

CITY OF KENNEDY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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CITY OF KENNEDY, MINNESOTA  
DECEMBER 31, 2011

OFFICIAL DIRECTORY

Elected Officials:

Todd Truedson

Mayor

Mary Ryden

Councilperson

Duane Peterson

Councilperson

Kevin Hanson

Councilperson

Paul Larson

Councilperson

Appointed:

Mary Cooney

Clerk/Treasurer

# Drees, Risky & Vallager, Ltd.

*Certified Public Accountants*

**Grand Forks:**

1405 Library Circle  
Telephone (701) 746-4466  
FAX (701) 772-6659

**Crookston:**

117 South Broadway  
Telephone (218) 281-3789  
FAX (218) 281-5245

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Kennedy  
Kennedy, Minnesota

We have audited the accompanying statements of the governmental activities, the business-type activities, and the major funds of the City of Kennedy, Minnesota as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Kennedy, Minnesota's management. 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 Audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Kennedy, Minnesota as of December 31, 2011 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has implemented Governmental Accounting Standards (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued reports dated June 22, 2012 on our consideration of City of Kennedy, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of our 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. These reports are an integral part of an audit Performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

June 22, 2012  
Crookston, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS

## City of Kennedy, Minnesota Management's Discussion and Analysis

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1,178,864 (*net assets*). Of this amount, \$220,766 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$50,569. This increase resulted primarily from the governmental activities, which was the result of a federal grant for fire equipment.

### Overview of the Financial Statements

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

#### Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets, parks, economic development, and culture and recreation. The business-type activities of the City include water and sewer.

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

#### Fund Financial Statements

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

## City of Kennedy Management's Discussion & Analysis

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, Fire fund, 1993 Refunding Bonds fund and 1995 Refunding Bonds fund, all of which have been presented as major funds of the City.

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

**Proprietary fund.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer.

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

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,178,864 at the close of the most recent fiscal year.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**City of Kennedy  
Management's Discussion & Analysis**

**Condensed Statements of Net Assets**

	2011			2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>						
Current	\$ 282,937	\$ 128,033	\$ 410,970	\$ 284,372	\$ 114,631	\$ 399,003
Capital	599,208	85,041	684,249	560,829	92,510	653,339
Other noncurrent	114,198	62,643	176,841	121,243	66,630	187,873
Total Assets	<u>\$ 996,343</u>	<u>\$ 275,717</u>	<u>\$ 1,272,060</u>	<u>\$ 966,444</u>	<u>\$ 273,771</u>	<u>\$ 1,240,215</u>
<b>Liabilities:</b>						
Current	\$ 12,831	\$ 5,365	\$ 18,196	\$ 26,181	\$ 779	\$ 26,960
Noncurrent	4,000	71,000	75,000	8,960	76,000	84,960
Total Liabilities	<u>16,831</u>	<u>76,365</u>	<u>93,196</u>	<u>35,141</u>	<u>76,779</u>	<u>111,920</u>
<b>Net Assets:</b>						
Investment in capital assets, net of related debt	\$ 593,208	\$ 85,041	\$ 678,249	\$ 546,909	\$ 92,510	\$ 639,419
Restricted	165,538	-	165,538	324,562	-	324,562
Unrestricted	220,766	114,311	335,077	59,832	104,482	164,314
Total Net Assets	<u>\$ 979,512</u>	<u>\$ 199,352</u>	<u>\$ 1,178,864</u>	<u>\$ 931,303</u>	<u>\$ 196,992</u>	<u>\$ 1,128,295</u>

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

**Governmental activities.** Governmental activities increased the City's net assets by \$243,832. Key elements of this increase are as follows:

**Condensed Statements of Activities**

	2011			2010		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Revenues</b>						
<b>Program:</b>						
Fees, fines and charges for services	\$ 53,896	\$ 70,745	\$ 124,641	\$ 33,965	\$ 72,279	\$ 106,244
Operating grants/contributions	25,402	-	25,402	27,557	-	27,557
Capital grants/contributions	64,840	-	64,840	266,672	-	266,672
<b>General:</b>						
Property taxes	75,050	-	75,050	68,826	-	68,826
Special assessments	315	3,255	3,570	616	3,986	4,602
Intergovernmental	71,507	-	71,507	71,868	-	71,868
Interest earnings	2,737	-	2,737	9,775	-	9,775
Other	9,724	-	9,724	12,032	-	12,032
Gain from sale of asset	750	-	750	-	-	-
Total Revenues	<u>304,221</u>	<u>74,000</u>	<u>378,221</u>	<u>491,311</u>	<u>76,265</u>	<u>567,576</u>

