

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2016**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Todd Truedson	Mayor	January 7, 2019
Kevin Hanson	Councilmember	January 7, 2019
Cindy Urbaniak	Councilmember	January 11, 2021
Jon Pietruszewski	Councilmember	January 11, 2021
Matt Casper	Councilmember	January 7, 2019
Appointed		
Mary Cooney	Clerk/Treasurer	Indefinite

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Kennedy

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

audit opinions.

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities 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 Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kennedy, Minnesota, as of December 31, 2016, and the 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.

Unmodified Opinions

In addition, 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, and the aggregate remaining fund of the City of Kennedy, Minnesota, as of December 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and the required supplementary information, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kennedy’s basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the City of Kennedy'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Knutson". The signature is written in a cursive, flowing style.

Hoffman, Philipp, & Knutson, PLLC

September 29, 2017



City of Kennedy

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of the City of Kennedy offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Kennedy for the fiscal year ended December 31, 2016. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

During the current year, the City of Kennedy adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is \$686,650, of which \$216,350 is the net investment in capital assets, \$289,648 is restricted for specific purposes, and \$180,652 is unrestricted. The total net position of governmental activities increased by \$20,732 for the year ended December 31, 2016. This is attributed primarily to the delay in street repairs.

The total net position of business-type activities is \$311,499, of which \$104,947 is the net investment in capital assets, and \$206,552 is unrestricted. The total net position of business-type activities increased by \$586 in 2016.

At the close of 2016, the City's governmental funds reported combined ending fund balances of \$517,336, an increase of \$38,013 from the prior year. Of the total fund balance amount, \$28,504 is nonspendable for loans receivable, \$289,648 is legally or contractually restricted, \$134,045 is formally committed for specific purposes, and \$65,139 is unassigned. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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The City of Kennedy is an Equal Opportunity Employer and
Provider

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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 government'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).

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

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, sanitation, culture and recreation, conservation of natural resources, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the sewer and water utilities.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

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

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level 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 of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Fire Department Special Revenue Fund, the 1993 Refunding Bonds Special Revenue Fund, and the 1995 Refunding Bonds, all of which are considered to be major funds.

The City of Kennedy adopts annual budgets for its general fund and major special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with their budget.

Proprietary Funds The City of Kennedy maintains two proprietary funds. 1) The Sewer Enterprise Fund is used to account for the operations of the City’s sewer system. Financing is provided by charges to residents for services. 2) The Water Enterprise Fund is used to account for the operations of the City’s water system. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. Both of the enterprise funds are major.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 24 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides supplementary and other information, including combining statements, a budgetary comparison schedule, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City’s financial position. The City’s assets exceeded liabilities by \$998,149 at the close of 2016. The largest portion of the City’s net position (approximately 32 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 29 percent of the City’s net position is restricted and 39 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$387,204 as of December 31, 2016, may be used to meet the City’s ongoing obligations to citizens.

The City’s overall financial position increased from last year. Total assets decreased by \$4,241 from the prior year, primarily due to depreciation. Total liabilities increased by \$2,336 from the prior year, primarily due to an increase in the net pension liability. The net increase related to the deferred outflows and inflows of resources was \$27,895. This resulted in an increased net position of \$21,318 from the prior year.

