

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2017



Hoffman, Philipp, & Knutson, PLLC

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2017**

<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		
Jody Bowman ¹	Clerk/Treasurer	Indefinite

¹ Replaced Mary Cooney in August, 2018.

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, 2017, 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 over financial reporting 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 over financial reporting 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kennedy, Minnesota, as of December 31, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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, as listed in the table of contents is 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, 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.



Hoffman, Philipp, & Knutson, PLLC
March 28, 2019



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, 2017. 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

The total net position of governmental activities is \$695,707, of which \$242,285 is the net investment in capital assets, \$448,302 is restricted for specific purposes, and \$5,090 is unrestricted. The total net position of governmental activities increased by \$9,057 for the year ended December 31, 2017. This is attributed primarily to a reduction in net pension liability.

The total net position of business-type activities is \$292,383, of which \$102,527 is the net investment in capital assets, and \$189,856 is unrestricted. The total net position of business-type activities decreased by \$19,116 for the year ended December 31, 2017. This attributed primarily to maintenance and water tower repairs expense.

At the close of 2017, the City's governmental funds reported combined ending fund balances of \$507,276, a decrease of \$10,060 from the prior year. Of the total fund balance amount, \$18,229 is non-spendable for loans receivable, \$300,931 is legally or contractually restricted, \$135,016 is formally committed for specific purposes, and \$58,944 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.

www.cityofkennedy.com

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, and conservation of natural resources. 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 funds.

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 23 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 \$988,090 at the close of 2017. A portion of the City’s net position (approximately 35 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 45 percent of the City’s net position is restricted and 20 percent of the City’s net position is unrestricted. The unrestricted net position amount of \$194,946 as of December 31, 2017, may be used to meet the City’s ongoing obligations to citizens.

The City’s overall financial position increased from last year. Total assets increased by \$32,111 from the prior year, primarily due to the purchase of two trucks. Total liabilities increased by \$25,986 from the prior year, primarily due to debt incurred for truck financing. Deferred outflows of resources, and deferred inflows of resources related to net pension liability increased by a net amount of \$16,184. This resulted in a decreased net position of \$10,059 from the prior year.

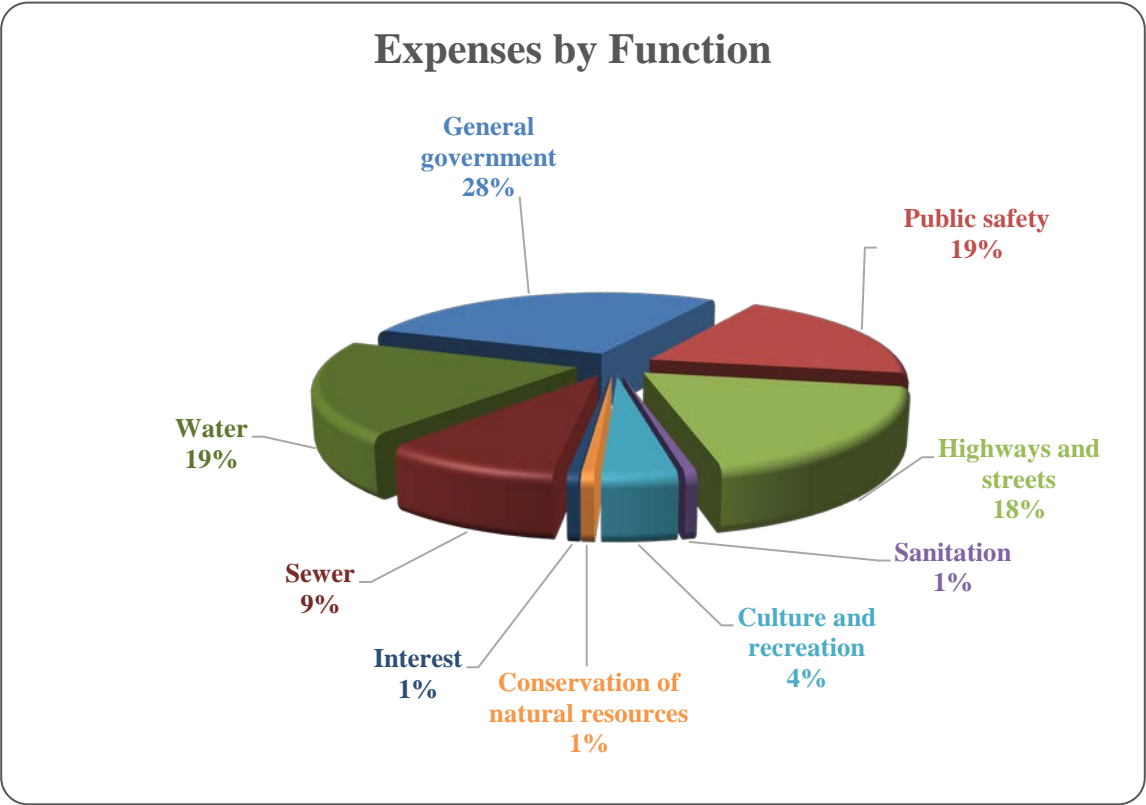
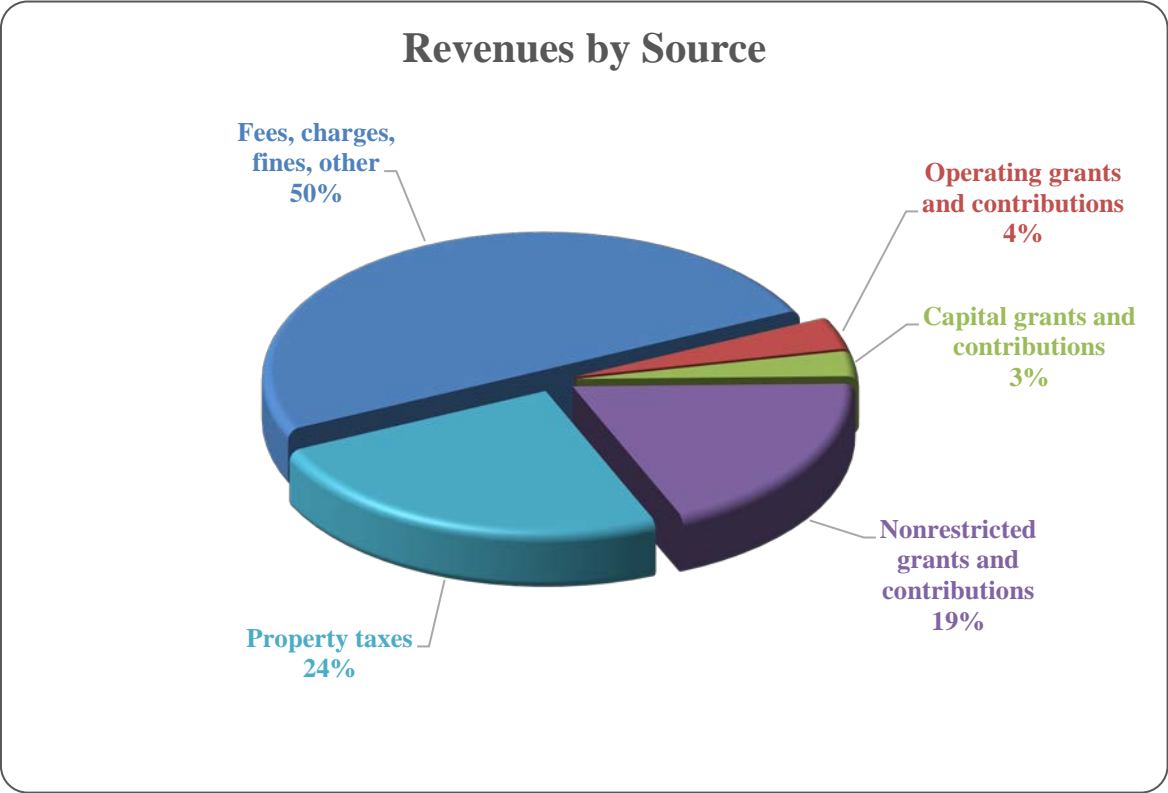
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 371,478	\$ 528,577	\$ 211,919	\$ 226,375	\$ 583,397	\$ 754,952
Capital assets	494,857	279,771	158,527	169,947	653,384	449,718
Total assets	\$ 866,335	\$ 808,348	\$ 370,446	\$ 396,322	\$ 1,236,781	\$ 1,204,670
Deferred Outflows - Pension	\$ 28,605	\$ 30,735	\$ 9,597	\$ 10,307	\$ 38,202	\$ 41,042
Other liabilities	\$ 10,823	\$ 336	\$ 1,804	\$ -	\$ 12,627	\$ 336
Long-term liabilities outstanding	162,462	136,157	77,088	89,698	239,550	225,855
Total liabilities	\$ 173,285	\$ 136,493	\$ 78,892	\$ 89,698	\$ 252,177	\$ 226,191
Deferred Inflows - Pension	\$ 25,948	\$ 15,940	\$ 8,768	\$ 5,432	\$ 34,716	\$ 21,372
Net position						
Net investment in capital assets	\$ 242,285	\$ 216,350	\$ 102,527	\$ 104,947	\$ 344,812	\$ 321,297
Restricted for debt service	448,332	289,648	-	-	448,332	289,648
Unrestricted	5,090	180,652	189,856	206,552	194,946	387,204
Total net position	\$ 695,707	\$ 686,650	\$ 292,383	\$ 311,499	\$ 988,090	\$ 998,149

