6,056	-	-	6,056
<u>5,000</u>	<u>102,056</u>	<u>40,000</u>	<u>-</u>	<u>155,335</u>
(41,515)	(385,828)	(112,435)	78,504	(373,305)
<u>82,488</u>	<u>209,392</u>	<u>65,108</u>	<u>81,780</u>	<u>424,595</u>
<u>\$ 40,973</u>	<u>\$ (176,436)</u>	<u>\$ (47,327)</u>	<u>\$ 160,284</u>	<u>\$ 51,290</u>

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City of Tracy, Minnesota  
 General Fund  
 Comparative Balance Sheet  
 December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and temporary investments	\$ 128,851	\$ 584,338
Receivables		
Interest	4,116	14,062
Delinquent taxes	80,932	54,394
Accounts	24,403	33,397
Special assessments	22,660	13,389
Intergovernmental	74,812	26,839
Due from other funds	685,301	181,798
Prepaid items	12,772	17,936
Total Assets	\$ 1,033,847	\$ 926,153
<b>Liabilities</b>		
Accounts payable	\$ 30,115	\$ 34,385
Accrued salaries payable	29,156	29,870
Due to other governments	237	-
Total Liabilities	59,508	64,255
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	80,932	54,394
Unavailable revenue - special assessment	22,660	13,389
Total Deferred Inflows of Resources	103,592	67,783
<b>Fund Balances</b>		
Nonspendable	12,772	17,936
Unassigned	857,975	776,179
Total Fund Balances	870,747	794,115
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,033,847	\$ 926,153

City of Tracy, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019			2018	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 759,003	\$ 759,003	\$ 613,796	\$ (145,207)	\$ 629,988
Franchise fees	32,000	32,000	29,859	(2,141)	33,374
Total taxes	<u>791,003</u>	<u>791,003</u>	<u>643,655</u>	<u>(147,348)</u>	<u>663,362</u>
Special Assessments	<u>5,000</u>	<u>5,000</u>	<u>4,785</u>	<u>(215)</u>	<u>3,481</u>
Licenses and permits					
Business	6,900	6,900	8,149	1,249	8,046
Nonbusiness	13,000	13,000	27,352	14,352	11,123
Total licenses and permits	<u>19,900</u>	<u>19,900</u>	<u>35,501</u>	<u>15,601</u>	<u>19,169</u>
Intergovernmental					
Federal					
FEMA grant	<u>-</u>	<u>-</u>	<u>255,839</u>	<u>255,839</u>	<u>-</u>
State					
Local government aid	927,648	927,648	928,568	920	927,648
Property tax credits and aids	-	-	-	-	142
Fire aid	30,000	30,000	27,068	(2,932)	27,099
Police aid	25,000	25,000	29,005	4,005	29,928
Other state aids	48,860	48,860	70,440	21,580	46,422
Total intergovernmental	<u>1,031,508</u>	<u>1,031,508</u>	<u>1,310,920</u>	<u>279,412</u>	<u>1,031,239</u>
Charges for services					
General government	700	700	234	(466)	552
Public safety	53,900	53,900	94,758	40,858	55,876
Streets and highways	8,500	8,500	12,771	4,271	9,858
Culture and recreation	10,500	10,500	7,984	(2,516)	9,779
Rents	47,000	47,000	41,640	(5,360)	39,664
Total charges for services	<u>120,600</u>	<u>120,600</u>	<u>157,387</u>	<u>36,787</u>	<u>115,729</u>
Fines and forfeits	<u>13,100</u>	<u>13,100</u>	<u>9,337</u>	<u>(3,763)</u>	<u>9,967</u>
Investment earnings	<u>15,000</u>	<u>15,000</u>	<u>15,293</u>	<u>293</u>	<u>18,991</u>
Miscellaneous					
Contributions and donations	-	-	411	411	510
Other	10,350	10,350	18,830	8,480	23,702
Refunds and reimbursements	31,000	31,000	85,746	54,746	193,641
Total miscellaneous	<u>41,350</u>	<u>41,350</u>	<u>104,987</u>	<u>63,637</u>	<u>217,853</u>
Total Revenues	<u>2,037,461</u>	<u>2,037,461</u>	<u>2,281,865</u>	<u>244,404</u>	<u>2,079,791</u>

