

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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CITY OF KENNEDY, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2015

Elected Officials:

Todd Truedson

Mayor

Cynthia Urbaniak

Councilperson

Justin Osowski

Councilperson

Kevin Hanson

Councilperson

Paul Larson

Councilperson

Appointed:

Mary Cooney

Clerk/Treasurer



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Kennedy
Kennedy, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

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

Summary of Opinions

<u>Opinion Units</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Fire Fund	Unmodified
1993 Refunding Bond Fund	Unmodified
1995 Refunding Bond Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified

Basis for Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the Kennedy Fire Relief Association. Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources, and deferred inflows of resources for defined benefit pension plans have an actuarial study to determine the effect on net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of Kennedy, Minnesota as of December 31, 2015, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the City of Kennedy, Minnesota, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Note 13 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 13 to the financial statements, the

City has restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, the Schedule of City's Contributions to PERA Retirement Funds and the Schedule of City's Proportionate Share of the Net Pension Liability as listed in the table of contents, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016 on our consideration of the City of Kennedy, Minnesota'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



**BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA**

June 29, 2016

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

As management of 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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$976,831 (*net position*). Of this amount, \$505,864 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$28,041. This increase resulted primarily from the governmental activities, which was the result of no large capital equipment purchases. The City has restricted net position attributed to revolving loan pool, debt service requirements and restricted purposes of \$126,219.
- As a result of implementing GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, the City's beginning net position balance was restated, decreasing by \$77,179.

Overview of the Financial Statements

This discussion and analysis are 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.

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 revenues (*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*).

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2015

The governmental activities of the City include general government, public safety, streets, parks, economic development, and culture and recreation. The business-type activities of the City include water and sewer.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also an Economic Development Authority for which the City is financially accountable. Financial information for this *component unit* is blended in the financial information presented for the primary government, as part of the general fund. The water and sewer utilities, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

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 government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 four individual governmental funds. 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, Fire fund, 1993 Refunding Bonds fund and 1995 Refunding Bonds fund, all of which have been presented as major funds of the City.

The City adopts an annual appropriated budget for its general fund and fire fund. A budgetary comparison statement has been provided for those funds to demonstrate compliance with the budget.

Proprietary fund. 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 water and sewer.

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2015

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, all of which are considered to be major funds of the City.

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 exceeded liabilities by \$976,831 at the close of the most recent fiscal year.

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.

Condensed Statements of Net Position

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

	2015			2014		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Assets						
Current	\$ 448,784	\$ 178,206	\$ 626,990	\$ 388,590	\$ 165,192	\$ 553,782
Capital	311,533	182,202	493,735	341,961	197,038	538,999
Other noncurrent	44,121	44,065	88,186	61,783	48,712	110,495
Total Assets	<u>804,438</u>	<u>404,473</u>	<u>1,208,911</u>	<u>792,334</u>	<u>410,942</u>	<u>1,203,276</u>
Deferred outflows of resources	<u>6,901</u>	<u>2,363</u>	<u>9,264</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities						
Current	7,216	279	7,495	8,138	11,497	19,635
Noncurrent	125,177	91,183	216,360	86,152	82,791	168,943
Total Liabilities	<u>132,393</u>	<u>91,462</u>	<u>223,855</u>	<u>94,290</u>	<u>94,288</u>	<u>188,578</u>
Deferred inflows of resources	<u>13,028</u>	<u>4,461</u>	<u>17,489</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:						
Net investment in capital assets	236,546	108,202	344,748	255,809	197,038	452,847
Restricted	381,642	-	381,642	257,428	-	257,428
Unrestricted	47,730	202,711	250,441	184,807	119,616	304,423
Total Net Position	<u>\$ 665,918</u>	<u>\$ 310,913</u>	<u>\$ 976,831</u>	<u>\$ 698,044</u>	<u>\$ 316,654</u>	<u>\$ 1,014,698</u>

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2015

Governmental activities. Governmental activities increased the City's net position by \$25,370. Key elements of this increase are as follows:

Condensed Statements of Activities

	2015			2014		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Revenues						
Program:						
Fees, fines and charges						
for services	\$ 46,274	\$ 83,964	\$ 130,238	\$ 47,871	\$ 79,880	\$ 127,751
Operating grants/contributions	32,177	-	32,177	36,170	103,164	139,334
Capital grants/contributions	13,085	-	13,085	2,120	-	2,120
General:						
Property taxes	92,660	-	92,660	91,360	-	91,360
Special assessments	-	2,852	2,852	-	7,304	7,304
Licenses and permits	1,881	-	1,881	2,059	-	2,059
Intergovernmental	66,071	-	66,071	67,457	-	67,457
Interest earnings	1,616	-	1,616	3,045	-	3,045
Other	8,062	-	8,062	3,060	-	3,060
Loss from sale of asset	3,649	-	3,649	(256,778)	-	(256,778)
Total Revenues	<u>265,475</u>	<u>86,816</u>	<u>352,291</u>	<u>(3,636)</u>	<u>190,348</u>	<u>186,712</u>
Expenses						
Governmental:						
General government	54,445	-	54,445	56,795	-	56,795
Public safety	66,491	-	66,491	68,662	-	68,662
Streets and highways	64,736	-	64,736	103,978	-	103,978
Sanitation and public health	3,964	-	3,964	2,500	-	2,500
Parks and recreation	18,673	-	18,673	22,471	-	22,471
School building	11,747	-	11,747	11,435	-	11,435
Econ & community devel	-	-	-	12	-	12
Other	14,431	-	14,431	23,816	-	23,816
Interest on long-term debt	5,618	-	5,618	3,528	-	3,528
Business-Type:						
Water	-	61,744	61,744	-	62,980	62,980
Sewer	-	22,401	22,401	-	25,125	25,125
Total Expenses	<u>240,105</u>	<u>84,145</u>	<u>324,250</u>	<u>293,197</u>	<u>88,105</u>	<u>381,302</u>
Change in Net Position	\$ 25,370	\$ 2,671	\$ 28,041	\$ (296,833)	\$ 102,243	\$ (194,590)

Financial Analysis of the Government'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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2015

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$479,323 in which 7.5 percent of this total amount, \$36,054 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *nonspendable* because assets are not in spendable form; *restricted* by external grantors, laws or regulations of other governments; *committed or assigned* which indicates amounts set aside for a specific purpose by the governing board.