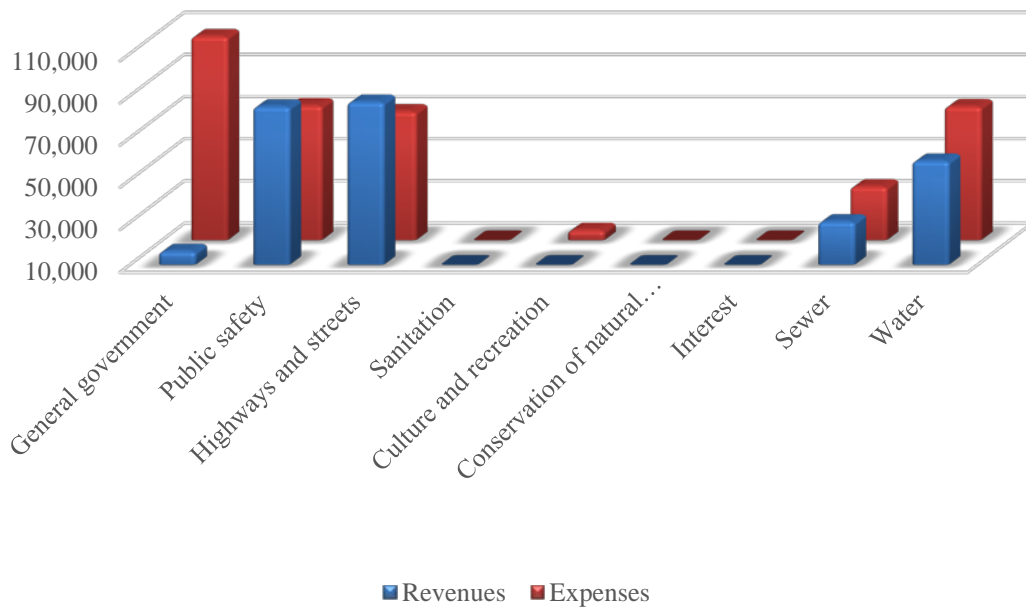
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 100,988	\$ 68,889	\$ 80,848	\$ 81,610	\$ 181,836	\$ 150,499
Operating grants and contributions	13,884	13,936	-	-	13,884	13,936
Capital grants and contributions	2,250	-	8,634	-	10,884	-
General Revenues						
Property taxes	90,963	96,970	-	-	90,963	96,970
Grants and contributions not restricted	70,525	65,726	-	-	70,525	65,726
Investment earnings	2,058	1,908	157	146	2,215	2,054
Miscellaneous	1,942	3,163	5	94	1,947	3,168
Total revenues	\$ 282,610	\$ 250,592	\$ 89,644	\$ 81,850	\$ 372,254	\$ 332,442
Expenses						
General government	\$ 106,662	\$ 78,121	\$ -	\$ -	\$ 106,662	\$ 78,121
Public safety	73,821	63,094	-	-	73,821	63,094
Highways and streets	71,008	64,846	-	-	71,008	64,846
Sanitation	2,388	2,556	-	-	2,388	2,556
Culture and recreation	14,791	17,256	-	-	14,791	17,256
Conservation of natural resources	2,568	1,260	-	-	2,568	1,260
Interest	2,315	2,727	-	-	2,315	2,727
Sewer	-	-	35,370	17,765	35,370	17,765
Water	-	-	73,390	63,499	73,390	63,499
Total expenses	\$ 273,553	\$ 229,860	\$ 108,760	\$ 81,264	\$ 382,313	\$ 311,124
Increase (decrease)	\$ 9,057	\$ 20,732	\$ (19,116)	\$ 586	\$ (10,059)	\$ 21,318
Net position, January 1	686,650	665,918	311,499	310,913	998,149	976,831
Net position, December 31	\$ 695,707	\$ 686,650	\$ 292,383	\$ 311,499	\$ 988,090	\$ 998,149