City of Tracy, Minnesota  
 General Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Budget and Actual (Continued)  
 For the Year Ended December 31, 2019  
 (With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Expenditures					
Current					
General government					
Mayor					
Personal services	\$ 15,696	\$ 15,696	\$ 15,849	\$ (153)	\$ 14,440
Other services and charges	-	-	71	(71)	-
Total Mayor	15,696	15,696	15,920	(224)	14,440
Administration					
Personal services	233,855	233,855	229,313	4,542	209,452
Supplies	6,000	6,000	6,552	(552)	11,920
Other services and charges	11,187	11,187	83,381	(72,194)	29,954
Total administration	251,042	251,042	319,246	(68,204)	251,326
Election					
Personal services	3,500	3,500	-	3,500	3,457
Other services and charges	240	240	496	(256)	301
Total election	3,740	3,740	496	3,244	3,758
Municipal building					
Personal services	55,397	55,397	75,605	(20,208)	73,534
Other services and charges	54,600	54,600	53,400	1,200	44,907
Total municipal building	109,997	109,997	129,005	(19,008)	118,441
Assessing					
Other services and charges	16,700	16,700	13,656	3,044	13,548
Legal					
Other services and charges	24,000	24,000	8,458	15,542	12,891
Total general government	421,175	421,175	486,781	(65,606)	414,404
Public safety					
Police					
Personal services	344,351	344,351	307,906	36,445	319,075
Supplies	3,600	3,600	1,169	2,431	2,806
Other services and charges	43,055	43,055	44,205	(1,150)	43,655
Total police	391,006	391,006	353,280	37,726	365,536
Fire					
Personal services	45,851	45,851	62,909	(17,058)	59,389
Supplies	1,500	1,500	116	1,384	1,752
Other services and charges	113,011	113,011	102,733	10,278	100,342
Total fire	160,362	160,362	165,758	(5,396)	161,483
Building inspection					
Personal services	33,282	33,282	29,037	4,245	21,857
Supplies	700	700	1,080	(380)	513
Other services and charges	5,348	5,348	5,717	(369)	3,782
Total building inspection	39,330	39,330	35,834	3,496	26,152
Civil defense					
Supplies	650	650	421	229	1,741
Other services and charges	200	200	55	145	191
Total civil defense	850	850	476	374	1,932
Total public safety	591,548	591,548	555,348	36,200	555,103

City of Tracy, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019			Variance with Final Budget	2018
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Streets and highways					
Street maintenance					
Personal services	\$ 282,578	\$ 282,578	\$ 303,203	\$ (20,625)	\$ 287,834
Supplies	800	800	516	284	790
Other services and charges	119,555	119,555	127,450	(7,895)	104,359
Total street maintenance	<u>402,933</u>	<u>402,933</u>	<u>431,169</u>	<u>(28,236)</u>	<u>392,983</u>
Street lighting					
Other services and charges	28,000	28,000	20,070	7,930	27,713
Total streets and highways	<u>430,933</u>	<u>430,933</u>	<u>451,239</u>	<u>(20,306)</u>	<u>420,696</u>
Culture and recreation					
Library					
Personal services	89,670	89,670	89,619	51	85,671
Supplies	1,400	1,400	3,013	(1,613)	1,114
Other services and charges	42,580	42,580	39,654	2,926	33,713
Total library	<u>133,650</u>	<u>133,650</u>	<u>132,286</u>	<u>1,364</u>	<u>120,498</u>
Economic development					
Personal services	93,174	93,174	88,452	4,722	9,615
Supplies	700	700	123	577	471
Other services and charges	11,659	11,659	25,485	(13,826)	60,883
Total economic development	<u>105,533</u>	<u>105,533</u>	<u>114,060</u>	<u>(8,527)</u>	<u>70,969</u>
Miscellaneous					
Airport					
Personal services	15,895	15,895	8,658	7,237	9,842
Other services and charges	26,060	26,060	32,666	(6,606)	31,287
Total airport	<u>41,955</u>	<u>41,955</u>	<u>41,324</u>	<u>631</u>	<u>41,129</u>
Unallocated					
Personal services	-	-	995	(995)	40,292
Other services and charges	89,150	89,150	126,593	(37,443)	275,784
Total unallocated	<u>89,150</u>	<u>89,150</u>	<u>127,588</u>	<u>(38,438)</u>	<u>316,076</u>
Total miscellaneous	<u>131,105</u>	<u>131,105</u>	<u>168,912</u>	<u>(37,807)</u>	<u>357,205</u>
Total current	<u>1,813,944</u>	<u>1,813,944</u>	<u>1,908,626</u>	<u>(94,682)</u>	<u>1,938,875</u>