## City of Kennedy Management's Discussion & Analysis

	2011			2010		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Expenses						
Governmental:						
General government	59,241	-	59,241	61,532	-	61,532
Public safety	33,522	-	33,522	50,855	-	50,855
Streets and highways	71,618	-	71,618	53,586	-	53,586
Sanitation and public health	4,523	-	4,523	4,019	-	4,019
Parks and recreation	9,820	-	9,820	9,076	-	9,076
School building	54,426	-	54,426	57,343	-	57,343
Economic & community devel	5,100	-	5,100	-	-	-
Other	17,724	-	17,724	11,030	-	11,030
Interest on long-term debt	38	-	38	38	-	38
Business-Type:						
Water	-	53,633	53,633	-	46,105	46,105
Sewer	-	18,007	18,007	-	21,224	21,224
Total Expenses	<u>256,012</u>	<u>71,640</u>	<u>327,652</u>	<u>247,479</u>	<u>67,329</u>	<u>314,808</u>
Change in Net Assets	<u>\$ 48,209</u>	<u>\$ 2,360</u>	<u>\$ 50,569</u>	<u>\$ 243,832</u>	<u>\$ 8,936</u>	<u>\$ 252,768</u>

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$383,563 in which 5 percent of this total amount, \$22,548 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *nonspendable* because assets are not in spendable form; *restricted* by external grantors, laws or regulations of other governments; *committed or assigned* which indicates amounts set aside for a specific purpose by the governing board.

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

### General Fund Budgetary Highlights

At the end of 2011 general fund actual expenditures exceeded budget by \$23,978, which was attributed to increase in available resources to cover the additional capital expenditures that were incurred during the year.

### Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2011, amounts to \$684,249 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities.

**City of Kennedy  
Management's Discussion & Analysis**

	Beginning of Year	Additions	Deletions	End of Year
<b>Governmental Capital Assets</b>				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building & improvements	486,603	-	-	486,603
Equipment and furnishings	243,588	75,742	-	319,330
Infrastructures	117,087	-	-	117,087
	854,314	75,742	-	930,056
Less accumulated depreciation	293,485	37,363	-	330,848
Net Governmental Capital Assets	<u>\$ 560,829</u>	<u>\$ 38,379</u>	<u>\$ -</u>	<u>\$ 599,208</u>
<b>Business-Type Capital Assets</b>				
<b>Water</b>				
Distribution system	\$ 212,474	\$ -	\$ -	\$ 212,474
Equipment	32,531	-	-	32,531
	245,005	-	-	245,005
Less accumulated depreciation	160,412	6,687	-	167,099
Net Water	84,593	(6,687)	-	77,906
<b>Sewer</b>				
Treatment facility	46,767	-	-	46,767
Equipment	5,273	-	-	5,273
	52,040	-	-	52,040
Less accumulated depreciation	44,123	782	-	44,905
Net Sewer	7,917	(782)	-	7,135
Net Business-Type Activities	<u>\$ 92,510</u>	<u>\$ (7,469)</u>	<u>\$ -</u>	<u>\$ 85,041</u>

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$77,000. Of this amount, \$71,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment and \$8,000 due to the Kittson County EDA.

**Governmental Activities Outstanding Debt**

	Beginning of Year	New Issues	Debt Retired	End of Year
<b>Governmental Activities</b>				
Capital Lease Obligations:				
John Deere Credit - mower	\$ 5,920	\$ -	\$ 5,920	\$ -
Kittson County EDA loan	8,000	-	2,000	6,000
	13,920	-	7,920	6,000
<b>Business-Type Activities</b>				
GO Rural Water System Revenue Refunding Bonds of 2004	76,000	-	5,000	71,000
Total Long-Term Debt	<u>\$ 89,920</u>	<u>\$ -</u>	<u>\$ 12,920</u>	<u>\$ 77,000</u>

## **City of Kennedy Management's Discussion & Analysis**

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

- Continued State budget deficits and legislative inactivity could further threaten city LGA payments in the coming years. Further reductions in LGA will result in either reduced services or higher taxes.
- It is not anticipated in the upcoming year, that the school building operating as a renewable energy business incubator will generate enough revenue to cover operations.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk/Treasurer, City of Kennedy, P.O. Box 7, Kennedy, Minnesota 56733.