Proprietary fund. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

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, 2015, amounts to \$493,735 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment and park facilities.

	Beginning of Year	Additions	Deletions	End of Year
Governmental				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building & improvements	178,435	-	-	178,435
Equipment and furnishings	470,004	10,284	-	480,288
Infrastructures	117,087	-	-	117,087
	772,562	10,284	-	782,846
Less accumulated depreciation	430,601	40,712	-	471,313
Net	341,961	(30,428)	-	311,533
Business-Type				
Water				
Distribution system	344,313	-	-	344,313
Equipment	32,531	-	-	32,531
	376,844	-	-	376,844
Less accumulated deprec	185,653	14,667	-	200,320
Net Water	191,191	(14,667)	-	176,524
Sewer				
Treatment facility	46,767	-	-	46,767
Equipment	5,273	-	-	5,273
	52,040	-	-	52,040
Less accumulated deprec	46,193	169	-	46,362
Net Sewer	5,847	(169)	-	5,678
Net	197,038	(14,836)	-	182,202
Total	<u>\$ 538,999</u>	<u>\$ (45,264)</u>	<u>\$ -</u>	<u>\$ 493,735</u>

CITY OF KENNEDY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2015

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$216,360. Of this amount, \$74,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment, \$49,407 due to USDA, \$25,580 due to John Deere Credit, and \$67,373 for net pension liability.

	Beginning of Year	New Issues	Debt Retired	End of Year
Governmental				
Notes and loans payable	\$ 86,152	\$ -	\$ 11,165	\$ 74,987
Net pension liability	59,494	-	9,304	50,190
Total	<u>145,646</u>	<u>-</u>	<u>20,469</u>	<u>125,177</u>
Business-Type				
Bonds payable	82,791	-	8,791	74,000
Net pension liability	20,363	-	3,180	17,183
Total	<u>103,154</u>	<u>-</u>	<u>11,971</u>	<u>91,183</u>
Total	<u>\$ 248,800</u>	<u>\$ -</u>	<u>\$ 32,440</u>	<u>\$ 216,360</u>

General Fund Budgetary Highlights

The City's 2015 budget for the general fund is summarized below:

	Final Budget	Actual	Variance
Revenues	\$ 209,805	\$ 211,926	\$ (2,121)
Expenditures	192,772	177,322	15,450
Transfers to other funds	6,650	6,500	150

Economic Factors and Next Year's Budgets and Rates

- Continued State budget deficits and legislative inactivity could further threaten city LGA payments in the coming years. Further reductions in LGA will result in either reduced services or higher taxes.
- \$10,000 of proceeds received from disposal of the geothermal system install at the school building is required to be returned to the federal funding agency.

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 Clerk/Treasurer, City of Kennedy, P.O. Box 7, Kennedy, Minnesota 56733.

CITY OF KENNEDY, MINNESOTA
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 437,603	\$ 156,608	\$ 594,211
Accounts receivable	-	8,347	8,347
Taxes receivable	10,141	-	10,141
Special assessments receivable	340	6,950	7,290
Due from other governments	700	-	700
Inventory	-	6,301	6,301
Total Current Assets	448,784	178,206	626,990
Capital Assets	782,846	428,884	1,211,730
Accumulated depreciation	(471,313)	(246,682)	(717,995)
Net Capital Assets	311,533	182,202	493,735
Other Noncurrent Assets			
Revolving loans receivable	44,121	-	44,121
Deferred special assessments receivable	-	44,065	44,065
Total Other Noncurrent Assets	44,121	44,065	88,186
Total Assets	804,438	404,473	1,208,911
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - PERA	6,901	2,363	9,264
LIABILITIES			
Current Liabilities			
Accounts payable	6,488	279	6,767
Due to other governments	728	-	728
Total Current Liabilities	7,216	279	7,495
Long-term Liabilities			
Due within one year	11,785	9,000	20,785
Due within more than one year	113,392	82,183	195,575
Total Long-term Liabilities	125,177	91,183	216,360
Total Liabilities	132,393	91,462	223,855
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - PERA	13,028	4,461	17,489
NET POSITION			
Net investment in capital assets	236,546	108,202	344,748
Restricted			
Economic development	112,198	-	112,198
Specific city programs	11,071	-	11,071
Debt service	2,950	-	2,950
Fire funds	106,019	-	106,019
Refunding bonds	149,404	-	149,404
Unrestricted	47,730	202,711	250,441
Total Net Position	\$ 665,918	\$ 310,913	\$ 976,831