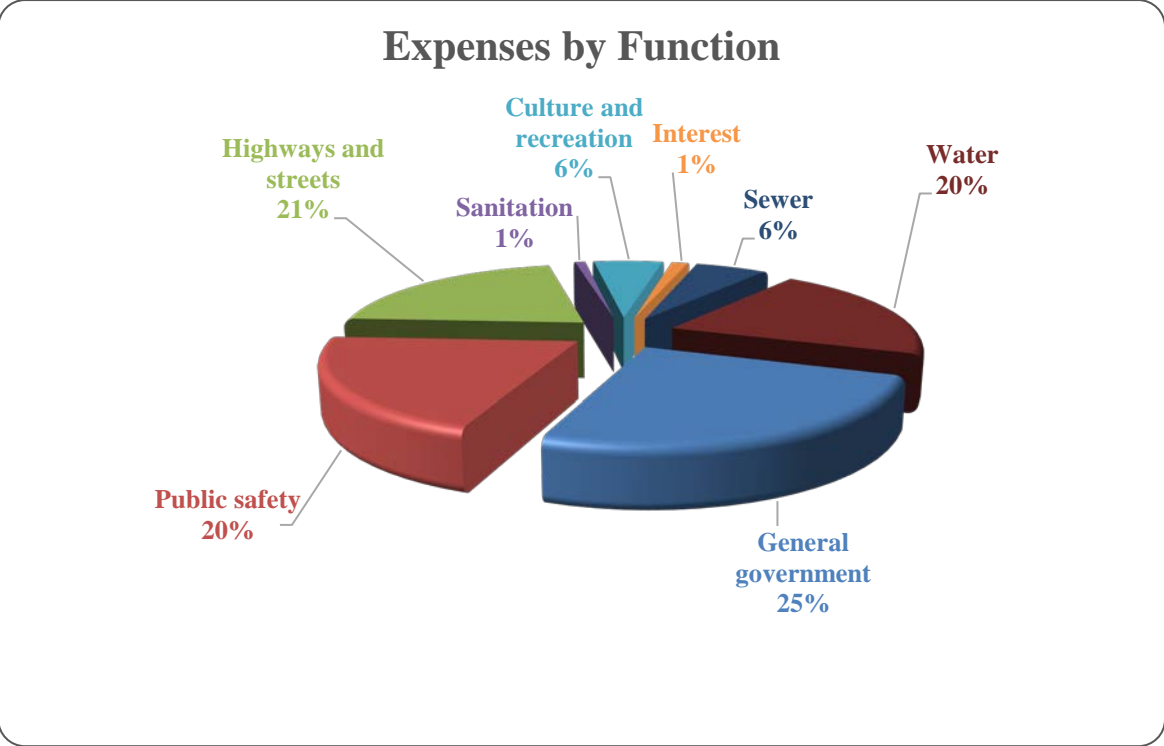
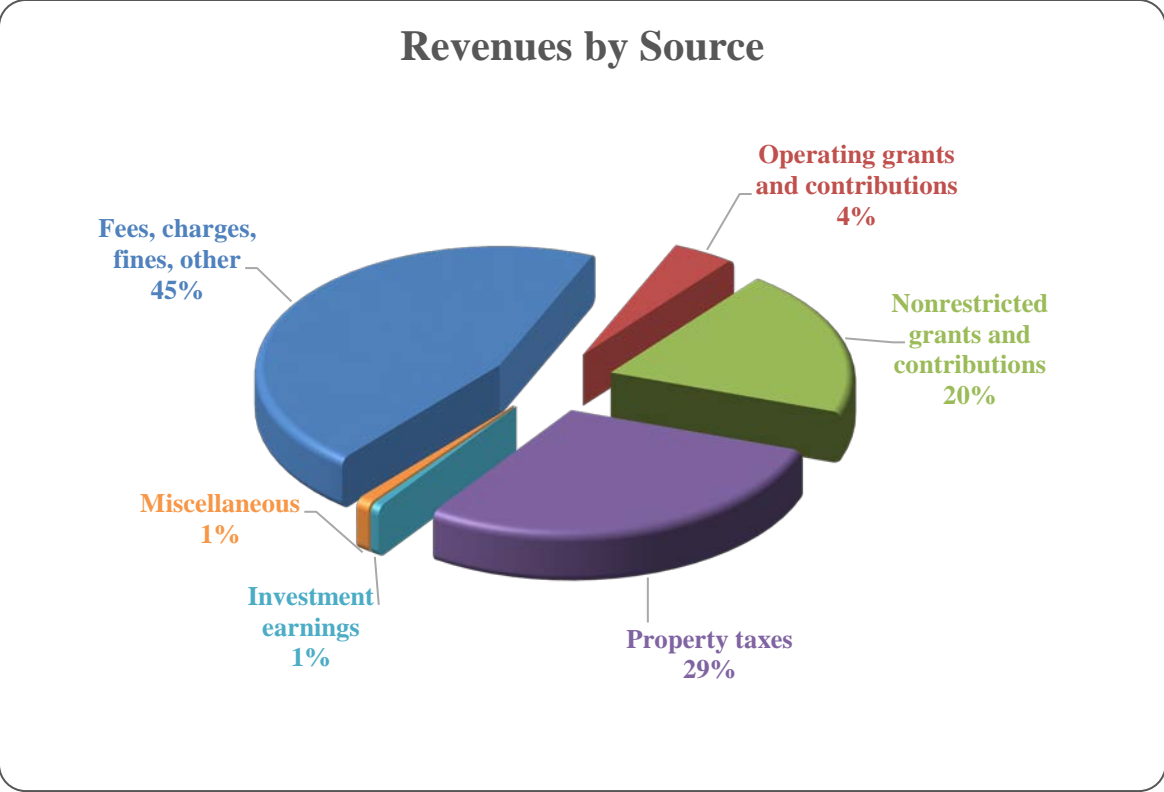
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 528,577	\$ 492,905	\$ 226,375	\$ 222,271	\$ 754,952	\$ 715,176
Capital assets	279,771	311,533	169,947	182,202	449,718	493,735
Total assets	\$ 808,348	\$ 804,438	\$ 396,322	\$ 404,473	\$ 1,204,670	\$ 1,208,911
Deferred Outflows - Pension	\$ 30,735	\$ 6,901	\$ 10,307	\$ 2,363	\$ 41,042	\$ 9,264
Other liabilities	\$ 336	\$ 7,216	\$ -	\$ 279	\$ 336	\$ 7,495
Long-term liabilities outstanding	136,157	125,177	89,698	91,183	225,855	216,360
Total liabilities	\$ 136,493	\$ 132,393	\$ 89,698	\$ 91,462	\$ 226,191	\$ 223,855
Deferred Inflows - Pension	\$ 15,940	\$ 13,028	\$ 5,432	\$ 4,461	\$ 21,372	\$ 17,489
Net position						
Net investment in capital assets	\$ 216,350	\$ 236,546	\$ 104,947	\$ 108,202	\$ 321,297	\$ 344,748
Restricted for debt service	289,648	381,642	-	-	289,648	381,642
Unrestricted	180,652	47,730	206,552	202,711	387,204	250,441
Total net position	\$ 686,650	\$ 665,918	\$ 311,499	\$ 310,913	\$ 998,149	\$ 976,831

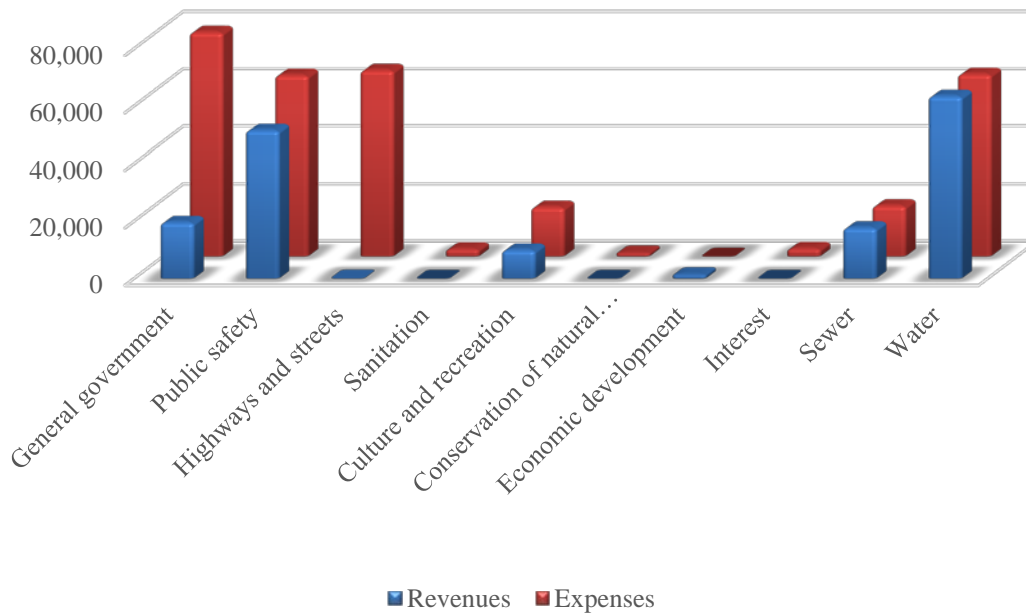
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 68,889	\$ 48,155	\$ 81,610	\$ 83,964	\$ 150,499	132,119
Operating grants and contributions	13,936	32,177	-	-	13,936	32,177
Capital grants and contributions	-	13,085	-	-	-	13,085
General Revenues and Transfers						
Property taxes	96,970	92,660	-	2,852	96,970	95,512
Grants and contributions not restricted	65,726	66,071	-	-	65,726	66,071
Investment earnings	1,908	1,616	146	-	2,054	1,616
Miscellaneous	3,163	11,711	94	-	3,257	11,805
Total revenues	\$ 250,592	\$ 265,475	\$ 81,850	\$ 86,816	\$ 332,442	\$ 352,291
Expenses						
General government	\$ 78,121	\$ 80,623	\$ -	\$ -	\$ 78,121	\$ 80,623
Public safety	63,094	66,491	-	-	63,094	66,491
Highways and streets	64,846	64,736	-	-	64,846	64,736
Sanitation	2,556	3,964	-	-	2,556	3,964
Culture and recreation	17,256	18,673	-	-	17,256	18,673
Conservation of natural resources	1,260	-	-	-	1,260	-
Interest	2,727	5,618	-	-	2,727	5,618
Sewer	-	-	17,765	22,401	17,765	22,401
Water	-	-	63,499	61,744	63,499	61,744
Total expenses	\$ 229,860	\$ 240,105	\$ 81,264	\$ 84,145	\$ 311,124	\$ 324,250
Increase (decrease)	\$ 20,732	\$ 25,370	\$ 586	\$ 2,671	\$ 21,318	\$ 28,041
Net position, January 1	\$ 665,918	\$ 698,044	\$ 310,913	\$ 316,654	\$ 2,266,439	\$ 1,014,698
Prior period adjustment	-	(57,496)	-	(8,412)	-	(65,908)
Net position, January 1, as restated	\$ 665,918	\$ 640,548	\$ 310,913	\$ 308,242	\$ 976,831	\$ 948,790
Net position, December 31	\$ 686,650	\$ 665,918	\$ 311,499	\$ 310,913	\$ 2,287,757	\$ 1,042,739