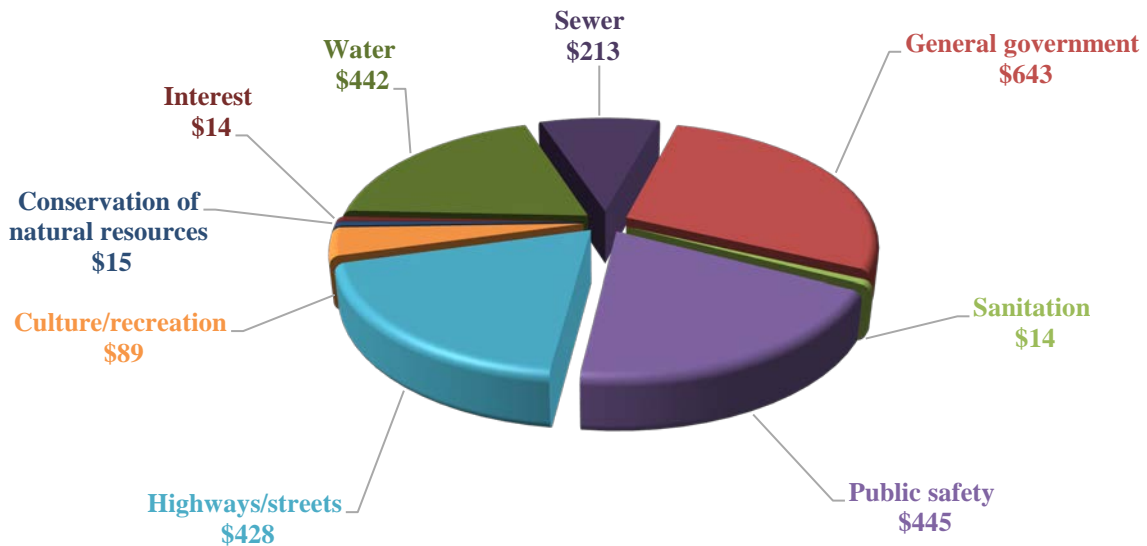
The following charts show the proportion of the revenues and expenses for the fiscal year 2017.



Program Revenues & Expenses



Expenditures Per Capita 166 Population as of 2017



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 2017, the City's governmental funds reported combined ending fund balances of \$507,276. Of this amount, 4 percent constitutes non-spendable, 59 percent constitutes legally or contractually restricted fund balance, 25 percent constitutes formally committed fund balance, and 12 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 \$245,827. The General Fund's non-spendable fund balance was \$18,229, restricted fund balance was \$150,987, committed fund balance was \$17,667, and unassigned fund balance was \$58,944. As a measure of the General Fund's liquidity, it is useful to compare total fund balance to total fund expenditures for 2017. Total fund balance represents 52 percent of total General Fund expenditures.

In 2017, the fund balance amount in the General Fund decreased by \$5,718. This increase was primarily due to expenditures in excess of budget. The fund balance of the Fire Special Revenue Fund decreased \$4,882 from the prior year, primarily due to unbudgeted capital outlay.

Proprietary Funds

The Sewer Enterprise Fund reported operating loss in 2017 of \$4,972, primarily due to maintenance and repairs.

The Water Enterprise Fund reported operating loss in 2017 of \$21,256, primarily due to maintenance and repairs and depreciation.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2017.

Actual revenues were more than overall final budgeted revenues by \$5,957, with the largest positive variances in charges for services, and intergovernmental revenue. Actual expenditures were more than overall final budgeted expenditures by \$74,314, primarily as a result of unbudgeted debt service and capital outlay.

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, 2017, amounted to \$500,643 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current fiscal year was approximately one percent. This increase was primarily the result of the purchase of two trucks and depreciation expense.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 7,036	\$ 7,036	\$ -	\$ -	\$ 7,036	\$ 7,036
Infrastructure	89,548	93,017	157,800	169,947	247,348	262,964
Buildings and improvements	62,918	65,138	-	-	62,918	65,138
Machinery and equipment	183,341	114,580	-	-	183,341	114,580
Total capital assets	\$ 342,843	\$ 279,771	\$ 157,800	\$ 169,947	\$ 500,643	\$ 449,718

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 \$156,558, which is backed by the full faith and credit of the government.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Koda Bank Loan - JD Tractor 7800	\$ -	\$ 17,425	\$ -	\$ -	\$ -	\$ 17,425
Koda Bank Loan - Sander Truck Loan	58,088	-	-	-	58,088	-
USDA Loan	42,470	45,996	-	-	42,470	45,996
MN Public Facilities Authority	-	-	20,000	22,000	20,000	22,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	-	-	36,000	43,000	36,000	43,000
Total:	\$ 100,558	\$ 63,421	\$ 56,000	\$ 65,000	\$ 156,558	\$ 128,421