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

FUNCTION	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 54,445	\$ 645	\$ -	\$ -	\$ (53,800)		\$ (53,800)
Public safety	66,491	18,227	27,677	2,500	(18,087)		(18,087)
Streets and highways	64,736	-	-	-	(64,736)		(64,736)
Sanitation and public health	3,964	5,065	-	-	1,101		1,101
Parks and recreation	18,673	10,000	4,500	-	(4,173)		(4,173)
School building	11,747	11,653	-	10,585	10,491		10,491
Economic and community development	-	684	-	-	684		684
Other	14,431	-	-	-	(14,431)		(14,431)
Interest on long-term debt	5,618	-	-	-	(5,618)		(5,618)
Total Governmental Activities	<u>240,105</u>	<u>46,274</u>	<u>32,177</u>	<u>13,085</u>	<u>(148,569)</u>		<u>(148,569)</u>
Business-Type Activities:							
Water	61,744	52,485	-	-		\$ (9,259)	(9,259)
Sewer	22,401	31,479	-	-		9,078	9,078
Total Business-Type Activities	<u>\$ 84,145</u>	<u>\$ 83,964</u>	<u>\$ -</u>	<u>\$ -</u>		<u>(181)</u>	<u>(181)</u>
Total Government-Wide					<u>(148,569)</u>	<u>(181)</u>	<u>(148,750)</u>
General Revenues:							
					92,660	-	92,660
					-	2,852	2,852
					1,881	-	1,881
					66,071	-	66,071
					1,616	-	1,616
					8,062	-	8,062
					3,649	-	3,649
					<u>173,939</u>	<u>2,852</u>	<u>176,791</u>
Changes in Net Position					25,370	2,671	28,041
Net Position, as Originally Stated					698,044	316,654	1,014,698
Prior Period Adjustment - See Note 13					<u>(57,496)</u>	<u>(8,412)</u>	<u>(65,908)</u>
Net Position - January 1, as Restated					<u>640,548</u>	<u>308,242</u>	<u>948,790</u>
Net Position, December 31					<u>\$ 665,918</u>	<u>\$ 310,913</u>	<u>\$ 976,831</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	General	Fire	1993 Refunding Bonds	1995 Refunding Bonds	Total
ASSETS					
Cash and investments	\$ 182,180	\$ 106,019	\$ 124,705	\$ 24,699	\$ 437,603
Accounts receivable	-	-	-	-	-
Taxes receivable, delinquent	10,141	-	-	-	10,141
Special assessment receivable	-	-	340	-	340
Revolving loans receivable	44,122	-	-	-	44,122
Due from other governments	700	-	-	-	700
TOTAL ASSETS	<u>\$ 237,143</u>	<u>\$ 106,019</u>	<u>\$ 125,045</u>	<u>\$ 24,699</u>	<u>\$ 492,906</u>
LIABILITIES					
Accounts payable	\$ 6,489	\$ -	\$ -	\$ -	\$ 6,489
Due to other governments	728	-	-	-	728
Total Liabilities	<u>7,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,217</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable delinquent taxes	6,026	-	-	-	6,026
Unavailable delinquent specials	-	-	340	-	340
Total Deferred Inflows of Resources	<u>6,026</u>	<u>-</u>	<u>340</u>	<u>-</u>	<u>6,366</u>
FUND BALANCE					
Nonspendable					
EDA loans	44,122	-	-	-	44,122
Restricted					
Economic development	112,198	-	-	-	112,198
Baseball field	550	-	-	-	550
Pioneer memorial	521	-	-	-	521
Debt service	2,950	-	-	-	2,950
Geothermal grant repay	10,000	-	-	-	10,000
Fire funds	-	106,019	-	-	106,019
1993 Refunding Bonds	-	-	124,705	-	124,705
1995 Refunding Bonds	-	-	-	24,699	24,699
Committed					
Improvements and capital outlay	4,505	-	-	-	4,505
Park board	3,000	-	-	-	3,000
Geothermal funds	10,000	-	-	-	10,000
Unassigned	36,054	-	-	-	36,054
Total Fund Balance	<u>223,900</u>	<u>106,019</u>	<u>124,705</u>	<u>24,699</u>	<u>479,323</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 237,143</u>	<u>\$ 106,019</u>	<u>\$ 125,045</u>	<u>\$ 24,699</u>	<u>\$ 492,906</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL
AS OF DECEMBER 31, 2015

Total Fund Balance	\$ 479,323
Property taxes and special assessments receivable that will not be collected soon enough to pay current period's expenditures and therefore deferred in the funds.	6,366
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	
Capital Assets	782,846
Accumulated Depreciation	(471,313)
Net deferred outflows/inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.	
Deferred Outflows of Resources	6,901
Deferred Inflows of Resources	(13,028)
Long-term liabilities are not due and payable in the current period and therefore are not included in the governmental fund.	
Net Pension Liability	(50,190)
Long-term Debt	(74,987)
Net Position of Governmental Activities	<u>\$ 665,918</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General</u>	<u>Fire</u>	<u>1993 Refunding Bonds</u>	<u>1995 Refunding Bonds</u>	<u>Total</u>
REVENUES					
Taxes	\$ 91,310	\$ -	\$ -	\$ -	\$ 91,310
Intergovernmental:					
State	81,054	16,618	-	-	97,672
Federal	102	-	-	-	102
Licenses and permits	1,881	-	-	-	1,881
Charges for services	27,363	18,227	-	-	45,590
Interest	1,474	142	-	-	1,616
Donations	-	13,559	-	-	13,559
Other	8,742	-	-	-	8,742
Total Revenues	<u>211,926</u>	<u>48,546</u>	<u>-</u>	<u>-</u>	<u>260,472</u>
EXPENDITURES					
General government	65,394	-	-	-	65,394
Public safety	-	39,620	-	-	39,620
Sanitation and public health	3,964	-	-	-	3,964
Streets and highways	56,879	-	-	-	56,879
Parks and recreation	14,702	-	-	-	14,702
School building	10,247	-	-	-	10,247
Other	14,431	-	-	-	14,431
Debt Service:					
Principal	7,866	3,299	-	-	11,165
Interest and fees	3,839	1,779	-	-	5,618
Total Expenditures	<u>177,322</u>	<u>44,698</u>	<u>-</u>	<u>-</u>	<u>222,020</u>
Revenues Over (Under) Expenditures	34,604	3,848	-	-	38,452
OTHER FINANCING SOURCES (USES)					
Proceeds from disposal of assets	3,649	-	-	-	3,649
Transfer from (to) other fund	(6,500)	6,500	-	-	-
Net Other Sources (Uses)	<u>(2,851)</u>	<u>6,500</u>	<u>-</u>	<u>-</u>	<u>3,649</u>
Net Change in Fund Balance	31,753	10,348	-	-	42,101
Fund Balance - January 1	<u>192,147</u>	<u>95,671</u>	<u>124,705</u>	<u>24,699</u>	<u>437,222</u>
Fund Balance - December 31	<u>\$ 223,900</u>	<u>\$ 106,019</u>	<u>\$ 124,705</u>	<u>\$ 24,699</u>	<u>\$ 479,323</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances - Governmental Funds	\$ 42,101
Governmental funds do not recognize taxes receivable that are not collected within 60 days from year end, which, for governmental activities, receivables are not recognized when levied.	1,350
Governmental funds report capital outlay as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capitalized assets purchases capitalized	10,284
Depreciation expense	(40,712)
Change in net pension liability	9,304
Change in deferred outflows and inflows of resources related to the net pension liability	(8,122)
The (increase) decrease in long-term debt does not require the use of or provide current financial resources but is recorded as an adjustment to expense in the statement of activities.	
Principal payments	11,165
Change in Net Position - Governmental Activities	\$ 25,370