City of Tracy, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Capital outlay					
General government	\$ 3,200	\$ 3,200	\$ -	\$ 3,200	\$ 1,160
Public safety	3,000	3,000	2,400	600	122,918
Culture and recreation	200	200	620	(420)	-
Miscellaneous	5,405	5,405	4,697	708	2,199
Total capital outlay	<u>11,805</u>	<u>11,805</u>	<u>7,717</u>	<u>4,088</u>	<u>126,277</u>
Debt service					
Principal	-	-	50,000	(50,000)	-
Total Expenditures	<u>1,825,749</u>	<u>1,825,749</u>	<u>1,966,343</u>	<u>(140,594)</u>	<u>2,065,152</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>211,712</u>	<u>211,712</u>	<u>315,522</u>	<u>103,810</u>	<u>14,639</u>
Other Financing Sources (Uses)					
Bonds issued	-	-	-	-	250,000
Transfers in	63,507	63,507	63,507	-	63,507
Transfers out	<u>(306,230)</u>	<u>(306,230)</u>	<u>(302,397)</u>	<u>3,833</u>	<u>(302,397)</u>
Total Financing Sources (Uses)	<u>(242,723)</u>	<u>(242,723)</u>	<u>(238,890)</u>	<u>3,833</u>	<u>11,110</u>
Net Change in Fund Balances	(31,011)	(31,011)	76,632	107,643	25,749
Fund Balances, January 1	<u>794,115</u>	<u>794,115</u>	<u>794,115</u>	<u>-</u>	<u>768,366</u>
Fund Balances, December 31	<u>\$ 763,104</u>	<u>\$ 763,104</u>	<u>\$ 870,747</u>	<u>\$ 107,643</u>	<u>\$ 794,115</u>

City of Tracy, Minnesota  
Debt Service Funds  
Combining Balance Sheet  
December 31, 2019

	<b>502</b> 2014 G.O. Improvement Bonds	<b>503</b> 2009 G.O. Improvement Bonds	<b>505</b> 2008 G.O. Refunding Bonds	<b>510</b> 2015A G.O. Refunding Bonds
<b>Assets</b>				
Cash and temporary investments	\$ 123,487	\$ 121,471	\$ 390,127	\$ 210,267
Receivables				
Interest	-	-	1,481	-
Special assessments	214,419	59,612	-	60,622
Intergovernmental	1,608	1,039	-	512
Due from other funds	-	-	47,678	-
 Total Assets	<b>\$ 339,514</b>	<b>\$ 182,122</b>	<b>\$ 439,286</b>	<b>\$ 271,401</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 6,795	\$ -	\$ -
Due to other funds	-	-	-	-
Total Liabilities	-	6,795	-	-
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - special assessments	214,419	59,612	-	60,622
<b>Fund Balances</b>				
Restricted for debt service	125,095	115,715	439,286	210,779
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<b>\$ 339,514</b>	<b>\$ 182,122</b>	<b>\$ 439,286</b>	<b>\$ 271,401</b>

<b>512</b> 2016D G.O. Improvement Bonds	<b>514</b> USDA Future Bonds	<b>515</b> 2019B G.O. Bonds	Totals
\$ -	\$ 38,104	\$ 405,258	\$ 1,288,714
-	-	2,653	4,134
-	116,924	-	451,577
-	278	-	3,437
-	-	-	47,678
<u>\$ -</u>	<u>\$ 155,306</u>	<u>\$ 407,911</u>	<u>\$ 1,795,540</u>
\$ -	\$ 5,750	\$ -	\$ 12,545
47,678	-	-	47,678
<u>47,678</u>	<u>5,750</u>	<u>-</u>	<u>60,223</u>
-	116,924	-	451,577
<u>(47,678)</u>	<u>32,632</u>	<u>407,911</u>	<u>1,283,740</u>
<u>\$ -</u>	<u>\$ 155,306</u>	<u>\$ 407,911</u>	<u>\$ 1,795,540</u>

City of Tracy, Minnesota  
Debt Service Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended December 31, 2019