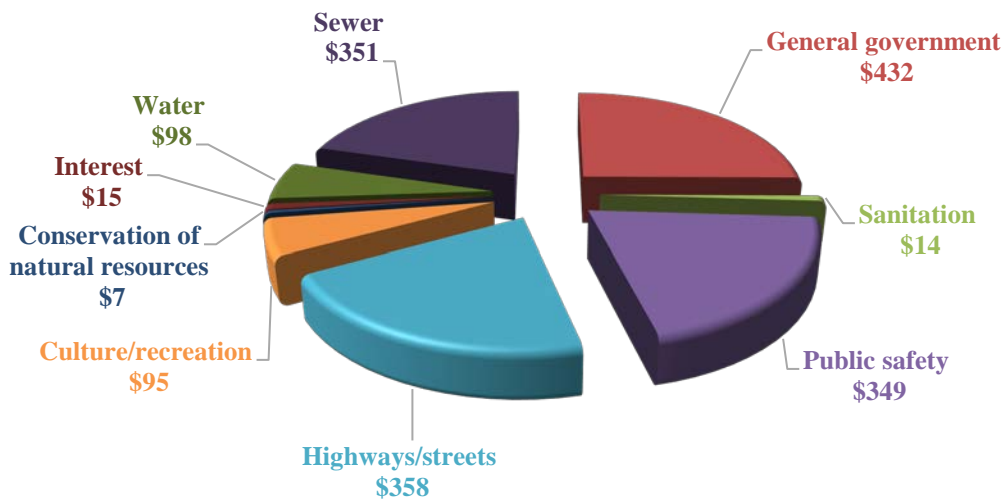
The following charts show the proportion of the revenues and expenses for the fiscal year 2016.



Program Revenues & Expenses



Expenditures Per Capita 181 Population as of 2016



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, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2016, the City's governmental funds reported combined ending fund balances of \$517,336. Of this amount, 6 percent constitutes non-spendable, 56 percent constitutes legally or contractually restricted fund balance, 25 percent constitutes formally committed fund balance, and 13 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$251,545. The General Fund's restricted fund balance was \$140,244, committed fund balance was \$17,658 and unassigned fund balance was \$65,139. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2016. Total fund balance represents 48 percent of total General Fund expenditures.

In 2016, the fund balance amount in the General Fund increased by \$27,645. This increase was primarily due to departments staying within budget. The fund balance of the Fire Special Revenue Fund increased \$10,368 from the prior year, primarily due to postponement of budget expenditures.

Proprietary Funds

The Sewer Enterprise Fund reported operating income in 2016 of \$13,220, primarily due to rates charged enough to cover expenses.

The Water Enterprise Fund reported operating loss in 2016 of \$11,283, primarily due to depreciation.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2016.

Actual revenues were more than overall final budgeted revenues by \$4,571, with the largest positive variances in charges for services, and miscellaneous. Actual expenditures were less than overall final budgeted expenditures by \$27,069, primarily as a result of holding off on planned street repairs.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounted to \$771,288 (net of accumulated depreciation). The total decrease in the City's investment in capital assets for the current fiscal year was approximately one percent. This decrease was primarily the result of depreciation expense.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 7,036	\$ 7,036	\$ -	\$ -	\$ 7,036	\$ 7,036
Infrastructure	93,017	117,087	169,947	174,524	262,964	291,611
Buildings and improvements	65,138	178,435	-	-	65,138	178,435
Machinery and equipment	114,580	480,288	-	7,681	114,580	487,969
Total capital assets	<u>\$ 279,771</u>	<u>\$ 782,846</u>	<u>\$ 169,947</u>	<u>\$ 182,205</u>	<u>\$ 449,718</u>	<u>\$ 965,051</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$128,421, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Koda Bank Loan	\$ 17,425	\$ 25,580	\$ -	\$ -	\$ 17,425	\$ 25,580
USDA Loan	45,996	49,407	-	-	45,996	49,407
MN Public Facilities Authority	-	-	22,000	24,000	22,000	24,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	-	-	43,000	50,000	43,000	50,000
	<u>\$ 63,421</u>	<u>\$ 74,987</u>	<u>\$ 65,000</u>	<u>\$ 74,000</u>	<u>\$ 128,421</u>	<u>\$ 148,987</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2016, overall debt of the City is below the three percent debt limit. Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.
- Specific unemployment statistics for the City of Kennedy are not available. However, the unemployment rate for Kittson County was 10.8 percent as April 11, 2017. This is higher than the statewide rate of 4.0 percent and the national average rate of 4.5 percent.
- Kennedy's July 1, 2016 population was 181, a decrease of 8 since the 2010 census of 193.
- On September 19, 2016, the City of Kennedy set its 2017 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Kennedy 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 of Kennedy City Clerk/Treasurer, City of Kennedy, P.O. Box 7 Kennedy, Minnesota 56733.