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 2017, 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 4.0 percent as December 31, 2017. This is higher than the statewide rate of 3.3 percent and the national average rate of 3.9 percent.
- Kennedy's December 31, 2017 population per the League of Minnesota Cities was 166, a decrease of 27 since the 2010 census of 193.
- On September 25, 2017, the City of Kennedy set its 2018 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 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, 2017**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 494,857	\$ 170,291	\$ 665,148
Taxes receivable			
Current	3,963	-	3,963
Prior	5,393	-	5,393
Special assessments receivable			
Current	279	471	750
Prior	-	1,029	1,029
Accounts receivable	771	5,688	6,459
Loans receivable	18,229	-	18,229
Special assessments receivable - noncurrent	-	34,440	34,440
Capital assets			
Non-depreciable	7,036	-	7,036
Depreciable - net of accumulated depreciation	335,807	158,527	494,334
Total Assets	\$ 866,335	\$ 370,446	\$ 1,236,781
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 28,605	\$ 9,597	\$ 38,202
<u>Liabilities</u>			
Accounts payable	\$ 9,510	\$ 1,588	\$ 11,098
Due to other governments	1,313	216	1,529
Long-term liabilities			
Due within one year	14,968	9,000	23,968
Due in more than one year	147,494	68,088	215,582
Total Liabilities	\$ 173,285	\$ 78,892	\$ 252,177
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 25,948	\$ 8,768	\$ 34,716
<u>Net Position</u>			
Net investment in capital assets	\$ 242,285	\$ 102,527	\$ 344,812
Amounts restricted for			
Debt service	149,944	-	149,944
General government	18,229	-	18,229
Public safety	111,505	-	111,505
Culture and recreation	9,552	-	9,552
Economic development	159,102	-	159,102
Unrestricted amounts	5,090	189,856	194,946
Total Net Position	\$ 695,707	\$ 292,383	\$ 988,090

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Expenses	Program Revenues	
		Fees, Charges, Fines and Other	Operating Grants and Contributions
Functions/Programs			
Governmental activities			
General government	\$ 106,662	\$ 16,243	\$ 150
Public safety	73,821	71,120	13,734
Highways and streets	71,008	-	-
Sanitation	2,388	3,625	-
Culture and recreation	14,791	10,000	-
Conservation of natural resources	2,568	-	-
Interest	2,315	-	-
Total governmental activities	\$ 273,553	\$ 100,988	\$ 13,884
Business-type activities			
Sewer	\$ 35,370	\$ 30,398	\$ -
Water	73,390	50,450	-
Total business-type activities	\$ 108,760	\$ 80,848	\$ -
Total	\$ 382,313	\$ 181,836	\$ 13,884

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

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (90,269)	\$ -	\$ (90,269)
-	11,033	-	11,033
2,250	(68,758)	-	(68,758)
-	1,237	-	1,237
-	(4,791)	-	(4,791)
-	(2,568)	-	(2,568)
-	(2,315)	-	(2,315)
\$ 2,250	\$ (156,431)	\$ -	\$ (156,431)
\$ -	\$ -	\$ (4,972)	\$ (4,972)
8,634	-	(14,306)	(14,306)
\$ 8,634	\$ -	\$ (19,278)	\$ (19,278)
\$ 10,884	\$ (156,431)	\$ (19,278)	\$ (175,709)
	\$ 90,963	\$ -	\$ 90,963
	70,525	-	70,525
	2,058	157	2,215
	1,942	5	1,947
	\$ 165,488	\$ 162	\$ 165,650
	\$ 9,057	\$ (19,116)	\$ (10,059)
	686,650	311,499	998,149
	\$ 695,707	\$ 292,383	\$ 988,090

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<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	\$ 232,428	\$ 113,025	\$ 124,705	\$ 24,699	\$ 494,857
Taxes receivable					
Current	3,963	-	-	-	3,963
Prior	5,393	-	-	-	5,393
Special assessments receivable					
Current	279	-	-	-	279
Accounts receivable	771	-	-	-	771
Loans receivable	18,229	-	-	-	18,229
Due fom other funds	-	-	540	-	540
Total Assets	\$ 261,063	\$ 113,025	\$ 125,245	\$ 24,699	\$ 524,032
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 7,990	\$ 1,520	\$ -	\$ -	\$ 9,510
Due to other funds	540	-	-	-	540
Due to other governments	1,313	-	-	-	1,313
Total Liabilities	\$ 9,843	\$ 1,520	\$ -	\$ -	\$ 11,363
Deferred Inflows of Resources					
Taxes	\$ 5,393	\$ -	\$ -	\$ -	\$ 5,393
Fund Balances					
Nonspendable for					
Loans receivable	\$ 18,229	\$ -	\$ -	\$ -	\$ 18,229
Restricted for					
Baseball field	1,885	-	-	-	1,885
Debt service	-	-	125,245	24,699	149,944
Economic development	139,102	-	-	-	139,102
Grant repay	10,000	-	-	-	10,000
Committed to					
Fire	-	111,505	-	-	111,505
Grant repay	10,000	-	-	-	10,000
Improvements	4,140	-	-	-	4,140
Park board	3,527	-	-	-	3,527
Unassigned	58,944	-	-	-	58,944
Total Fund Balances	\$ 245,827	\$ 111,505	\$ 125,245	\$ 24,699	\$ 507,276
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 261,063	\$ 113,025	\$ 125,245	\$ 24,699	\$ 524,032

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balances - total governmental funds (Exhibit 3)	\$	507,276
<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>		342,843
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		5,393
<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	\$ (58,088)	
Loans payable	(42,470)	(100,558)
<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	\$ (61,904)	
Deferred outflows of resources related to pensions	28,605	
Deferred inflows of resources related to pensions	(25,948)	(59,247)
Net position of governmental activities (Exhibit 1)	\$	<u>695,707</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, 2017**