	<b>502</b> 2014 G.O. Improvement Bonds	<b>503</b> 2009 G.O. Improvement Bonds	<b>505</b> 2008 G.O. Refunding Bonds	<b>510</b> 2015A G.O. Refunding Bonds
<b>Revenues</b>				
Taxes				
Property taxes	\$ 86,320	\$ 75,728	\$ 125,199	\$ 132,407
Special assessments	34,458	12,482	-	25,824
Investment earnings	1,549	1,562	5,409	2,610
Total Revenues	<u>122,327</u>	<u>89,772</u>	<u>130,608</u>	<u>160,841</u>
<b>Expenditures</b>				
Debt service				
Principal	85,000	75,000	105,000	110,000
Interest and other	34,144	38,841	8,600	37,464
Total Expenditures	<u>119,144</u>	<u>113,841</u>	<u>113,600</u>	<u>147,464</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,183</u>	<u>(24,069)</u>	<u>17,008</u>	<u>13,377</u>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	-	531,000	-	-
Payment to refund bond	-	(515,000)	-	-
Transfers in	421	-	-	-
Total Other Financing Sources (Uses)	<u>421</u>	<u>16,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	3,604	(8,069)	17,008	13,377
Fund Balances, January 1	<u>121,491</u>	<u>123,784</u>	<u>422,278</u>	<u>197,402</u>
Fund Balances, December 31	<u>\$ 125,095</u>	<u>\$ 115,715</u>	<u>\$ 439,286</u>	<u>\$ 210,779</u>



<b>512</b> 2016D G.O. Improvement Bonds	<b>514</b> USDA Future Bonds	<b>515</b> 2019B G.O. Bonds	Totals
\$ -	\$ -	\$ -	\$ 419,654
-	16,149	-	88,913
-	378	2,824	14,332
<u>-</u>	<u>16,527</u>	<u>2,824</u>	<u>522,899</u>
30,000	-	-	405,000
<u>11,322</u>	<u>5,750</u>	<u>3,054</u>	<u>139,175</u>
<u>41,322</u>	<u>5,750</u>	<u>3,054</u>	<u>544,175</u>
<u>(41,322)</u>	<u>10,777</u>	<u>(230)</u>	<u>(21,276)</u>
-	-	408,141	939,141
-	-	-	(515,000)
-	-	-	421
<u>-</u>	<u>-</u>	<u>408,141</u>	<u>424,562</u>
(41,322)	10,777	407,911	403,286
<u>(6,356)</u>	<u>21,855</u>	<u>-</u>	<u>880,454</u>
<u>\$ (47,678)</u>	<u>\$ 32,632</u>	<u>\$ 407,911</u>	<u>\$ 1,283,740</u>

City of Tracy, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures For General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2019 and 2018

	Total		Percent Increase (Decrease)
	2019	2018	
<b>Revenues</b>			
Taxes	\$ 1,168,309	\$ 1,183,969	(1.32) %
Special assessments	93,698	98,223	(4.61)
Licenses and permits	35,501	19,169	85.20
Intergovernmental	1,798,913	1,180,585	52.37
Charges for services	243,794	165,730	47.10
Fines and forfeits	9,337	9,967	(6.32)
Investment earnings	90,837	36,574	148.36
Miscellaneous	162,999	457,243	(64.35)
	<u>\$ 3,603,388</u>	<u>\$ 3,151,460</u>	
Total Revenues			14.34 %
Per Capita	\$ 1,697	\$ 1,476	14.99 %
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 486,781	\$ 414,404	17.47 %
Public safety	557,480	555,841	0.29
Streets and highways	451,239	420,696	7.26
Culture and recreation	303,847	290,424	4.62
Economic development	192,029	85,899	123.55
Miscellaneous	195,335	386,737	(49.49)
<b>Capital outlay</b>			
General government	7,516	11,614	(35.29)
Public safety	447,270	138,685	222.51
Streets and highways	555,248	243,818	127.73
Culture and recreation	141,947	74	191,720.27
Economic development	18,493	4,433	317.17
Miscellaneous	1,027,298	170,775	501.55
<b>Debt service</b>			
Principal	455,000	393,459	15.64
Interest and other charges	253,352	125,832	101.34
	<u>\$ 5,092,835</u>	<u>\$ 3,242,691</u>	
Total Expenditures			57.06 %
Per Capita	\$ 2,399	\$ 1,519	57.94 %
Total Long-term Indebtedness	\$ 9,137,000	\$ 4,120,000	121.77 %
Per Capita	4,304	1,930	123.03
General Fund Balance - December 31	\$ 870,747	\$ 794,115	9.65 %
Per Capita	410	372	10.27

The purpose of this report is to provide a summary of financial information concerning the City of Tracy to interested citizens. The complete financial statements may be examined at City Hall, 336 Morgan St., Tracy, Minnesota. Questions about this report should be directed to Erik Hansen, City Administrator at (507) 629-5528.