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and investments	\$ 156,608	\$ -	\$ 156,608
Accounts receivable	5,344	3,003	8,347
Due from other funds	28,847	-	28,847
Inventory	3,788	2,513	6,301
Special assessments receivable:			
Delinquent	6,950	-	6,950
Deferred	44,065	-	44,065
Total Current Assets	<u>245,602</u>	<u>5,516</u>	<u>251,118</u>
Capital Assets			
Accumulated depreciation	376,844	52,040	428,884
Net Capital Assets	<u>(200,320)</u>	<u>(46,362)</u>	<u>(246,682)</u>
Total Assets	<u>422,126</u>	<u>11,194</u>	<u>433,320</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - PERA	<u>1,633</u>	<u>730</u>	<u>2,363</u>
LIABILITIES			
Current Liabilities			
Other payables	279	-	279
Bonds payable within one year	9,000	-	9,000
Due to other funds	-	28,847	28,847
Total Current Liabilities	<u>9,279</u>	<u>28,847</u>	<u>38,126</u>
Long-term Liabilities			
Bonds payable, net of current	65,000	-	65,000
Net pension liability	11,875	5,308	17,183
Total Long-term Liabilities	<u>76,875</u>	<u>5,308</u>	<u>82,183</u>
Total Liabilities	<u>86,154</u>	<u>34,155</u>	<u>120,309</u>
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan - PERA	<u>3,083</u>	<u>1,378</u>	<u>4,461</u>
FUND NET POSITION			
Net investment in capital assets	111,524	5,678	117,202
Unrestricted (Deficit)	<u>222,998</u>	<u>(29,287)</u>	<u>193,711</u>
Total Fund Net Position	<u>\$ 334,522</u>	<u>\$ (23,609)</u>	<u>\$ 310,913</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 52,485	\$ 31,479	\$ 83,964
OPERATING EXPENSES			
Salaries and benefits	15,465	6,914	22,379
Utilities	3,185	749	3,934
Repairs and maintenance	5,974	12,108	18,082
Purchased water	15,863	-	15,863
Other	5,637	2,461	8,098
Depreciation	14,667	169	14,836
Total Operating Expenses	<u>60,791</u>	<u>22,401</u>	<u>83,192</u>
Operating Income (Loss)	(8,306)	9,078	772
NONOPERATING REVENUES (EXPENSES)			
Interest on special assessments	2,852	-	2,852
Interest and bond fees	(953)	-	(953)
Net Nonoperating Revenues (Expenses)	<u>1,899</u>	<u>-</u>	<u>1,899</u>
Change in Net Position	(6,407)	9,078	2,671
Fund Net Position (Deficit), as Originally Stated	343,262	(26,608)	316,654
Prior Period Adjustment - See Note 13	<u>(2,333)</u>	<u>(6,079)</u>	<u>(8,412)</u>
Net Position, January 1, as Restated	<u>340,929</u>	<u>(32,687)</u>	<u>308,242</u>
Fund Net Position (Deficit), December 31	<u>\$ 334,522</u>	<u>\$ (23,609)</u>	<u>\$ 310,913</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 52,001	\$ 31,473	\$ 83,474
Payments to suppliers	(42,156)	(15,441)	(57,597)
Payments to employees	<u>(15,465)</u>	<u>(6,914)</u>	<u>(22,379)</u>
Net Cash Provided (Used) by Operating Activities	<u>(5,620)</u>	<u>9,118</u>	<u>3,498</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipt or repayment from other fund	<u>9,118</u>	<u>(9,118)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessments collected	7,137	-	7,137
Interest and fees paid on bonds	(953)	-	(953)
Principal payments made on bonds	<u>(8,791)</u>	<u>-</u>	<u>(8,791)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,607)</u>	<u>-</u>	<u>(2,607)</u>
Net Increase (Decrease) in Cash	891	-	891
Cash Balance, January 1,	<u>155,717</u>	<u>-</u>	<u>155,717</u>
Cash Balance, December 31	<u>\$ 156,608</u>	<u>\$ -</u>	<u>\$ 156,608</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (8,306)	\$ 9,078	\$ 772
Depreciation	14,667	169	14,836
Change in:			
Accounts receivable	(484)	(6)	(490)
Deferred pension outflows	(1,161)	(519)	(1,680)
Sales tax payable	53	-	53
Accounts payable	(11,271)	-	(11,271)
Net pension liability	(2,201)	(982)	(3,183)
Deferred pension inflows	<u>3,083</u>	<u>1,378</u>	<u>4,461</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,620)</u>	<u>\$ 9,118</u>	<u>\$ 3,498</u>

See Notes to the Basic Financial Statements

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

The City of Kennedy, Minnesota, (the "City") was incorporated as a statutory city, under the provision of the State of Minnesota. The City operates under a mayor and four member council. It provides the following services: public safety, streets, public improvements, planning and zoning, water, sewer and general administrative services.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The financial statements of the City include all organizations, funds and account groups over which the City's Board exercises significant influence or financial accountability. The City uses criteria established by GASB in determining financial accountability, which includes: the City's appointment of an entity's governing board; ability of the City to impose its will on that entity; or the potential for the entity to provide specific financial benefits or financial burdens on the City.