BASIC FINANCIAL STATEMENTS

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 485,328	\$ 169,829	\$ 655,157
Taxes receivable			
Current	2,965	-	2,965
Prior	10,565	-	10,565
Special assessments receivable			
Current	-	373	373
Prior	340	1,145	1,485
Accounts receivable	875	7,276	8,151
Loans receivable	28,504	-	28,504
Inventory	-	6,301	6,301
Special assessments receivable - noncurrent	-	41,451	41,451
Capital assets			
Non-depreciable	7,036	-	7,036
Depreciable - net of accumulated depreciation	272,735	169,947	442,682
Total Assets	\$ 808,348	\$ 396,322	\$ 1,204,670
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 30,735	\$ 10,307	\$ 41,042
<u>Liabilities</u>			
Accounts payable	\$ 336	\$ -	\$ 336
Long-term liabilities			
Due within one year	12,045	9,000	21,045
Due in more than one year	124,112	80,698	204,810
Total Liabilities	\$ 136,493	\$ 89,698	\$ 226,191
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 15,940	\$ 5,432	\$ 21,372
<u>Net Position</u>			
Net investment in capital assets	\$ 216,350	\$ 104,947	\$ 321,297
Amounts restricted for			
Debt service	149,404	-	149,404
Economic development	128,362	-	128,362
General government	11,882	-	11,882
Unrestricted amounts	180,652	206,552	387,204
Total Net Position	\$ 686,650	\$ 311,499	\$ 998,149

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues		
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions
Functions/Programs			
Governmental activities			
General government	\$ 78,121	\$ 19,606	\$ 45
Public safety	63,094	37,719	13,891
Highways and streets	64,846	135	-
Sanitation	2,556	-	-
Culture and recreation	17,256	10,000	-
Conservation of natural resources	1,260	-	-
Economic development	-	1,429	-
Interest	2,727	-	-
Total governmental activities	\$ 229,860	\$ 68,889	\$ 13,936
Business-type activities			
Sewer	\$ 17,765	\$ 30,985	\$ -
Water	63,499	50,625	-
Total business-type activities	\$ 81,264	\$ 81,610	\$ -
Total	\$ 311,124	\$ 150,499	\$ 13,936

General revenues

Property taxes
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (58,470)	\$ -	\$ (58,470)
(11,484)	-	(11,484)
(64,711)	-	(64,711)
(2,556)	-	(2,556)
(7,256)	-	(7,256)
(1,260)	-	(1,260)
1,429	-	1,429
(2,727)	-	(2,727)
\$ (147,035)	\$ -	\$ (147,035)
\$ -	\$ 13,220	\$ 13,220
-	(12,874)	(12,874)
\$ -	\$ 346	\$ 346
\$ (147,035)	\$ 346	\$ (146,689)
\$ 96,970	\$ -	\$ 96,970
65,726	-	65,726
1,908	146	2,054
3,163	94	3,257
\$ 167,767	\$ 240	\$ 168,007
\$ 20,732	\$ 586	\$ 21,318
665,918	310,913	976,831
\$ 686,650	\$ 311,499	\$ 998,149

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Fire Department Special Revenue</u>	<u>1993 Refunding Bonds Debt Service</u>	<u>1995 Refunding Bonds Debt Service</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 219,537	\$ 116,387	\$ 124,705	\$ 24,699	\$ 485,328
Taxes receivable					
Current	2,965	-	-	-	2,965
Prior	10,565	-	-	-	10,565
Special assessments receivable					
Prior	-	-	340	-	340
Accounts receivable	875	-	-	-	875
Loans receivable	28,504	-	-	-	28,504
Total Assets	\$ 262,446	\$ 116,387	\$ 125,045	\$ 24,699	\$ 528,577
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 336	\$ -	\$ -	\$ -	\$ 336
Deferred Inflows of Resources					
Taxes	\$ 10,565	\$ -	\$ -	\$ -	\$ 10,565
Special assessments	-	-	340	-	340
Total Deferred Inflows of Resources	\$ 10,565	\$ -	\$ 340	\$ -	\$ 10,905
Fund Balances					
Nonspendable for					
Loans receivable	\$ 28,504	\$ -	\$ -	\$ -	\$ 28,504
Restricted for					
Baseball field	1,882	-	-	-	1,882
Debt service	-	-	124,705	24,699	149,404
Economic development	128,362	-	-	-	128,362
Grant repay	10,000	-	-	-	10,000
Committed to					
Fire	-	116,387	-	-	116,387
Grant repay	10,000	-	-	-	10,000
Improvements	4,134	-	-	-	4,134
Park board	3,524	-	-	-	3,524
Unassigned	65,139	-	-	-	65,139
Total Fund Balances	\$ 251,545	\$ 116,387	\$ 124,705	\$ 24,699	\$ 517,336
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 262,446	\$ 116,387	\$ 125,045	\$ 24,699	\$ 528,577

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balances - total governmental funds (Exhibit 3)	\$	517,336
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		279,771
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		10,905
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Capital lease	\$ (17,425)	
Loans payable	(45,996)	(63,421)
<p>Net pension liability and related inflows/outflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
Net pension liability	\$ (72,736)	
Deferred outflows of resources related to pensions	30,735	
Deferred inflows of resources related to pensions	(15,940)	(57,941)
Net position of governmental activities (Exhibit 1)	\$	<u>686,650</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Fire Department Special Revenue</u>	<u>1993 Refunding Bonds Debt Service</u>	<u>1995 Refunding Bonds Debt Service</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 92,431	\$ -	\$ -	\$ -	\$ 92,431
Licenses and permits	2,106	-	-	-	2,106
Intergovernmental	65,726	13,891	-	-	79,617
Charges for services	24,733	18,227	-	-	42,960
Gifts and contributions	45	19,492	-	-	19,537
Investment earnings	1,742	166	-	-	1,908
Miscellaneous	7,213	-	-	-	7,213
Total Revenues	\$ 193,996	\$ 51,776	\$ -	\$ -	\$ 245,772
Expenditures					
Current					
General government	\$ 74,079	\$ -	\$ -	\$ -	\$ 74,079
Public safety	-	36,330	-	-	36,330
Highways and streets	56,804	-	-	-	56,804
Sanitation	2,556	-	-	-	2,556
Culture and recreation	13,161	-	-	-	13,161
Conservation of natural resources	1,260	-	-	-	1,260
Debt service					
Principal retirement	8,155	3,411	-	-	11,566
Interest	1,060	1,667	-	-	2,727
Capital outlay					
Highways and streets	9,276	-	-	-	9,276
Total Expenditures	\$ 166,351	\$ 41,408	\$ -	\$ -	\$ 207,759
Excess of Revenues Over (Under) Expenditures	\$ 27,645	\$ 10,368	\$ -	\$ -	\$ 38,013
Fund Balance - January 1	223,900	106,019	124,705	24,699	479,323
Fund Balance - December 31	\$ 251,545	\$ 116,387	\$ 124,705	\$ 24,699	\$ 517,336