OTHER REQUIRED REPORTS

CITY OF TRACY  
TRACY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Tracy, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tracy, 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 August 17, 2020.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions, sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings and Responses as item 2019-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Abdo Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
August 17, 2020



INDEPENDENT AUDITOR'S 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*

Honorable Mayor and City Council  
City of Tracy, 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 Tracy, Minnesota (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's basic financial statements, and have issued our report thereon dated August 17, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 as items 2019-001, 2019-002 and 2019-003, we identified a certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2019-003 to be a material weakness.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 to be a significant deficiencies.

## Compliance and Other Matters

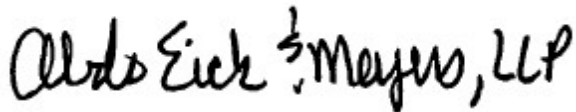
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

## The City's Responses to Findings

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
August 17, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and City Council  
City of Tracy, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited the City of Tracy's, Tracy, Minnesota (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.



## Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings, Responses and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

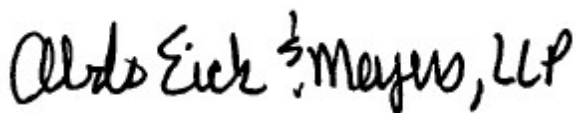
## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
August 17, 2020

**City of Tracy, Minnesota**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2019

Federal Funding Source	Administering Department	Program Name	Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Homeland Security Direct Programs	Federal Emergency Management Agency	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		\$ 255,839
U.S. Department of Transportation	Federal Aviation Administration	Airport Improvement Program	20.106	3-27-0102-010-2019	398,642
U.S. Department of Agriculture	Rural Utilities Service	Water and Waste Disposal Systems for Rural Communities	10.760		<u>2,968,607</u>
			Total Federal Expenditures		<u><u>\$3,623,088</u></u>

City of Tracy, Minnesota  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Tracy, Minnesota, (the City) for the year ended December 31, 2018. The City's reporting entity is defined in Note 1A to the City's financial statements. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

**Note 2: Summary of Significant Accounting Policies for Expenditures**

Expenditures reported on this schedule are reported on the accrual basis of accounting.

**Note 3: Pass-through Entity Identifying Numbers**

Pass-through entity identifying numbers, if any, are presented where available.

**Note 4: Subrecipients**

No federal expenditures presented in this schedule were provided to subrecipients.

**Note 5: Indirect Cost Rate**

During the year ended December 31, 2019 the City did not elect to use the 10% de minimis indirect cost rate.

City of Tracy, Minnesota  
 Schedule of Findings, Responses and Questioned Costs  
 For the Year Ended December 31, 2019

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a).	Yes

***Identification of Major Programs/Projects***

	<b>CFDA No.</b>
U.S. Department of Agriculture	
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

Two significant deficiencies (findings 2019-001 and 2019-002) and one material weakness (finding 2019-003) relating to the audit of the financial statements are reported in the Report on Internal Control and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

**Section III - Major Federal Award Findings and Questioned Costs**

There are no significant deficiencies or material weaknesses that required to be reported in accordance with Uniform Guidance.

**Section IV - Schedule of Prior Year Audit Findings**

There were prior year audit findings that are attached.

City of Tracy, Minnesota  
Schedule of Findings, Responses and Questioned Costs (Continued)  
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
<b>2019-001</b>	<b>Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

**Internal Control Over Disbursements**

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors, the check preparation process and mailing checks to vendors.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining payable records and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will be looking to hire additional staff and reallocate current tasks to have better controls in place.

**Internal Control Over Cash Receipts**

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors, opening mail, the check endorsing process, and preparing the deposits.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining the receipts journal and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will be looking to hire additional staff and reallocate current tasks to have better controls in place.