	<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	\$ 96,135	\$ -	\$ -	\$ -	\$ 96,135
Special assessments	2,050	-	540	-	2,590
Licenses and permits	1,805	-	-	-	1,805
Intergovernmental	70,525	13,734	-	-	84,259
Charges for services	6,839	70,145	-	-	76,984
Gifts and contributions	150	800	-	-	950
Investment earnings	1,858	200	-	-	2,058
Miscellaneous	23,144	175	-	-	23,319
Total Revenues	\$ 202,506	\$ 85,054	\$ 540	\$ -	\$ 288,100
Expenditures					
Current					
General government	\$ 103,032	\$ -	\$ -	\$ -	\$ 103,032
Public safety	8,386	38,671	-	-	47,057
Highways and streets	62,966	-	-	-	62,966
Sanitation	2,388	-	-	-	2,388
Culture and recreation	10,696	-	-	-	10,696
Conservation of natural resources	2,568	-	-	-	2,568
Debt service					
Principal retirement	17,425	3,526	-	-	20,951
Interest	763	1,552	-	-	2,315
Capital outlay					
Public safety	-	46,187	-	-	46,187
Highways and streets	58,088	-	-	-	58,088
Total Expenditures	\$ 266,312	\$ 89,936	\$ -	\$ -	\$ 356,248
Excess of Revenues Over (Under) Expenditures	\$ (63,806)	\$ (4,882)	\$ 540	\$ -	\$ (68,148)
Other Financing Sources (Uses)					
Proceeds from issuance of debt	58,088	-	-	-	58,088
Net Change in Fund Balance	\$ (5,718)	\$ (4,882)	\$ 540	\$ -	\$ (10,060)
Fund Balance - January 1	251,545	116,387	124,705	24,699	517,336
Fund Balance - December 31	\$ 245,827	\$ 111,505	\$ 125,245	\$ 24,699	\$ 507,276

**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, 2017**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (10,060)

Amounts reported for governmental activities in the
Statement of Activities are different because:

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.

Purchase of capital assets	\$ 104,275	
Current year depreciation	(41,203)	63,072

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the governmental funds

Change in Taxes receivable		800
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The issuance of long-term debt provides current financial resources to governmental
funds but increases long-term liabilities in the Statement of Net Position, while the
repayment of the principal of long-term debt consumes the current financial resources
of governmental funds. Neither transaction has any effect on net position.

Principal repayments		
Proceeds from issuance of debt	\$ (58,088)	
Capital lease	17,425	
Loans payable	3,526	(37,137)

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:

		(7,618)
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Change in net position of governmental activities (Exhibit 2)		<u>\$ 9,057</u>
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**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Sewer Enterprise	Water Enterprise	Total
<u>Assets</u>			
Current Assets			
Cash and pooled investments	\$ -	\$ 170,291	\$ 170,291
Special assessments receivable			
Current	-	471	471
Prior	-	1,029	1,029
Accounts receivable	2,358	3,330	5,688
Due from other funds	-	16,063	16,063
	\$ 2,358	\$ 191,184	\$ 193,542
Noncurrent Assets			
Special assessments receivable - noncurrent	\$ -	\$ 34,440	\$ 34,440
Capital assets			
Depreciable - net of accumulated depreciation	4,816	153,711	158,527
	\$ 4,816	\$ 188,151	\$ 192,967
	\$ 7,174	\$ 379,335	\$ 386,509
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 3,045	\$ 6,552	\$ 9,597
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	\$ 172	\$ 1,416	\$ 1,588
Due to other funds	16,063	-	16,063
Due to other governments	-	216	216
G.O. revenue bonds payable	-	9,000	9,000
	\$ 16,235	\$ 10,632	\$ 26,867
Noncurrent Liabilities			
G.O. revenue bonds payable	\$ -	\$ 47,000	\$ 47,000
Net pension liability	6,558	14,530	21,088
	\$ 6,558	\$ 61,530	\$ 68,088
	\$ 22,793	\$ 72,162	\$ 94,955
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 2,757	\$ 6,011	\$ 8,768
<u>Net Position</u>			
Net investment in capital assets	\$ 4,816	\$ 97,711	\$ 102,527
Unrestricted amounts	(20,147)	210,003	189,856
	\$ (15,331)	\$ 307,714	\$ 292,383

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Sewer Enterprise	Water Enterprise	Total
Operating Revenues			
Charges for services	\$ 30,398	\$ 50,450	\$ 80,848
Operating Expenses			
Personnel services	\$ 7,132	\$ 15,977	\$ 23,109
Supplies	1,108	2,528	3,636
Repairs and maintenance	24,824	20,565	45,389
Water purchase	-	17,553	17,553
Utilities	975	2,099	3,074
Miscellaneous	1,162	2,003	3,165
Depreciation	169	11,251	11,420
Total Operating Expenses	\$ 35,370	\$ 71,976	\$ 107,346
Operating Income (Loss)	\$ (4,972)	\$ (21,526)	\$ (26,498)
Nonoperating Revenues (Expenses)			
Special assessments	\$ -	\$ 8,634	\$ 8,634
Investment earnings	-	157	157
Miscellaneous	-	5	5
Interest expense	-	(1,414)	(1,414)
Total Nonoperating Revenues (Expenses)	\$ -	\$ 7,382	\$ 7,382
Change in Net Position	\$ (4,972)	\$ (14,144)	\$ (19,116)
Net Position - January 1	(10,359)	321,858	311,499
Net Position - December 31	\$ (15,331)	\$ 307,714	\$ 292,383

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents**

	Sewer Enterprise	Water Enterprise	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 30,396	\$ 50,666	\$ 81,062
Payments to employees	(6,990)	(15,676)	(22,666)
Payments to suppliers	(24,991)	(38,354)	(63,345)
Net cash provided by (used in) operating activities	\$ (1,585)	\$ (3,364)	\$ (4,949)
Cash Flows from Noncapital Financing Activities			
Special assessments	\$ -	\$ 15,668	\$ 15,668
Transfers in	1,585	-	1,585
Transfers out	-	(1,585)	(1,585)
Net cash provided by (used in) noncapital financing activities	\$ 1,585	\$ 14,083	\$ 15,668
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	-	(1,414)	(1,414)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ (10,414)	\$ (10,414)
Cash Flows from Investing Activities			
Investment earnings received	\$ -	\$ 157	\$ 157
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -	\$ 462	\$ 462
Cash and Cash Equivalents at January 1	-	169,829	169,829
Cash and Cash Equivalents at December 31	\$ -	\$ 170,291	\$ 170,291

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
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)	\$ (4,972)	\$ (21,526)	\$ (26,498)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 169	\$ 11,251	\$ 11,420
(Increase) decrease in assets			
Accounts receivable	393	1,195	1,588
Inventory	2,513	3,788	6,301
Increase (decrease) in liabilities			
Accounts payable	172	1,416	1,588
Due to other governments	-	216	216
Net pension liability	140	296	436
Total adjustments	\$ 3,387	\$ 18,162	\$ 21,549
Net cash provided by (used in) operating activities	\$ (1,585)	\$ (3,364)	\$ (4,949)

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 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.