BASIC FINANCIAL STATEMENTS

CITY OF KENNEDY, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and investments	\$ 277,296	\$ 114,288	\$ 391,584
Accounts receivable	625	7,719	8,344
Taxes receivable	4,343	-	4,343
Special assessments receivable	673	1,758	2,431
Inventory	-	4,268	4,268
Total Current Assets	<u>282,937</u>	<u>128,033</u>	<u>410,970</u>
Capital Assets			
Accumulated depreciation	930,055	297,045	1,227,100
Net Capital Assets	<u>(330,847)</u>	<u>(212,004)</u>	<u>(542,851)</u>
599,208	85,041	684,249	
Other Noncurrent Assets			
Revolving Loans Receivable	114,198	-	114,198
Deferred special assessments receivable	-	62,643	62,643
Total Other Noncurrent Assets	<u>114,198</u>	<u>62,643</u>	<u>176,841</u>
<b>TOTAL ASSETS</b>	<b>\$ 996,343</b>	<b>\$ 275,717</b>	<b>\$ 1,272,060</b>
<b>LIABILITIES</b>			
Current Liabilities			
Current portion long-term debt	\$ 2,000	\$ -	\$ 2,000
Accounts payable	4,285	5,365	9,650
Due to other governments	6,546	-	6,546
Total Current Liabilities	<u>12,831</u>	<u>5,365</u>	<u>18,196</u>
Noncurrent Liabilities			
Bonds and notes payable, net of current	4,000	71,000	75,000
<b>TOTAL LIABILITIES</b>	<b>\$ 16,831</b>	<b>\$ 76,365</b>	<b>\$ 93,196</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	593,208	85,041	678,249
Restricted	165,538	-	165,538
Unrestricted (deficit)	220,766	114,311	335,077
<b>TOTAL NET ASSETS</b>	<b>\$ 979,512</b>	<b>\$ 199,352</b>	<b>\$ 1,178,864</b>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

FUNCTION	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 59,241	\$ 426	\$ -	\$ -	\$ (58,815)		\$ (58,815)
Public safety	33,522	18,912	25,402	64,840	75,632		75,632
Streets and highways	71,618	-	-	-	(71,618)		(71,618)
Sanitation and public health	4,523	3,381	-	-	(1,142)		(1,142)
Parks and recreation	9,820	14,635	-	-	4,815		4,815
School building	54,426	15,412	-	-	(39,014)		(39,014)
Economic and community development	5,100	1,130	-	-	(3,970)		(3,970)
Other	17,724	-	-	-	(17,724)		(17,724)
Interest on long-term debt	38	-	-	-	(38)		(38)
Total Governmental Activities	<u>256,012</u>	<u>53,896</u>	<u>25,402</u>	<u>64,840</u>	<u>(111,874)</u>		<u>(111,874)</u>
<b>Business-Type Activities:</b>							
Water	53,633	48,061	-	-		(5,572)	(5,572)
Sewer	<u>18,007</u>	<u>22,684</u>	<u>-</u>	<u>-</u>		<u>4,677</u>	<u>4,677</u>
Total Business-Type Activities	<u>71,640</u>	<u>70,745</u>	<u>-</u>	<u>-</u>		<u>(895)</u>	<u>(895)</u>
Total Government-Wide					<u>(111,874)</u>	<u>(895)</u>	<u>(112,769)</u>
<b>General Revenues:</b>							
					75,050	-	75,050
					315	3,255	3,570
					1,748	-	1,748
					69,759	-	69,759
					2,737	-	2,737
					9,724	-	9,724
					750	-	750
					<u>160,083</u>	<u>3,255</u>	<u>163,338</u>
Changes in Net Assets					48,209	2,360	50,569
Net Assets, January 1 (Restated)					<u>931,303</u>	<u>196,992</u>	<u>1,128,295</u>
Net Assets, December 31					<u>\$ 979,512</u>	<u>\$ 199,352</u>	<u>\$ 1,178,864</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	<u>General</u>	<u>Fire</u>	<u>1993 Refunding Bonds</u>	<u>1995 Refunding Bonds</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and investments	\$ 89,613	\$ 38,640	\$ 124,449	\$ 24,594	\$ 277,296
Accounts receivable	625	-	-	-	625
Taxes receivable, delinquent	4,277	-	66	-	4,343
Special assessments receivable:					
Delinquent	-	-	568	105	673
Revolving loans receivable	114,198	-	-	-	114,198
<b>TOTAL ASSETS</b>	<u>\$ 208,713</u>	<u>\$ 38,640</u>	<u>\$ 125,083</u>	<u>\$ 24,699</u>	<u>\$ 397,135</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 4,285	\$ -	\$ -	\$ -	\$ 4,285
Due to other government	6,546	-	-	-	6,546
Deferred revenue:					
Taxes	2,002	-	66	-	2,068
Special assessments	-	-	568	105	673
<b>Total Liabilities</b>	<u>12,833</u>	<u>-</u>	<u>634</u>	<u>105</u>	<u>13,572</u>
<b>FUND BALANCE</b>					
Nonspendable					
EDA loans	114,198	-	-	-	114,198
Restricted					
Economic development	46,486				46,486
Baseball field	4,154				4,154
Pioneer memorial	700				700
Unrestricted					-
Committed					-
Improvements and capital outlay	3,762	-	-	-	3,762
Park board	4,032	-	-	-	4,032
Assigned	-	38,640	124,449	24,594	187,683
Unassigned	22,548	-	-	-	22,548
<b>Total Fund Balance</b>	<u>195,880</u>	<u>38,640</u>	<u>124,449</u>	<u>24,594</u>	<u>383,563</u>
<b>TOTAL LIABILITIES         AND FUND BALANCE</b>	<u>\$ 208,713</u>	<u>\$ 38,640</u>	<u>\$ 125,083</u>	<u>\$ 24,699</u>	<u>\$ 397,135</u>