City of Tracy, Minnesota  
Schedule of Findings, Responses and Questioned Costs (Continued)  
For the Year Ended December 31, 2019

Finding                      Description

**2019-001                      Segregation of Duties (Continued)**

**Internal Control Over Utility Billing Transactions**

*Cause:*                      The utility billing clerk has access to post billing adjustments without a formal review process.

*Recommendation:*      We recommend that an individual, separate from the utility billing clerk such as the separate accounting clerk review adjustment reports and sign off on a monthly basis. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will be looking to hire additional staff and reallocate current tasks to have better controls in place.

**Internal Control Over Payroll**

*Cause:*                      Both accounting clerks are involved with the payroll check preparation process while the deputy clerk also has access to the payroll information.

*Recommendation:*      We recommend that certain processes, such as setting up and maintaining payroll records, be separated between the accounting clerk and deputy clerk. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will be looking to hire additional staff and reallocate current tasks to have better controls in place.

**Internal Control Over Offsite Cash – Liquor Store**

*Cause:*                      The liquor store manager prepares the deposits, takes deposits to the bank, prepares and approves daily sales sheets, initiates and receives purchases, and maintains the inventory program.

*Recommendation:*      We recommend that certain processes, such as setting up and maintaining payroll records, be separated between the accounting clerk and deputy clerk. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will be making a change to take the deposits to the bank each day.

City of Tracy, Minnesota  
Schedule of Findings, Responses and Questioned Costs (Continued)  
For the Year Ended December 31, 2019

Finding                      Description

**2019-001                      Segregation of Duties (Continued)**

**Internal Control Over Accounting Process**

*Cause:*                      The accounting staff was unaware of the reconciling process of various balance sheet items which should be reconciled on a monthly basis.

*Recommendation:*      We recommend that staff review the GL Yearly report be reviewed and accounts reconciled on a monthly basis. We have worked with staff to establish procedures to reconcile investment activity, payroll liability activity and miscellaneous cash accounts. There are opportunities to improve efficiencies in the accounting process to accomplish these reconciliations. We can assist with this evaluation to help utilize the software to make the reporting more accurate.

*Management Response:*

The City is implementing the procedures recommended for reconciling investment activity, payroll liability, and cash accounts at this time. Management will ensure that these procedures continue. The City will be looking to hire additional staff and reallocate current tasks to have better controls in place.

**2019-002                      Financial Report Preparation**

*Condition:*                      We were requested to assist in drafting the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

*Criteria:*                      Internal controls should be in place to provide reasonable assurance over financial reporting.

*Cause:*                      From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

*Effect:*                      The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

*Recommendation:*      It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

*Management Response:*

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

*Updated Progress from Prior Year:*

No progress has been made in addressing this finding in the current year.

City of Tracy, Minnesota  
Schedule of Findings, Responses and Questioned Costs (Continued)  
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
<b>2019-003</b>	<b>Material Audit Adjustments</b>
<i>Condition:</i>	During our audit, adjustments were needed for adjusting capital assets and accounts payable.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management Response:*

Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year to attempt to eliminate future material adjustments. The City will be getting new accounting software at the beginning of 2021, which will include a new chart of accounts to help eliminate some of the entries. There will also be additional training and looking to hire additional accounting staff.

*Updated Progress from Prior Year:*

The staff will continue to receive training on areas that have material adjustments.

<b>2019-004</b>	<b>Time Period for Payment</b>
<i>Condition:</i>	Auditing for legal compliance requires a review of the City's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.
<i>Criteria:</i>	Minnesota statute section 471.425 requires that the City pay bills within 35 days from receipt. If the invoice is not paid within the 35 days, interest at 1.5 percent per month is to be added to amount due.
<i>Cause:</i>	We noted four invoices that was paid after the 35 day period.
<i>Effect:</i>	The City is in violation of this statute.
<i>Recommendation:</i>	We recommend current procedures be reviewed to ensure proper reconciling and monitoring procedures are in place to reduce risk of future noncompliance with this state statutes.

*Management response:*

Management is aware of this issue and will monitor payments more closely in the future. There will be a new workflow process added with the new software in 2021 to help eliminate the delay of payments.





**2019-001 Segregation of Duties**

**Corrective Action Plan (CAP):**

**1. Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**2. Actions Planned in Response to Finding:**

The City Council is taking an active role in management of City functions.