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, 2017, 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 2017 were \$44. Total investment earnings for 2017 were \$2,215. 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 2017 and noncurrent special assessments collectible in 2018 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 acquisition cost 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.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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

5. Deferred Outflows/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 delinquent property tax receivables 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.

**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)

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.

9. Net Position and Fund Balance

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

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 County Board 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 City Clerk/Treasurer.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

I. Summary of Significant Accounting Policies

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

9. Net Position and Fund Balance (Continued)

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, 2017, the City did not identify an 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.

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, deferred outflows of resources and deferred inflows of resources, 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, 2017, are as follows:

Governmental Activities	
Cash and pooled investments	\$ 494,857
Business-type Activities	
Cash and pooled investments	<u>170,291</u>
Total Cash and Investments	<u>\$ 665,148</u>
Deposits	
Checking accounts	\$ 119,841
Savings accounts	437,156
Certificates of deposit	<u>108,151</u>
Total Deposits	<u>\$ 665,148</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2017, the City’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2017, 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	\$ 9,356	\$ -
Special Assessments	279	-
Accounts	771	-
Loans	18,229	7,852
Total Governmental Activities	\$ 28,635	\$ 7,852
Business-Type Activities		
Special assessments	\$ 35,940	\$ 34,440
Accounts	5,688	-
Total Business-Type Activities	\$ 41,628	\$ 34,440

**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, 2017, 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	\$ 125,306	\$ -	\$ -	\$ 125,306
Buildings and improvements	159,700	-	-	159,700
Machinery and equipment	500,080	104,275	-	604,355
Total capital assets being depreciated	\$ 785,086	\$ 104,275	\$ -	\$ 889,361
Less: accumulated depreciation for				
Infrastructure	\$ 32,289	\$ 3,469	\$ -	\$ 35,758
Buildings and improvements	94,562	2,220	-	96,782
Machinery and equipment	385,500	35,514	-	421,014
Total accumulated depreciation	\$ 512,351	\$ 41,203	\$ -	\$ 553,554
Total capital assets, depreciated, net	\$ 272,735	\$ 63,072	\$ -	\$ 335,807
Governmental Activities Capital Assets, Net	\$ 279,771	\$ 63,072	\$ -	\$ 342,843

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Infrastructure	\$ 413,251	\$ -	\$ -	\$ 413,251
Machinery and equipment	15,633	-	-	15,633
Total capital assets being depreciated	\$ 428,884	\$ -	\$ -	\$ 428,884
Less: accumulated depreciation for				
Infrastructure	\$ 243,304	\$ 12,147	\$ -	\$ 255,451
Machinery and equipment	15,633	-	-	15,633
Total accumulated depreciation	\$ 258,937	\$ 12,147	\$ -	\$ 271,084
Total capital assets, depreciated, net	\$ 169,947	\$ (12,147)	\$ -	\$ 157,800
Business-Type Activities Capital Assets, Net	\$ 169,947	\$ (12,147)	\$ -	\$ 157,800

**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
Total Depreciation Expense - Governmental Activities	\$	41,203
Business-Type Activities		
Sewer	\$	681
Water		11,466
Total Depreciation Expense - Business-Type Activities	\$	12,147

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

The composition of due to/from other funds as of December 31, 2017, is as follows:

Receivable Fund	Payable Fund	Amount	
1993 Refunding Bonds Debt Service Fund	General Fund	\$ 540	Taxes settled to wrong fund
Water Enterprise fund	Sewer Enterprise fund	16,063	To cover cash deficit
Total Due To/From Other Funds		\$ 16,603	

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds (Continued)

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. There were no compensated absences payable reported as of December 31, 2017.

Severance pay is determined based on a percentage of unused sick leave not to exceed \$2,000 per employee. Unvested sick leave, approximately \$947 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

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 of \$9,215 through August 8, 2018. The balance of this loan was paid in full in 2017.

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, 2017, is \$42,470.

City of Kennedy Koda Bank Loan of 2017 represents debt incurred for the purchase of a sander truck. This loan has an original issue amount of \$58,088. It carries a net interest of 4.50 percent and is due in annual installments from the General Fund of \$13,043 through August, 2022. The balance due on this loan at December 31, 2017, is \$58,088.

Debt Service Requirements

Debt service requirements for the governmental activities for the year ended December 31, 2017, are as follows:

Year Ending December 31	Koda Bank Loan of 2017		USDA Loan of 2013		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	11,324	1,719	3,645	1,433	14,969	3,152
2019	10,938	2,104	3,768	1,310	14,706	3,414
2020	11,430	1,612	3,895	1,183	15,325	2,795
2021	11,945	1,098	4,026	1,052	15,971	2,150
2022	12,451	561	4,162	916	16,613	1,477
2023-2027	-	-	22,974	2,374	22,974	2,374
Total	\$ 58,088	\$ 7,094	\$ 42,470	\$ 8,268	\$ 100,558	\$ 15,362

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Governmental Activities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Koda Bank Loan of 2014	\$ 17,425	\$ -	\$ 17,425	\$ -	\$ -
Koda Bank Loan of 2017	-	58,088	-	58,088	11,324
USDA Loan	45,996	-	3,526	42,470	3,645
Net Pension Liability	72,736	-	10,832	61,904	-
	<u>136,157</u>	<u>58,088</u>	<u>31,783</u>	<u>162,462</u>	<u>14,969</u>
Governmental Activities Long-Term Liabilities	<u>\$ 136,157</u>	<u>\$ 58,088</u>	<u>\$ 31,783</u>	<u>\$ 162,462</u>	<u>\$ 14,969</u>

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, 2017 is \$20,000.

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, 2017 is \$36,000.