Reconciliation to Statement of Net Assets:

Total Fund Balance, From Above	383,563
Property taxes and special assessments receivable that will not be collected soon enough to pay current period's expenditures and therefore deferred in the funds.	2,741
Capital assets used in governmental activities of \$930,055, net of accumulated depreciation of \$330,847, are not financial resources and, therefore, are not reported in the funds.	599,208
Loans and bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,000)</u>
Net Assets of Governmental Activities	<u>\$ 979,512</u>

See notes to the basic financial statements.



CITY OF KENNEDY, MINNESOTA  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Fire	1993 Refunding Bonds	1995 Refunding Bonds	Total
<b>REVENUES</b>					
Taxes	\$ 73,969	\$ -	\$ -	\$ -	\$ 73,969
Special assessments	-	-	315	-	315
Intergovernmental	77,055	64,840	-	-	141,895
Licenses and permits	1,748	-	-	-	1,748
Charges for services	33,854	18,227	-	-	52,081
Interest	2,701	36	-	-	2,737
Donations	2,307	18,856	-	-	21,163
Other	9,086	-	-	-	9,086
<b>TOTAL REVENUES</b>	<u>200,720</u>	<u>101,959</u>	<u>315</u>	<u>-</u>	<u>302,994</u>
<b>EXPENDITURES</b>					
General government	55,343	-	-	-	55,343
Public safety	6,925	92,175	-	-	99,100
Sanitation and public health	4,523	-	-	-	4,523
Streets and highways	58,037	-	-	-	58,037
Parks and recreation	9,158	-	-	-	9,158
School building	45,222	-	-	-	45,222
Community and economic development	5,100	-	-	-	5,100
Other	17,724	-	-	-	17,724
Debt Service:					
Principal retirement	7,920	-	-	-	7,920
Interest and fees	38	-	-	-	38
<b>TOTAL EXPENDITURES</b>	<u>209,990</u>	<u>92,175</u>	<u>-</u>	<u>-</u>	<u>302,165</u>
Revenues Over (Under) Expenditures	(9,270)	9,784	315	-	829
<b>OTHER SOURCES (USES)</b>					
Proceeds from capital financing	-	-	-	-	-
Transfer from (to) other fund	(6,500)	6,500	-	-	-
Net Other Sources (Uses)	<u>(6,500)</u>	<u>6,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(15,770)	16,284	315	-	829
Fund Balance - January 1	<u>211,650</u>	<u>22,356</u>	<u>124,134</u>	<u>24,594</u>	<u>382,734</u>
Fund Balance - December 31	<u>\$ 195,880</u>	<u>\$ 38,640</u>	<u>\$ 124,449</u>	<u>\$ 24,594</u>	<u>\$ 383,563</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Governmental Funds	\$ 829
Tax and special assessment revenue that does not provide current financial resources are not reported as revenue in the funds.	1,081
Governmental funds report capital outlay as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchase capitalized	75,742
Depreciation expense	(37,363)
Debt proceeds provide current resources to governmental funds, but for governmental activities debt increases long-term liabilities. Repayment of notes and bonds payable is an expenditure in the governmental funds, but for governmental activities the repayment reduces long-term liabilities.	
Debt issued	-
Debt principal payments	<u>7,920</u>