Based on the foregoing criteria, the Kennedy Volunteer Fire Department and Kennedy Economic Development Authority are included in the City's reporting entity. The financial activity of these component units have been blended into the governmental activities of the City of Kennedy, Minnesota. These component units did not issue separate audited financial statements.

Basis of Presentation

Government-Wide Financial Statement

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

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary and fiduciary. The City currently has no fiduciary funds.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

2. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined.

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than capital projects) where the expenditures are designated to finance a particular function or activity of the City. The City includes the following special revenue fund as major:

Fire Fund – is used to account for the revenue and expenditures relating to firefighting activity passing through the City's Volunteer Fire Department.

Debt Service Funds

Debt service funds are used to account for resources accumulated and payments made for principal and interest on long-term debt obligations of governmental funds. The City debt service funds have retired related debt but continue to collect residual tax levies made. The City has two debt service funds; 1993 Refunding Bonds and 1995 Refunding Bonds.

Proprietary Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector. The City includes the following enterprise funds as major:

Water Fund – account for the activities in providing water services to the public users.

Sewer Fund – account for the activities in providing sewer services to the public users.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide 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 the related cash flows. Property taxes are recognized as revenues in the year for

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

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 revenue to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and claims and judgments (if any), are recorded only when payment is due.

If both restricted and unrestricted resources are available to use for the same purpose, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets

The annual budget was adopted this year through the passage of an annual budget resolution and amended as required for the general fund. The budget is prepared using the modified accrual basis of accounting. Any budget changes are approved by the Council. All unencumbered appropriations lapse at year-end.

Revenues

The City has the following program revenues; charges for services, licenses, permit and fees, rental income and operating and capital grants or contributions that are specific to a program. All other governmental revenues and general tax levies are classified as general revenue.

Property Taxes

Property taxes are set by the City Council in October of each year, and are certified to the County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Such taxes become an enforceable lien on January 1. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. The County provides tax settlements to the City throughout the year. Property taxes are all considered susceptible to accrual and so have been recognized as revenues in the current fiscal period. However, delinquent taxes may not be collected soon enough in the following year to be available for current expenditures, therefore offset by deferred revenue.

Cities with populations below 2,500, as is the City of Kennedy, Minnesota, are exempt from the State’s levy limitation law.

Cash and Investments

For the purpose of the statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Currently, the City has no cash equivalents.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation. Estimated historical cost has been used to value primarily all capital assets for governmental activities acquired prior to January 1, 1980. The City has no formal capitalization policy.

Depreciation on exhaustible capital assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by type of asset is as follows:

Building and improvements	30 – 50 years
Furniture and equipment	5 – 15 years
Utility facilities and distribution systems	10 – 50 years
Infrastructure	25 – 50 years

Deferred Outflows/Inflows 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 resource (expense/expenditure) until then. The City has one item reported on the statement of net position as cost sharing defined benefit pension plan, which represents actuarial differences within the PERA pension plan as well as amounts paid to the plan after the measurement date.

In addition to liabilities, the statement of net position 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 City has deferred inflows from tax and special assessment receivables of which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as cost sharing defined benefit pension plan, which represents actuarial differences within the PERA pension plan.

Long-Term Debt

In the government-wide 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 or business-type activities and proprietary fund financial statements.

In the governmental fund financial statements long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Uses" and "Expenditures", respectively, in the fund financial statements.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Compensated Absences

Annual vacation and sick leave earned by employees does not vest upon termination.

Pension

For purposes of measuring the net pension liability and asset, 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's except that PERA's fiscal year 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.

Interfund Balances

In the process of aggregating the fund information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Net Position

Net Position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of Net Position.

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority which is the City Council through an ordinance or resolution.

Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH

Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC (140% if collateralized with notes secured by first mortgages).

At December 31, 2015, the City's carrying amount of deposits was \$594,211 and the bank balance was \$605,714. All of the deposits were covered by Federal Depository Insurance or with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Credit Risk

The City is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better, general obligations of Minnesota Housing Finance Agency rated “A” or better; commercial paper issued by United States’ guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; 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. The City has no investment policy that would further limit its investment choices.

Custodial Risk

The City does not have a formal policy that would limit the amount invested in any single financial institution.

NOTE 3 CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2015, are as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
<i>Governmental Activities</i>				
Capital Assets:				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building and improvements	178,435	-	-	178,435
Equipment and furnishing	470,004	10,284	-	480,288
Infrastructure	117,087	-	-	117,087
	<u>772,562</u>	<u>10,284</u>	<u>-</u>	<u>782,846</u>
Accumulated Depreciation:				
Building and improvements	101,641	2,813	-	104,454
Equipment and furnishing	303,609	34,430	-	338,039
Infrastructure	25,351	3,469	-	28,820
	<u>430,601</u>	<u>40,712</u>	<u>-</u>	<u>471,313</u>
Net Capital Assets - Governmental Activities	<u>\$ 341,961</u>	<u>\$ (30,428)</u>	<u>\$ -</u>	<u>\$ 311,533</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Changes in capital assets for business-type activities for the year ended December 31, 2015, are as follows:

	Balance at Beginning <u>of Year</u>	<u>Additions</u>	<u>Deletions</u>	Balance at End <u>of Year</u>
<i>Business-Type Activities</i>				
Capital Assets:				
Water -				
Distribution system	\$ 344,313	\$ -	\$ -	\$ 344,313
Equipment	<u>32,531</u>	<u>-</u>	<u>-</u>	<u>32,531</u>
Subtotal	<u>376,844</u>	<u>-</u>	<u>-</u>	<u>376,844</u>
Sewer -				
Treatment facility	46,767	-	-	46,767
Equipment	<u>5,273</u>	<u>-</u>	<u>-</u>	<u>5,273</u>
Subtotal	<u>52,040</u>	<u>-</u>	<u>-</u>	<u>52,040</u>
Total	<u>428,884</u>	<u>-</u>	<u>-</u>	<u>428,884</u>
Accumulated Depreciation:				
Water -				
Distribution system	160,894	14,667	-	175,561
Equipment	<u>24,759</u>	<u>-</u>	<u>-</u>	<u>24,759</u>
Subtotal	<u>185,653</u>	<u>14,667</u>	<u>-</u>	<u>200,320</u>
Sewer -				
Treatment facility	40,829	169	-	40,998
Equipment	<u>5,364</u>	<u>-</u>	<u>-</u>	<u>5,364</u>
Subtotal	<u>46,193</u>	<u>169</u>	<u>-</u>	<u>46,362</u>
Total	<u>231,846</u>	<u>14,836</u>	<u>-</u>	<u>246,682</u>
Net Capital Assets - Business-Type Activities	<u>\$ 197,038</u>	<u>\$ (14,836)</u>	<u>\$ -</u>	<u>\$ 182,202</u>

Depreciation expense charged to functions as follows in the Statement of Activities:

Governmental Activities:	
General government	\$ 513
School building	1,500
Streets and highways	7,857
Public safety	26,871
Park and recreation	<u>3,971</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 40,712</u>
Business-Type Activities:	
Water	\$ 14,667
Sewer	<u>169</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 14,836</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 4 REVOLVING LOANS RECEIVABLE

The City of Kennedy administers a revolving loan pool. Loans have been made to qualifying businesses, based on a standard application process. Currently all loans have been issued to Todd Truedson. Terms on these notes are negotiated based on the financial circumstances of each business. Currently, all loans carry an annual interest rate of 1% and are payable over 10 years. The total remaining balance on these loans at December 31, 2015 was \$44,120.

NOTE 5 LONG-TERM DEBT

The following is a summary of the long-term debt transactions for the year:

	Balance at Beginning of Year	New Issues	Debt Retired	Balance at End of Year	Due Within a Year
<i>Governmental Activities</i>					
Capital Debt Obligations:					
John Deere Credit - Tractor 7800	\$ 33,446	\$ -	\$ 7,866	\$ 25,580	\$ 8,374
USDA Rescue Van Loan	52,706	-	3,299	49,407	3,411
Net Pension Liability	59,494	-	9,304	50,190	-
Total Governmental Activities	<u>\$ 145,646</u>	<u>\$ -</u>	<u>\$ 20,469</u>	<u>\$ 125,177</u>	<u>\$ 11,785</u>
<i>Business-Type Activities</i>					
GO Rural Water Revenue Crossover Refunding Bonds of 2011A	\$ 57,000	\$ -	\$ 7,000	\$ 50,000	\$ 7,000
GO Rural Water Revenue Note Series 2014	25,791	-	1,791	24,000	2,000
Net Pension Liability	20,363	-	3,180	17,183	-
Total Business-Type Activities	<u>\$ 103,154</u>	<u>\$ -</u>	<u>\$ 11,971</u>	<u>\$ 91,183</u>	<u>\$ 9,000</u>

Long-term indebtedness is made up of the following issues as of December 31, 2015:

	Original Issue	Secured Interest	Retirement made from Fund	Interest Rate	Maturity	Balance
<i>Governmental Activities</i>						
John Deere Credit - Tractor 7800	\$ 41,020	tractor	General	4.00%	8/8/2018	\$ 25,580
USDA Rescue Van Loan	\$ 59,000	van	General	3.375%	5/28/2027	49,407
						<u>\$ 74,987</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Issue	Secured Interest	Retirement made from Fund	Interest Rate	Maturity	Balance
<i>Business-Type Activities</i>						
GO Rural Water Revenue Crossover Refunding Bonds of 2011A	\$ 70,000	n/a	Water	1.75 - 5.0%	1/1/2023	\$ 50,000
GO Rural Water Revenue Note Series 2014	\$ 25,791	n/a	Water	1.00%	8/20/2024	<u>24,000</u>
						<u>74,000</u>
						<u>\$ 148,987</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except compensated absences, as of December 31, 2015 are as follows:

Year Ending	Governmental Activities					
	JD Tractor 7800		USDA Rescue Van		Total Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31,						
2016	\$ 8,192	\$ 1,023	\$ 3,411	\$ 1,667	\$ 11,603	\$ 2,690
2017	8,520	695	3,526	1,552	12,046	2,247
2018	8,868	354	3,645	1,433	12,513	1,787
2019	-	-	3,768	1,310	3,768	1,310
2020	-	-	3,895	1,183	3,895	1,183
2021-2025	-	-	21,537	3,853	21,537	3,853
2026-2028	-	-	9,625	489	9,625	489
Total	<u>\$ 25,580</u>	<u>\$ 2,072</u>	<u>\$ 49,407</u>	<u>\$ 11,487</u>	<u>\$ 74,987</u>	<u>\$ 13,559</u>

Year Ending	Business-Type Activities					
	Note Series 2014		Crossover Refunding		Total Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31,						
2016	\$ 2,000	\$ 240	\$ 7,000	\$ 1,272	\$ 9,000	\$ 1,512
2017	2,000	220	7,000	1,106	9,000	1,326
2018	2,000	200	7,000	931	9,000	1,131
2019	3,000	180	7,000	751	10,000	931
2020	3,000	150	7,000	860	10,000	1,010
2021-2025	12,000	300	15,000	483	27,000	783
2026-2028	-	-	-	-	-	-
Total	<u>\$ 24,000</u>	<u>\$ 1,290</u>	<u>\$ 50,000</u>	<u>\$ 5,403</u>	<u>\$ 74,000</u>	<u>\$ 6,693</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS

Public Employees Retirement Association

A. Plan Description

The City participates in the following cost-sharing multi-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes,

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

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 Fund (GERF)

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

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF Benefits

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

C. Contributions

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

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

GERF Contributions

Basic plan members and Coordinated plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. In 2015, the City's contributions to the GERF for the year ended December 31, 2015, were \$5,763. The City's contributions were equal to the required contributions for each year as set by state statute.

D. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$67,373 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0013%.

For the year ended December 31, 2015, the City recognized pension expense of \$4,283 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 3,397
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	6,378	-
Changes in proportion	-	14,092
Contributions paid to PERA subsequent to the measurement date	2,885	-
Total	\$ 9,263	\$ 17,489

\$2,885, reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2016	\$ (4,235)
2017	(4,235)
2018	(4,235)
2019	1,594

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1 through 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45.00%	5.50%
International Stocks	15.00%	6.00%
Bonds	18.00%	1.45%
Alternative Assets	20.00%	6.40%
Cash	2.00%	0.50%

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERF net pension liability:	\$ 105,934	\$ 67,373	\$ 35,527

H. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit 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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 7 VOLUNTEER FIRE RELIEF ASSOCIATION

Plan Description

The City remits a state aid payment to the Kennedy Fire Relief Association (Association), a single-employer public retirement system that acts as an administrator for volunteer firefighters. All volunteer firefighters of the City are members of the Kennedy Fire Department Relief Association. Retiring individuals receive a lump sum distribution in an amount equal to \$350 per year of service. The members are 60% vested after 10 years and vest another 4% each year for 10 years to be 100% vested. If a member is not age 50 when retiring, their benefit is deferred until age 50. These benefit provisions and all other requirements are consistent with enabling state statutes.

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$8,636 and supplemental fire state aid was \$2,113 for 2015.

Ten-Year Historical Trend Information

Ten-year historical trend information is available in the association's financial reports.

Related Party Investments

As of December 31, 2015, and for the fiscal year then ended, the association held no securities issued by the City or other related parties.

The City has elected not to implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to the Kennedy Fire Relief Association.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 8 INTERFUND BALANCES AND TRANSFERS

The following comprises the interfund balances and transfers as of and for the year ended December 31, 2015:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>	<u>Amount</u>	<u>Purpose</u>
Sewer Fund	Water Fund	<u>\$ 28,847</u>	Cover fund expenditures
<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	
Fire Department Fund	General Fund	<u>\$ 6,500</u>	Fire protection contract

NOTE 9 FUND DEFICIENCIES / DEFICITS

The City's sewer fund had a deficit net position of \$23,609 at December 31, 2015. The deficit is expected to be recovered by future revenues, or if necessary, by transfers from other funds.

NOTE 10 WATER AGREEMENT

The City has entered into agreement with North Kittson Rural Water for the delivery of water. The purchase rate agreed to by both parties for the year ended December 31, 2015 required the City to pay \$2.20 per thousand gallons. Also, the City has agreed to pay a monthly bond fee of \$312.50. These rates are reviewed annually and subject to increases based on the operating needs of North Kittson Rural Water.

NOTE 11 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.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law, for workers compensation. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experienced is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT which reinsures through commercial companies for claims in excess of various amounts. The City retains risk from the deductible portions.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

CITY OF KENNEDY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 12 CONTINGENCIES

The City participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2015, may be impaired.

During 2014, the City disposed of geothermal equipment acquired with federal grant funds, in which proceeds from the sale have restrictions imposed on by the federal Economic Development Administration (EDA). The City has been presented with two options by EDA regarding the recaptured funds and approved to return the federal share of \$10,000 to the EDA. As of the date of this report, the funds have not been remitted to EDA.

NOTE 13 PRIOR PERIOD ADJUSTMENT

Adoption of New Accounting Pronouncements

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of January 1, 2015.

Other Adjustment

The prior year overstated engineering expense on a construction project by \$11,271, which resulted in beginning retained earnings in the water fund to be understated by the related amount.

The effects of the above adjustments are summarized below:

	Government Activities	Water	Sewer
Net position January 1, 2015, as previously reported	\$ 698,044	\$ 343,262	\$ (26,608)
Prior period adjustment:			
Net pension liability	(59,491)	(14,076)	(6,290)
Pension related deferred outflows of resources	1,995	472	211
Net GASB 68/71 adjustment	(57,496)	(13,604)	(6,079)
Other adjustment	-	11,271	-
Net position January 1, 2015, as restated	<u>\$ 583,052</u>	<u>\$ 327,325</u>	<u>\$ (38,766)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENNEDY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Property taxes	\$ 92,272	\$ 92,272	\$ 91,310	\$ (962)
Intergovernmental:				
Federal	-	-	102	102
State:				
Local governmental aid	66,220	66,220	65,203	(1,017)
MV and MV Ag credits	544	544	544	-
Other state aid	18,669	18,669	10,807	(7,862)
Other local governments	-	-	4,500	4,500
Total Intergovernmental	<u>85,433</u>	<u>85,433</u>	<u>81,156</u>	<u>(4,277)</u>
Other:				
Licenses and permits	2,050	2,050	1,881	(169)
Charges for services	24,300	24,300	27,363	3,063
EDA loan interest	-	-	5,152	5,152
Interest	2,700	2,700	1,474	(1,226)
Other	3,050	3,050	3,590	540
Total Other	<u>32,100</u>	<u>32,100</u>	<u>39,460</u>	<u>7,360</u>
TOTAL REVENUE	<u>209,805</u>	<u>209,805</u>	<u>211,926</u>	<u>2,121</u>
EXPENDITURES				
General government:				
Mayor and council	2,470	2,470	2,000	470
Clerk	28,726	28,726	31,058	(2,332)
Professional fees	6,555	6,555	6,822	(267)
Election	-	-	1,262	(1,262)
City hall	13,550	13,550	10,317	3,233
Unallocated insurance	9,540	9,540	9,463	77
Other	4,263	4,263	4,472	(209)
Total General Government	<u>65,104</u>	<u>65,104</u>	<u>65,394</u>	<u>(290)</u>
Sanitation and Public Health:				
Garbage	1,800	1,800	2,062	(262)
Pest Control	2,500	2,500	1,902	598
Total Sanitation and Public Health	<u>4,300</u>	<u>4,300</u>	<u>3,964</u>	<u>336</u>
Streets and Highways:				
Street lighting and signs	9,750	9,750	10,014	(264)
Wages and benefits	27,484	27,484	28,527	(1,043)
Street maintenance	34,577	34,577	15,598	18,979
Snow removal and ditching	4,500	4,500	2,740	1,760
Capital outlay	9,700	9,700	-	9,700
Total Streets and Highways	<u>86,011</u>	<u>86,011</u>	<u>56,879</u>	<u>29,132</u>