Debt Service Requirements

Debt service requirements for the business-type activities for the year ended December 31, 2017, 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
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	462	10,000	582
2022	3,000	90	8,000	252	11,000	342
2023-2027	6,000	90	-	-	6,000	90
Total	<u>\$ 20,000</u>	<u>\$ 830</u>	<u>\$ 36,000</u>	<u>\$ 3,234</u>	<u>\$ 56,000</u>	<u>\$ 4,064</u>

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Business-Type Activities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the business-type activities for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
MN PFA Loan of 2012	\$ 22,000	\$ -	\$ 2,000	\$ 20,000	\$ 2,000
GO Revenue Bonds of 2011	43,000	-	7,000	36,000	7,000
Net Pension Liability	<u>24,698</u>	<u>-</u>	<u>3,611</u>	<u>21,087</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 114,396</u>	<u>\$ -</u>	<u>\$ 12,611</u>	<u>\$ 77,087</u>	<u>\$ 9,000</u>

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.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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.

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 2017. 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 2017. The City of Kennedy's contributions to the General Employees Fund for the year ended December 31, 2017, were \$5,658. 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, 2017, the City of Kennedy reported a liability of \$82,991 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 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Kennedy totaled \$1,004. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Kennedy's proportion share was .0013 percent which was an increase of .0001 percent from its proportion measured as of June 30, 2016. There were no provision changes during the measurement period.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Pension Costs

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2017, the City of Kennedy recognized a pension expense of \$5,434 for their proportionate share of the General Employees Plan's pension expense. In addition, the City of Kennedy recognized an additional \$29 as pension expense (and grant revenue) for their proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, 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	\$ 2,735	\$ 5,016
Changes in actuarial assumptions	12,719	8,320
Difference between projected and actual investment earnings	13,746	14,091
Changes in proportion	6,090	7,289
Contributions paid to PERA subsequent to the measurement date	2,912	-
Total	\$ 38,202	\$ 34,716

\$2,912 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	(949)
2019	4,883
2020	162
2021	(3,522)

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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 to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years through 2044, and then 2.5 percent thereafter for the General Employees Plan.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2017 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 2017:

General Employees Fund

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

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

III. Defined Benefit Pension Plans (Continued)

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			
City of Kennedy's	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Proportionate share of the General Employee Fund net pension liability	\$ 128,725	\$ 82,991	\$ 45,549

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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 95,871	\$ 95,871	\$ 96,135	\$ 264
Licenses and permits	1,825	1,825	1,805	(20)
Intergovernmental	63,441	63,441	70,525	7,084
Charges for services	2,650	2,650	6,839	4,189
Gifts and contributions	-	-	150	150
Investment earnings	2,000	2,000	1,858	(142)
Miscellaneous	23,000	23,000	23,144	144
Total Revenues	\$ 196,549	\$ 196,549	\$ 202,506	\$ 5,957
Expenditures				
Current				
General government				
Mayor/council	\$ 2,470	\$ 2,470	\$ 2,858	\$ (388)
City clerk/treasurer	42,133	42,133	41,781	352
Elections	-	-	888	(888)
Professional services	6,000	6,000	14,030	(8,030)
Legal	50	50	-	50
Buildings and grounds	12,605	12,605	17,853	(5,248)
Insurance	10,000	10,000	11,231	(1,231)
School building	7,754	7,754	4,297	3,457
Other general government	9,497	9,497	10,094	(597)
Total general government	\$ 90,509	\$ 90,509	\$ 103,032	\$ (12,523)
Public safety				
Fire	\$ -	\$ -	\$ 7,752	\$ (7,752)
Other public safety	-	-	634	(634)
Total public safety	\$ -	\$ -	\$ 8,386	\$ (8,386)
Highways and streets				
Streets and alleys	\$ 73,418	\$ 73,418	\$ 51,694	\$ 21,724
Snow removal	2,000	2,000	125	1,875
Street lights	10,200	10,200	11,147	(947)
Total highways and streets	\$ 85,618	\$ 85,618	\$ 62,966	\$ 22,652
Sanitation				
Solid waste	\$ 25	\$ 25	\$ 2,388	\$ (2,363)

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Culture and recreation				
Parks	1,600	1,600	1,000	600
Ball park	4,000	4,000	3,036	964
Ice rink	\$ 9,246	\$ 9,246	\$ 6,160	\$ 3,086
Other culture and recreation	1,000	1,000	500	500
Total culture and recreation	\$ 15,846	\$ 15,846	\$ 10,696	\$ 5,150
Conservation of natural resources				
Insect control	\$ -	\$ -	\$ 2,568	\$ (2,568)
Debt service				
Principal retirement	\$ -	\$ -	\$ 17,425	\$ (17,425)
Interest	-	-	763	(763)
Total debt service	\$ -	\$ -	\$ 18,188	\$ (18,188)
Capital outlay				
Highways and streets	\$ -	\$ -	\$ 58,088	\$ (58,088)
Total Expenditures	\$ 191,998	\$ 191,998	\$ 266,312	\$ (74,314)
Excess of Revenues Over (Under)				
Expenditures	\$ 4,551	\$ 4,551	\$ (63,806)	\$ (68,357)
Other Financing Sources				
Proceeds from issuance of debt	-	-	58,088	58,088
Net Change in Fund Balance	\$ 4,551	\$ 4,551	\$ (5,718)	\$ (10,269)
Fund Balance - January 1	251,545	251,545	251,545	-
Fund Balance - December 31	\$ 256,096	\$ 256,096	\$ 245,827	\$ (10,269)

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 2,000	\$ 2,000	\$ 13,734	\$ 11,734
Charges for services	18,227	18,227	70,145	51,918
Gifts and contributions	11,000	11,000	800	(10,200)
Investment earnings	-	-	200	200
Miscellaneous	-	-	175	175
Total Revenues	\$ 31,227	\$ 31,227	\$ 85,054	\$ 53,827
Expenditures				
Current				
Public safety				
Fire	\$ 30,700	\$ 30,700	\$ 27,937	\$ 2,763
Fire relief association	-	-	10,734	(10,734)
Total public safety	\$ 30,700	\$ 30,700	\$ 38,671	\$ (7,971)
Debt service				
Principal retirement	\$ 3,526	\$ 3,526	\$ 3,526	\$ -
Interest	1,552	1,552	1,552	-
Total debt service	\$ 5,078	\$ 5,078	\$ 5,078	\$ -
Capital outlay				
Public safety	\$ -	\$ -	\$ 46,187	\$ (46,187)
Total Expenditures	\$ 35,778	\$ 35,778	\$ 89,936	\$ (54,158)
Excess of Revenues Over (Under)				
Expenditures	\$ (4,551)	\$ (4,551)	\$ (4,882)	\$ (331)
Fund Balance - January 1	116,387	116,387	116,387	-
Fund Balance - December 31	\$ 111,836	\$ 111,836	\$ 111,505	\$ (331)