**3. Official Responsible for Ensuring CAP:**

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

**4. Planned Completion Date for CAP:**

Continual.

**5. Plan to Monitor Completion of CAP:**

The Council will be monitoring this corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to be "Erik Hansen".

Erik Hansen  
City Administrator



**2019-002 Financial Report Preparation**

**Corrective Action Plan (CAP):**

**1. Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**2. Actions Planned in Response to Finding:**

Continue training of accounting staff in financial reporting to gain competencies in this area for future preparation and review of financial statements. The City's goal is to better understand the financial statements and related footnote disclosures.

**3. Official Responsible for Ensuring CAP:**

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

**4. Planned Completion Date for CAP:**

Continual.

**5. Plan to Monitor Completion of CAP:**

The Council will be monitoring this corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to be "Erik Hansen".

Erik Hansen  
City Administrator



**2019-003 Material Audit Adjustments**

**Corrective Action Plan (CAP):**

**1. Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**2. Actions Planned in Response to Finding:**

The City will review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

**3. Official Responsible for Ensuring CAP:**

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

**4. Planned Completion Date for CAP:**

Continual.

**5. Plan to Monitor Completion of CAP:**

The Council will be monitoring this corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to be "Erik Hansen".

Erik Hansen  
City Administrator



**2019-004 Time Period for Payment**

**Corrective Action Plan (CAP):**

**6. Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**7. Actions Planned in Response to Finding:**

The City will pay closer attention to timing of payments.

**8. Official Responsible for Ensuring CAP:**

Erik Hansen, City Administrator, is the official responsible for ensuring corrective action of the deficiency.

**9. Planned Completion Date for CAP:**

Continual.

**10. Plan to Monitor Completion of CAP:**

The Council will be monitoring this corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to be "Erik Hansen".

Erik Hansen  
City Administrator

City of Tracy, Minnesota  
Schedule Prior Year Findings  
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
<b>2018-001</b>	<b>Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

**Internal Control Over Disbursements**

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors and the check preparation process.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining payable records and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will review processes to ensure compliance.

**Internal Control Over Cash Receipts**

<i>Cause:</i>	Both accounting clerks are involved with setting up and maintaining vendors and the check endorsing process.
<i>Recommendation:</i>	We recommend that certain processes, such as maintaining the receipts journal and posting to the general ledger, be separated between the accounting clerks. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will review processes to ensure compliance.

City of Tracy, Minnesota  
Schedule Prior Year Findings (Continued)  
For the Year Ended December 31, 2019

Finding                      Description

**2018-001                      Segregation of Duties (Continued)**

**Internal Control Over Payroll**

*Cause:*                      Both accounting clerks are involved with the payroll check preparation process while the deputy clerk also has access to the payroll information.

*Recommendation:*      We recommend that certain processes, such as setting up and maintaining payroll records, be separated between the accounting clerk and deputy clerk. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City will review processes to ensure compliance.

**Internal Control Over Accounting Process**

*Cause:*                      The accounting staff was unaware of the reconciling process of various balance sheet items which should be reconciled on a monthly basis.

*Recommendation:*      We recommend that staff review the GL Yearly report be reviewed and accounts reconciled on a monthly basis. We have worked with staff to establish procedures to reconcile investment activity, payroll liability activity and miscellaneous cash accounts. There are opportunities to improve efficiencies in the accounting process to accomplish these reconciliations. We can assist with this evaluation to help utilize the software to make the reporting more accurate.

*Management Response:*

The City is implementing the procedures recommended for reconciling investment activity, payroll liability, and cash accounts at this time. Management will ensure that these procedures continue.

City of Tracy, Minnesota  
Schedule Prior Year Findings (Continued)  
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
<b>2018-002</b>	<b>Financial Report Preparation</b>
<i>Condition:</i>	We were requested to assist in drafting the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.
<i>Updated Progress from Prior Year:</i>	
	No progress has been made in addressing this finding in the current year.

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City of Tracy, Minnesota  
Schedule Prior Year Findings (Continued)  
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
<b>2018-003</b>	<b>Material Audit Adjustments</b>
<i>Condition:</i>	During our audit, adjustments were needed for adjusting capital assets and accounts payable.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management Response:*

Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year to attempt to eliminate future material adjustments.

*Updated Progress from Prior Year:*

The staff will continue to receive training on areas that have material adjustments.