See Note to the Required Supplementary Information

CITY OF KENNEDY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Culture and Recreation:				
Rinks and ice rental	\$ 5,500	\$ 5,500	\$ 5,623	\$ (123)
Parks	<u>7,315</u>	<u>7,315</u>	<u>9,079</u>	<u>(1,764)</u>
Total Culture and Recreation	<u>12,815</u>	<u>12,815</u>	<u>14,702</u>	<u>(1,887)</u>
School Facility	<u>2,500</u>	<u>2,500</u>	<u>10,247</u>	<u>(7,747)</u>
Community & Economic Development	<u>300</u>	<u>300</u>	<u>-</u>	<u>300</u>
Other:				
Real estate taxes	5,147	5,147	5,147	-
Unallocated payroll benefits	16,095	16,095	8,543	7,552
Senior meals program	<u>500</u>	<u>500</u>	<u>741</u>	<u>(241)</u>
Total Other	<u>21,742</u>	<u>21,742</u>	<u>14,431</u>	<u>7,311</u>
Debt Service:				
Principal payment	-	-	7,866	(7,866)
Interest payment	<u>-</u>	<u>-</u>	<u>3,839</u>	<u>(3,839)</u>
Total Debt Service	<u>-</u>	<u>-</u>	<u>11,705</u>	<u>(11,705)</u>
TOTAL EXPENDITURES	<u>192,772</u>	<u>192,772</u>	<u>177,322</u>	<u>15,450</u>
Revenues Over (Under) Expenditures	17,033	17,033	34,604	17,571
OTHER SOURCES (USES)				
Proceeds from disposal of assets	-	-	3,649	3,649
Transfer to (from) other fund	<u>(6,650)</u>	<u>(6,650)</u>	<u>(6,500)</u>	<u>150</u>
Net Other Sources (Uses)	<u>(6,650)</u>	<u>(6,650)</u>	<u>(2,851)</u>	<u>3,799</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	10,383	10,383	31,753	21,370
Fund Balance - January 1	<u>192,147</u>	<u>192,147</u>	<u>192,147</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 202,530</u>	<u>\$ 202,530</u>	<u>\$ 223,900</u>	<u>\$ 21,370</u>

See Note to the Required Supplementary Information

CITY OF KENNEDY, MINNESOTA
SCHEDULE OF CITY'S CONTRIBUTIONS TO PERA RETIREMENT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Year Ended	Pension Plan	Statutorily Required Contributions	Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	PERA	\$ 5,763	\$ 5,763	\$ -	\$ 76,852	7.5%

The amounts presented for each fiscal year were determined as of the City's year end, which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

CITY OF KENNEDY, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2015

Year Ended	Pension Plan	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	PERA	0.0013%	\$ 67,373	\$ 76,016	88.6%	78.2%

The amounts presented for each year were determined as of the measurement date of the City's net pension liability which is PERA's most recent fiscal year ended June 30.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

CITY OF KENNEDY, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

BUDGETARY COMPARISON

State law requires the City to prepare a budget for the General Fund. Budgets are prepared on the modified accrual basis of accounting.

Under State law the City is required to have a truth and taxation hearing prior to final approval of the budget. This is typically done in September.

The original budget for the year is approved in December for the subsequent year through passage of resolution. During the year, the budget may be amended through Council approval.

All unexpended appropriations lapse at year end.

Although required, a budgetary comparison schedule has not been prepared for the fire fund as a budget was not adopted for the fund.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Kennedy
Kennedy, MN 56568

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business type activities and each major fund of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2016.

Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing, which did not apply to the City.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Kennedy, Minnesota, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Kennedy's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA

June 29, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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 Council
City of Kennedy
Kennedy, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2016. A qualified opinion was issued for the year ended December 31, 2015 over the governmental activities for not implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the Fire Relief Association, which should be included in order to conform with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, 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 of Kennedy, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kennedy, Minnesota's internal control.

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 combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kennedy, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

City of Kennedy, Minnesota's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Kennedy, Minnesota'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

This report is intended 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA

June 29, 2016

CITY OF KENNEDY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

Findings – Financial Statements Audit

2015-001 (Material Weakness)

Criteria: Generally, a system of internal control has the proper segregation of duties between billings and cash receipts.

Condition: Lack of sufficient segregation of duties relating to utility and service billings and cash receipts.

Cause: Size and cost constraints limiting the number of City personnel available within the municipality to properly separate the functions of utility billing and collections.

Effect: The lack of segregated duties reduces the level of controls over financial reporting which could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The areas should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

View of Responsible Officials: The City is aware of this situation and will continue to monitor operations, but believes it would not be cost efficient at this time to add staff and believes its most effective control lies in its awareness and oversight of this situation.

2015-002 (Material Weakness)

Criteria: The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP).

Condition: The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this material weakness, and obtains our assistance in the preparation of the City's annual financial statements.

Cause: The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

CITY OF KENNEDY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

Effect: The City's management is aware of the weakness and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

Recommendation: For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of
Responsible
Officials: Management agrees with the recommendation that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.