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 3

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017	\$ 5,869	\$ 5,869	\$ -	\$ 78,261	7.5%
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, 2017**

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, 2017	0.0013%	\$ 82,991	\$ 1,004	\$ 83,995	\$ 78,261	106.04%	75.90%
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, 2017

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, 2017:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Mayor/Council	\$ 2,858	\$ 2,470	\$ (388)
Elections	888	-	(888)
Professional services	14,030	6,000	(8,030)
Buildings and grounds	17,853	12,605	(5,248)
Insurance	11,231	10,000	(1,231)
Other general government	10,094	9,497	(597)
Public safety			
Fire	7,752	-	(7,752)
Other public safety	634	-	(634)
Highways and streets			
Streets lights	11,147	10,200	(947)
Snow and ice removal	-	-	-
Sanitation			
Solid waste	2,388	25	(2,363)
Conservation of natural resources			
Insect control	2,568	-	(2,568)
Debt Service			
Principal retirement	17,425	-	(17,425)
Interest	763	-	(763)
Capital outlay			
Highways and streets	58,088	-	(58,088)
Fire Special Revenue Fund			
Public safety			
Fire relief association	10,734	-	(10,734)
Capital outlay			
Public safety	46,187	-	(46,187)

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

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 recommended by PERA and adopted by the City Council.

A. General Employees Fund

1. 2017 Changes in Actuarial Assumptions

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

2. 2016 Changes in Actuarial Assumptions

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

3. 2015 Changes in Actuarial Assumptions

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

4. 2015 Changes in Plan Provisions

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

OTHER SCHEDULES

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

Shared Revenue

State

Fire state aid	\$	10,734
Local government aid		63,117
Market value credit		533
PERA rate reimbursement		324
Small cities assistance program		<u>6,551</u>

Total Shared Revenue **\$** **81,259**

Grants

Local

Kittson County	\$	1,000
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State

Minnesota Department of Natural resources		<u>2,000</u>
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Total Grants **\$** **3,000**

Total Intergovernmental Revenue **\$** **84,259**

MANAGEMENT AND COMPLIANCE SECTION



Hoffman, Philipp, & Knutson, PLLC

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2019. 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, 2016-002, and 2017-001 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*, except for the finding described as 2016-001. 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

March 28, 2019

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2015-001

Finding Title: 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 its most effective control lies in its awareness and oversight of this situation. In 2018, the City hired a CPA firm to prepare the financial records for the City.*

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 6
(Continued)

Finding Number: 2015-002

Finding Title: 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.*

Finding Number: 2016-001

Finding Title: 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, 2015.

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.

City's Response: *This will be resolved in 2018.*

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number: 2017-002

Finding Title: Late Reporting

Criteria: MN Stat. §471.698 requires the City to prepare a detailed statement of the financial affairs of the city and all items necessary to show accurately the revenues and expenditures and financial position of the city for public inspection and present it to the city council within 45 days after the close of the fiscal year.

Condition: The City financial statements were not made available until nine months after the close of the fiscal year. The City does not have a process for monitoring to ensure the financial statements are made available within the required time frame.

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 timely reporting, the annual audit could not be performed for timely reporting to the State Auditor and various other agencies.

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 timely reporting in accordance with MN Stat. §471.698.

City's Response: *This will be resolved in 2018.*

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 7

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2015-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: City Council and management.

Corrective Action Planned: The City of Kennedy is aware of the segregation of duties issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: *Ongoing. The City Council and management are aware of the limited ability to segregate duties to an optimal level; however, oversight procedures have been implemented to provide compensating controls and continue to be improved whenever possible. In 2018, the City hired a CPA firm to prepare the financial records for the City.*

Finding Number: 2015-002

Finding Title: Internal Control Monitoring

Name of Contact Person Responsible for Corrective Action: Jody Bowman, City Clerk/Treasurer

Corrective Action Planned: The City will review the internal control policies to determine which require updating and which new policies are needed.

Anticipated Completion Date: *Ongoing. As of December 31, 2017, the City Council is continuing its effort to document key internal controls for all significant accounting functions, and formalize the process for monitoring the effectiveness and efficiency of operations.*

Finding Number: 2016-001

Finding Title: Accounting and Financial Reporting for Pensions

Name of Contact Person Responsible for Corrective Action: City Council and Jody Bowman, City Clerk/Treasurer

Corrective Action Planned: The City of Kennedy will 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.

Anticipated Completion Date: *December 31, 2018. The Fire Relief Association has retained an actuary to complete their study.*

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 7
(Continued)

Finding Number: 2017-001

Finding Title: Late Reporting

Name of Contact Person Responsible for Corrective Action: City Council and Jody Bowman, City Clerk/Treasurer

Corrective Action Planned: The City will formalize written documentation of their internal controls and the monitoring process to ensure timely reporting in accordance with MN Stat. §471.698.

Anticipated Completion Date: *December 31, 2018. The City Council has retained a CPA firm to prepare financial information.*

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 8

Finding Number: 2015-001

Finding Title: Segregation of Duties

Summary of 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.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not corrected.

Finding Number: 2015-002

Finding Title: Internal Control Monitoring

Summary of 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.

Summary of Corrective Action: The City has begun to 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.

Status: Not corrected.

Finding Number: 2016-001

Finding Title: Accounting and Financial Reporting for Pensions

Summary of 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.

Summary of Corrective Action: The City has encouraged the Fire Relief Association to obtain an actuarial study to determine its net pension liability for its inclusion in the City's financial statements.

Status: Not corrected.

**CITY OF KENNEDY
KENNEDY, MINNESOTA**

Schedule 8
(Continued)

Finding Number: 2016-002

Finding Title: Audit Adjustments

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

Summary of Corrective Action: The City established 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 by contracting with an accounting firm to maintain their financial records.

Status: Fully corrected.