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	38,013
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Purchase of capital assets	\$ 9,441	
Current year depreciation	<u>(41,203)</u>	(31,762)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds</p>		
Change in Taxes and special assessments receivable		4,539
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Principal repayments		
Capital lease	\$ 8,155	
Loans payable	<u>3,411</u>	11,566
<p>Net pension liability does not represent the impending use of current resources. Therefore, the change in the liability and the related deferrals are not reported in the governmental funds:</p>		
		<u>(1,624)</u>
Change in net position of governmental activities (Exhibit 2)	\$	<u>20,732</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>			
Current Assets			
Cash and pooled investments	\$ -	\$ 169,829	\$ 169,829
Special assessments receivable			
Current	-	373	373
Prior	-	1,145	1,145
Accounts receivable	2,751	4,525	7,276
Due from other funds	-	14,478	14,478
Inventory	2,513	3,788	6,301
Special assessments receivable - noncurrent	-	41,451	41,451
	\$ 5,264	\$ 235,589	\$ 240,853
Noncurrent Assets			
Capital assets			
Depreciable - net of accumulated depreciation	4,985	164,962	169,947
	\$ 10,249	\$ 400,551	\$ 410,800
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 3,272	\$ 7,035	\$ 10,307
<u>Liabilities</u>			
Current Liabilities			
Due to other funds	\$ 14,478	\$ -	\$ 14,478
G.O. revenue bonds payable	-	9,000	9,000
	\$ 14,478	\$ 9,000	\$ 23,478
Noncurrent Liabilities			
G.O. revenue bonds payable	\$ -	\$ 56,000	\$ 56,000
Net pension liability	7,713	16,985	24,698
	\$ 7,713	\$ 72,985	\$ 80,698
Total Liabilities	\$ 22,191	\$ 81,985	\$ 104,176
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 1,689	\$ 3,743	\$ 5,432
<u>Net Position</u>			
Net investment in capital assets	\$ 4,985	\$ 99,962	\$ 104,947
Unrestricted amounts	(15,344)	221,896	206,552
	\$ (10,359)	\$ 321,858	\$ 311,499

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Sewer Enterprise	Water Enterprise	Total
Operating Revenues			
Charges for services	\$ 30,985	\$ 50,625	\$ 81,610
Operating Expenses			
Personnel services	\$ 7,211	\$ 16,090	\$ 23,301
Supplies	66	-	66
Repairs and maintenance	8,105	14,814	22,919
Water purchase	-	16,412	16,412
Utilities	722	2,072	2,794
Miscellaneous	968	958	1,926
Depreciation	693	11,562	12,255
Total Operating Expenses	\$ 17,765	\$ 61,908	\$ 79,673
Operating Income (Loss)	\$ 13,220	\$ (11,283)	\$ 1,937
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 146	\$ 146
Miscellaneous	30	64	94
Interest expense	-	(1,591)	(1,591)
Total Nonoperating Revenues (Expenses)	\$ 30	\$ (1,381)	\$ (1,351)
Change in Net Position	\$ 13,250	\$ (12,664)	\$ 586
Net Position - January 1	(23,609)	334,522	310,913
Net Position - December 31	\$ (10,359)	\$ 321,858	\$ 311,499

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 31,237	\$ 51,444	\$ 82,681
Payments to employees	(7,007)	(15,658)	(22,665)
Payments to suppliers	(24,230)	(20,166)	(44,396)
Net cash provided by (used in) operating activities	\$ -	\$ 15,620	\$ 15,620
Cash Flows from Noncapital Financing Activities			
Special assessments	\$ -	\$ 8,046	\$ 8,046
Cash Flows from Capital and Related Financing Activities			
Principal payment on G.O. revenue bonds	\$ -	\$ (9,000)	\$ (9,000)
Interest paid on G.O. revenue bonds	-	(1,591)	(1,591)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ (10,591)	\$ (10,591)
Cash Flows from Investing Activities			
Investment earnings received	\$ -	\$ 146	\$ 146
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -	\$ 13,221	\$ 13,221
Cash and Cash Equivalents at January 1	-	156,608	156,608
Cash and Cash Equivalents at December 31	\$ -	\$ 169,829	\$ 169,829

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

	Sewer Enterprise	Water Enterprise	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 13,220	\$ (11,283)	\$ 1,937
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 693	\$ 11,562	\$ 12,255
(Increase) decrease in assets			
Accounts receivable	252	819	1,071
Due from other funds	-	14,369	14,369
Increase (decrease) in liabilities			
Accounts payable	-	(279)	(279)
Due to other funds	(14,369)	-	(14,369)
Net pension liability	204	432	636
Total adjustments	\$ (13,220)	\$ 26,903	\$ 13,683
Net cash provided by (used in) operating activities	\$ -	\$ 15,620	\$ 15,620

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

I. Summary of Significant Accounting Policies

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The City of Kennedy was incorporated June 15, 1899, and has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, sanitation, culture and recreation, conservation of natural resources, economic development, and the sewer and water utilities, as authorized by its charter.

Blended Component Unit

The financial statements of the City include all organizations, funds, and account groups over which the City Council exercises significant influence or financial accountability. The City uses criteria established by the 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 the entity, or the potential for the entity to provide specific financial benefit or burden on the City.

Based on the foregoing criteria, the Kennedy Economic Development Authority is included in the City's reporting entity as a blended component unit within the General Fund. Although the organization is legally separate from the City, it is reported as if it were part of the City of Kennedy because its governing body is the same as the governing body of the City. The Kennedy Economic Development Authority does not issue separate audited financial statements.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall City government, except for the fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The Fire Department Special Revenue Fund is used to account for and report the financial transactions of the City Fire Department. Financing is provided by fire protection contracts, general property taxes, and gifts and contributions assigned to public safety.

The 1993 Refunding Bonds Debt Service Fund is used to account for and report the financial resources that are restricted for the payment of long-term debt principal, interest, and related costs for bond refunding. These bonds have been retired and there is no activity in this fund.

The 1995 Refunding Bonds Debt Service Fund is used to account for and report the financial resources that are restricted for the payment of long-term debt principal, interest, and related costs for bond refunding. These bonds have been retired and there is no activity in this fund.

The City reports the following major enterprise funds:

The Sewer Enterprise Fund is used to account for operations of the sewer utility.

The Water Enterprise Fund is used to account for operations of the water utility.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

During the year ended December 31, 2016, the City adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurement. No restatement is required as a result of implementing this statement.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash and cash equivalents are valued at fair value.

2. Deposits and Investments

The cash balances of the funds are invested by the City Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016, based on market prices. Investment earnings on cash and investments are allocated to the funds. City funds also participate in a pooled checking account for operating purposes. Investment earnings on the pooled checking account for 2016 were \$1,741. Total investment earnings for 2016 were \$2,054. Deposits and investments are measured and reported at fair value.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Kittson County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2005 through 2016 and noncurrent special assessments collectible in 2017 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

Accounts receivable consist primarily of charges for services for sewer and water utilities. Loans receivable consist of revolving loans to qualifying businesses. All receivables are shown net of an allowance for uncollectible amounts, if applicable.

Outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

4. Capital Assets

Capital assets, which include land, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

The City of Kennedy has elected to report infrastructure acquired prior to periods ending after June 30, 1980.

Infrastructure, buildings and improvements, land improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	25-50
Buildings and improvements	30-50
Machinery and equipment	5-15

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

5. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes levied for subsequent years, delinquent property tax receivables, and loans receivable as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of the unpaid, accumulated annual vacation balance. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources.

8. Pensions

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

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity (Continued)

9. Net Position and Fund Balance

Certain funds of the City are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial statements, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the Clerk/Treasurer. The City does not have any assigned fund balance at December 31, 2016.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely, such as resources as a reserve for delinquent taxes; a reserve against economic uncertainties leading to overestimates in revenue forecasts; resources to provide for unpredictable changes in state law; and monies for unforeseen expenditures such as natural disasters, for which no other government resources are made available or there is a delay in receiving those funds from other government entities. As of December 31, 2016, the City did not identify and amount for stabilization.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows or Resources, and Net Position or Equity

9. Net Position and Fund Balance (Continued)

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and disclosure of contingent amounts 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.

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City’s total deposits and investments to the basic financial statements, as of December 31, 2016, are as follows:

Governmental Activities		
Cash and pooled investments	\$	485,328
Business-type Activities		
Cash and pooled investments		169,829
Total Cash and Investments	\$	655,157
Deposits		
Checking accounts	\$	110,155
Savings accounts		438,289
Certificates of deposit		106,713
Total Deposits	\$	655,157

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

1. Deposits (Continued)

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to it. It is the City’s policy to comply with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2016, the City’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2016, for the City’s governmental and business-type activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 13,530	\$ -
Special Assessments	340	-
Accounts	875	-
Loans	28,504	18,332
Total Governmental Activities	\$ 43,249	\$ 18,332
Business-Type Activities		
Special assessments	\$ 42,969	\$ 41,451
Accounts	7,276	-
Total Business-Type Activities	\$ 50,245	\$ 41,451

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Capital assets being depreciated				
Infrastructure	\$ 117,087	\$ 8,219	\$ -	\$ 125,306
Buildings and improvements	178,435	-	18,735	159,700
Machinery and equipment	480,288	19,792	-	500,080
Total capital assets being depreciated	<u>\$ 775,810</u>	<u>\$ 28,011</u>	<u>\$ 18,735</u>	<u>\$ 785,086</u>
Less: accumulated depreciation for				
Infrastructure	\$ 28,820	\$ 3,469	\$ -	\$ 32,289
Buildings and improvements	92,507	2,220	165	94,562
Machinery and equipment	349,986	35,514	-	385,500
Total accumulated depreciation	<u>\$ 471,313</u>	<u>\$ 41,203</u>	<u>\$ 165</u>	<u>\$ 512,351</u>
Total capital assets, depreciated, net	<u>\$ 304,497</u>	<u>\$ (13,192)</u>	<u>\$ 18,570</u>	<u>\$ 272,735</u>
Governmental Activities Capital Assets, Net	<u>\$ 311,533</u>	<u>\$ (13,192)</u>	<u>\$ 18,570</u>	<u>\$ 279,771</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Infrastructure	\$ 391,080	\$ 22,171	\$ -	\$ 413,251
Machinery and equipment	37,804	-	22,171	15,633
Total capital assets being depreciated	<u>\$ 428,884</u>	<u>\$ 22,171</u>	<u>\$ 22,171</u>	<u>\$ 428,884</u>
Less: accumulated depreciation for				
Infrastructure	\$ 231,157	\$ 12,147	\$ -	\$ 243,304
Machinery and equipment	15,525	108	-	15,633
Total accumulated depreciation	<u>\$ 246,682</u>	<u>\$ 12,255</u>	<u>\$ -</u>	<u>\$ 258,937</u>
Total capital assets, depreciated, net	<u>\$ 182,202</u>	<u>\$ 9,916</u>	<u>\$ 22,171</u>	<u>\$ 169,947</u>
Business-Type Activities Capital Assets, Net	<u>\$ 182,202</u>	<u>\$ 9,916</u>	<u>\$ 22,171</u>	<u>\$ 169,947</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation Expense

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

Governmental Activities		
General government	\$	2,302
Public safety		26,764
Highways and streets		8,042
Culture and recreation		4,095
		4,095
Total Depreciation Expense - Governmental Activities	\$	41,203
Business-Type Activities		
Sewer	\$	693
Water		11,562
		11,562
Total Depreciation Expense - Business-Type Activities	\$	12,255

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

The composition of due to/from other funds as of December 31, 2016, is as follows:

Receivable Fund	Payable Fund	Amount	
Water Enterprise Fund	Sewer Enterprise Fund	\$ 14,478	To cover cash deficit

C. Liabilities

Compensated Absences

Under the City's personnel policy, employees are granted vacation leave in varying amounts based on their length of service. For full-time employees, vacation leave accrual varies from 5 to 15 days per year with a maximum carry-over of 15 days, and sick leave accrual is 12 days per year with a maximum carry-over of 60 days. For part-time employees, vacation leave accrual varies from 4 to 12 days per year with a maximum carry-over of 12 days, and sick leave accrual is 10 days per year with a maximum accrual of 48 days. Compensated absences are generally liquidated by the General Fund, the Sewer Enterprise Fund, and the Water Enterprise Fund.

Severance pay is determined based on a percentage of unused sick leave not to exceed \$2,000 per employee. Unvested sick leave, approximately \$1,412 at December 31, 2016, is available to employees in the event of illness-related absences and is not paid to them at termination.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Governmental Activities

City of Kennedy Koda Bank Loan of 2014 represents debt incurred for the purchase of a mower. This loan has an original issue amount of \$41,020. It carries a net interest rate of 4 percent and is due in annual installments from the General Fund \$9,215 through August 8, 2018. The balance due on this loan at December 31, 2016, is \$17,425.

City of Kennedy USDA Loan of 2013 represents debt incurred for the purchase of a rescue van. This loan has an original issue amount of \$59,000. It carries a net interest rate of 3.375 percent and is due in annual installments from the General Fund \$5,078 through May, 2027. The balance due on this loan at December 31, 2016, is \$45,996.

Debt Service Requirements

Debt service requirements for the governmental activities for the year ended December 31, 2016, are as follows:

Year Ending December 31	Koda Bank Loan of 2014		USDA Loan of 2013		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	8,520	695	3,525	1,553	12,045	2,248
2018	8,905	317	3,644	1,434	12,549	1,751
2019	-	-	3,767	1,311	3,767	1,311
2020	-	-	3,894	1,184	3,894	1,184
2021	-	-	4,026	1,052	4,026	1,052
2022-2026	-	-	22,259	3,131	22,259	3,131
2027-2031	-	-	4,881	155	4,881	155
Total	<u>\$ 17,425</u>	<u>\$ 1,012</u>	<u>\$ 45,996</u>	<u>\$ 9,820</u>	<u>\$ 63,421</u>	<u>\$ 10,832</u>

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Koda Bank Loan	\$ 25,580	\$ -	\$ 8,155	\$ 17,425	\$ 8,520
USDA Loan	49,407	-	3,411	45,996	3,525
Net Pension Liability	50,190	22,546	-	72,736	-
Governmental Activities Long-Term Liabilities	<u>\$ 125,177</u>	<u>\$ 22,546</u>	<u>\$ 11,566</u>	<u>\$ 136,157</u>	<u>\$ 12,045</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Business-Type Activities

City of Kennedy Minnesota Public Facilities Authority (MPFA) Loan of 2012 represents debt incurred for improvements to the water mains. This loan has an original issue amount of \$25,791. This loan carries a net interest rate of 1.0 percent and is due in annual installments from the Water Enterprise Fund of \$2,110 to \$3,015 through August 20, 2024. The balance due on this loan at December 31, 2016 is \$22,000.

City of Kennedy General Obligation Water Revenue Crossover Refunding Bonds of 2011 represent debt incurred for refunding water system improvement bonds. These bonds have an original issue amount of \$70,000. The bonds carry a net interest rate of 2.758 percent and are due in annual installments from the Water Enterprise Fund of \$7,000 to \$8,000 through January 1, 2023. The balance due on these bonds at December 31, 2016 is \$43,000.

Debt Service Requirements

Debt service requirements for the business-type activities for the year ended December 31, 2016, are as follows:

Year Ending December 31	MPFA Loan of 2012		Water Revenue Crossover Refunding Bonds of 2011		Total Business-Type	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	2,000	220	7,000	1,193	9,000	1,413
2018	2,000	200	7,000	1,019	9,000	1,219
2019	3,000	180	7,000	843	10,000	1,023
2020	3,000	150	7,000	658	10,000	808
2021	3,000	120	7,000	339	10,000	459
2022-2026	9,000	180	8,000	-	17,000	180
Total	\$ 22,000	\$ 1,050	\$ 43,000	\$ 4,052	\$ 65,000	\$ 5,102

Changes in Long-Term Liabilities

Long-term liability activity for the business-type activities for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MN PFA Loan of 2014	\$ 24,000	\$ -	\$ 2,000	\$ 22,000	\$ 2,000
GO Revnue Bonds of 2011	50,000	-	7,000	43,000	7,000
Net Pension Liability	17,183	7,515	-	24,698	-
Business-Type Activities Long-Term Liabilities	\$ 91,183	\$ 7,515	\$ 9,000	\$ 89,698	\$ 9,000

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City of Kennedy are covered by the General Employees Plan. General Employees Plan 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.

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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans (Continued)

B. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City of Kennedy was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City of Kennedy's contributions to the General Employees Fund for the year ended December 31, 2016, were \$5,410. The City of Kennedy's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the City of Kennedy reported a liability of \$97,434 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability was measured as of June 30, 2016 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, 2015, through June 30, 2016, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2016, the City of Kennedy's proportion share was .0012 percent which was a decrease of .0001 percent from its proportion measured as of June 30, 2015. There were no provision changes during the measurement period.

For the year ended December 31, 2016, the City of Kennedy recognized pension expense of \$12,209 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Kennedy recognized an additional \$1,256 as pension expense (and revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City of Kennedy reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 8,090
Changes in actuarial assumptions	19,078	-
Difference between projected and actual investment earnings	18,861	-
Changes in proportion	-	13,282
Contributions paid to PERA subsequent to the measurement date	2,896	-
Total	<u>\$ 40,835</u>	<u>\$ 21,372</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Pension Costs

General Employees Fund Pension Costs (Continued)

\$2,896 reported as deferred outflows of resources related to pensions resulting from the City of Kennedy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 1,628
2018	1,626
2019	7,455
2020	5,858
2021	-

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Actuarial Assumptions

General Employees Fund (Continued)

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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

The following presents the City of Kennedy’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 of Kennedy’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of Net Pension Liability at Current Single Discount Rate General Employees Fund			
<u>City of Kennedy's</u>	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Proportionate share of the General Employee Fund net pension liability	\$ 138,385	\$ 97,434	\$ 63,701

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans (Continued)

G. Pension Plan Fiduciary Net Position

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

IV. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 92,272	\$ 92,272	\$ 92,431	\$ 159
Licenses and permits	1,900	1,900	2,106	206
Intergovernmental	65,191	65,191	65,726	535
Charges for services	23,312	23,312	24,733	1,421
Gifts and contributions	-	-	45	45
Investment earnings	3,700	3,700	1,742	(1,958)
Miscellaneous	3,050	3,050	7,213	4,163
Total Revenues	\$ 189,425	\$ 189,425	\$ 193,996	\$ 4,571
Expenditures				
Current				
General government				
Mayor/council	\$ 2,470	\$ 2,470	\$ 2,498	\$ (28)
City clerk/treasurer	37,254	37,254	35,291	1,963
Elections	-	-	19	(19)
Professional services	4,900	4,900	6,675	(1,775)
Legal	500	500	500	-
City office building	19,550	19,550	9,972	9,578
Insurance	10,384	10,384	9,033	1,351
School building	4,000	4,000	3,248	752
Other general government	6,530	6,530	6,843	(313)
Total general government	\$ 85,588	\$ 85,588	\$ 74,079	\$ 11,509
Highways and streets				
Streets and alleys	\$ 66,617	\$ 66,617	\$ 45,038	\$ 21,579
Snow removal	2,000	2,000	1,455	545
Street lights	9,750	9,750	10,311	(561)
Total highways and streets	\$ 78,367	\$ 78,367	\$ 56,804	\$ 21,563
Sanitation				
Solid waste	\$ 5,600	\$ 5,600	\$ 2,556	\$ 3,044

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Culture and recreation				
Ice rink	\$ 5,750	\$ 5,750	\$ 6,218	\$ (468)
Parks	6,100	6,100	5,943	157
Other culture and recreation	500	500	1,000	(500)
Total culture and recreation	\$ 12,350	\$ 12,350	\$ 13,161	\$ (811)
Conservation of natural resources				
Insect control	\$ 2,000	\$ 2,000	\$ 1,260	\$ 740
Economic development				
Community development	\$ 300	\$ 300	\$ -	\$ 300
Debt service				
Principal retirement	\$ 8,155	\$ 8,155	\$ 8,155	\$ -
Interest	1,060	1,060	1,060	-
Total debt service	\$ 9,215	\$ 9,215	\$ 9,215	\$ -
Capital outlay				
Highways and streets	\$ -	\$ -	\$ 9,276	\$ (9,276)
Total Expenditures	\$ 193,420	\$ 193,420	\$ 166,351	\$ 27,069
Excess of Revenues Over (Under)				
Expenditures	\$ (3,995)	\$ (3,995)	\$ 27,645	\$ 31,640
Fund Balance - January 1	223,900	223,900	223,900	-
Fund Balance - December 31	\$ 219,905	\$ 219,905	\$ 251,545	\$ 31,640

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 14,500	\$ 14,500	\$ 13,891	\$ (609)
Charges for services	18,227	18,227	18,227	-
Gifts and contributions	10,000	10,000	19,492	9,492
Investment earnings	-	-	166	166
Total Revenues	\$ 42,727	\$ 42,727	\$ 51,776	\$ 9,049
Expenditures				
Current				
Public safety				
Fire	\$ 38,745	\$ 38,745	\$ 25,439	\$ 13,306
Fire relief association	-	-	10,891	(10,891)
Total public safety	\$ 38,745	\$ 38,745	\$ 36,330	\$ 2,415
Debt service				
Principal retirement	\$ 3,411	\$ 3,411	\$ 3,411	\$ -
Interest	1,667	1,667	1,667	-
Total debt service	\$ 5,078	\$ 5,078	\$ 5,078	\$ -
Total Expenditures	\$ 43,823	\$ 43,823	\$ 41,408	\$ 2,415
Excess of Revenues Over (Under)				
Expenditures	\$ (1,096)	\$ (1,096)	\$ 10,368	\$ 11,464
Fund Balance - January 1	106,019	106,019	106,019	-
Fund Balance - December 31	\$ 104,923	\$ 104,923	\$ 116,387	\$ 11,464

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 3

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2016	\$ 5,410	\$ 5,410	\$ -	\$ 72,082	7.5%
December 31, 2015	\$ 5,763	\$ 5,763	\$ -	\$ 76,852	7.5%

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability and Proportionate Share of the State of Minnesota's Share of the Net Pension Liability</u>	<u>Covered- Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2016	0.0012%	\$ 97,434	\$ 1,256	\$ 98,690	\$ 75,194	129.58%	68.90%
June 30, 2015	0.0013%	\$ 67,373	\$ -	\$ 67,373	\$ 76,016	88.63%	78.20%

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Kittson County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

II. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2016:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Mayor/Council	\$ 2,498	\$ 2,470	\$ (28)
Elections	19	-	(19)
Professional services	6,675	4,900	(1,775)
Other general government	6,843	6,530	(313)
Highways and streets			
Steets lights	10,311	9,750	(561)
Culture and recreation			
Ice rink	6,218	5,750	(468)
Other culture and recreation	1,000	500	(500)
Capital outlay			
Highways and streets	9,276	-	(9,276)
Fire Special Revenue Fund			
Public safety			
Fire relief association	10,891	-	(10,891)

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. Changes in actuarial assumptions are described in the Notes to the Financial Statements. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the City Council.

OTHER SCHEDULES

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Shared Revenue

State

Fire state aid	\$	10,891
Fire state aid (supplemental benefits)		1,000
Local government aid		64,867
Market value credit		535
PERA rate reimbursement		<u>324</u>
Total Shared Revenue	\$	77,617

Grants

State

Minnesota Department of Natural resources		<u>2,000</u>
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Total Intergovernmental Revenue **\$** 79,617

MANAGEMENT AND COMPLIANCE SECTION

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

2015-001 **Segregation of Duties**

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel within the City of Kennedy, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Context: The small size and available staffing of the City of Kennedy limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner

Cause: This is not unusual in operations the size of the City of Kennedy, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the City Council be aware that limited staffing causes inherent risks in safeguarding the City's assets and the proper reporting of financial activity. We recommend the City Council continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

City's Response:

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 it's most effective control lies in its awareness and oversight of this situation.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**Schedule 6
(Continued)**

2015-002 Internal Control Monitoring

Criteria: The financial statements are the responsibility of the City of Kennedy's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for monitoring to ensure, effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Context: Although the City of Kennedy has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The City of Kennedy has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

City's Response:

City management agrees with the recommendation; however, management also recognizes that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.

ITEMS ARISING THIS YEAR

2016-001 Accounting and Financial Reporting for Pensions

Criteria: The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which provides accounting and reporting standards for pensions offered to retirees. GASB Statement 68 was applicable to the City of Kennedy for the year ended December 31, 2016.

Condition: GASB Statement 68 has not yet been fully implemented by the City of Kennedy as required. The City has reported net pension liability for City employees, but this does not include members of the Fire Relief Association. The City Fire Relief Association has not undergone an actuarial study to determine its net pension liability.

Context: The City should encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability for its inclusion in the City's financial statements.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**Schedule 6
(Continued)**

Effect: Because the City of Kennedy has not fully complied with the requirements of GASB Statement 68, a qualified opinion is issued on the government-wide financial statements.

Cause: The Fire Relief Association has not hired an actuary to determine its net pension liability to meet the requirements for financial reporting under GASB Statement 68.

Recommendation: We recommend the City Council encourage the Fire Relief Association to obtain an actuarial study to determine its net pension liability for inclusion in the City's financial statements.

2016-002 Audit Adjustments

Criteria: Preparation of financial statements is the responsibility of the City's management. Financial statement preparation in accordance with generally accepted accounting principles requires internal control over both (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements. Timely and accurate financial information is necessary for the Council to be able to make sound financial decisions in the management of the City.

Condition: During our audit, we identified several material adjustments in order to properly identify cash balances of each fund.

Context: Although the City maintains two separate checkbooks and multiple savings accounts, they were not able to identify the correct cash balances accordingly for each fund.

Effect: A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a not 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.

Cause: Separate bank accounts were originally intended to keep track of the cash balances in each fund, however, the entries in the accounting software do not correspond with the transactions in the individual bank accounts.

Recommendation: We recommend that the City establish internal control procedures for analysis and review of financial transactions and financial statements to ensure that transactions are reported accurately and that accounts are balanced in a timely manner. The fund cash balances should be in agreement with the individual reconciled checkbook balances.



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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*

Independent Auditor's Report

City Council
City of Kennedy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Kennedy as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2017. The governmental activities had a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kennedy's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting 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 a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2015-001, 2015-002, 2016-001, and 2016-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kennedy'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 or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 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 we did not test for compliance with the provisions for tax increment financing because the City of Kennedy has no tax increment financing districts.

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

City's Response to Findings

The City's response to the findings identified in our audit has been included in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.


Hoffman, Philipp, & Knutson, PLLC

September 29, 2017