Change in Net Assets - Governmental Activities	<u>\$ 48,209</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and investments	\$ 114,288	\$ -	\$ 114,288
Accounts receivable	4,801	2,918	7,719
Due from other funds	50,454	-	50,454
Inventory	2,088	2,180	4,268
Special assessments receivable:			
Delinquent	1,758	-	1,758
Deferred	62,643	-	62,643
Total Current Assets	<u>236,032</u>	<u>5,098</u>	<u>241,130</u>
Capital Assets			
Accumulated depreciation	245,005	52,040	297,045
Net Capital Assets	<u>(167,099)</u>	<u>(44,905)</u>	<u>(212,004)</u>
TOTAL ASSETS	<u>\$ 313,938</u>	<u>\$ 12,233</u>	<u>\$ 326,171</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 5,365	\$ -	\$ 5,365
Due to other funds	-	50,454	50,454
Total Current Liabilities	<u>5,365</u>	<u>50,454</u>	<u>55,819</u>
Noncurrent Liabilities			
Bonds payable, net of current	71,000	-	71,000
Compensated absences	-	-	-
Total Noncurrent Liabilities	<u>71,000</u>	<u>-</u>	<u>71,000</u>
TOTAL LIABILITIES	<u>\$ 76,365</u>	<u>\$ 50,454</u>	<u>\$ 126,819</u>
<b>FUND NET ASSETS</b>			
Investment in capital assets, net of related debt	\$ 77,906	\$ 7,135	\$ 85,041
Unrestricted (Deficit)	<u>159,667</u>	<u>(45,356)</u>	<u>114,311</u>
TOTAL FUND NET ASSETS	<u>\$ 237,573</u>	<u>\$ (38,221)</u>	<u>\$ 199,352</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 48,061	\$ 22,684	\$ 70,745
<b>OPERATING EXPENSES</b>			
Salaries and benefits	15,238	7,519	22,757
Utilities	2,223	467	2,690
Repairs and maintenance	6,700	8,416	15,116
Purchased water	15,155	-	15,155
Chemicals and supplies	1,765	39	1,804
Other	2,439	784	3,223
Depreciation	6,687	782	7,469
Total Operating Expenses	<u>50,207</u>	<u>18,007</u>	<u>68,214</u>
Operating Income	(2,146)	4,677	2,531
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest on special assessments	3,255	-	3,255
Interest and bond fees	<u>(3,426)</u>	<u>-</u>	<u>(3,426)</u>
Net Nonoperating Revenues (Expenses)	<u>(171)</u>	<u>-</u>	<u>(171)</u>
Change in Net Assets	(2,317)	4,677	2,360
Fund Net Assets (Deficit), January 1	<u>239,890</u>	<u>(42,898)</u>	<u>196,992</u>
Fund Net Assets (Deficit), December 31	<u>\$ 237,573</u>	<u>\$ (38,221)</u>	<u>\$ 199,352</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 48,590	\$ 23,595	\$ 72,185
Payments to suppliers	(23,696)	(9,706)	(33,402)
Payments to employees	(15,238)	(7,519)	(22,757)
Net Cash Provided (Used) by Operating Activities	<u>9,656</u>	<u>6,370</u>	<u>16,026</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Receipt or repayment from other fund	<u>6,370</u>	<u>(6,370)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Special assessments collected	7,182	-	7,182
Purchase of property and equipment	-	-	-
Interest and fees paid on bonds	(3,426)	-	(3,426)
Principal payments made on bonds	(5,000)	-	(5,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,244)</u>	<u>-</u>	<u>(1,244)</u>
Net Increase in Cash	14,782	-	14,782
Cash Balance, January 1	<u>99,506</u>	<u>-</u>	<u>99,506</u>
Cash Balance, December 31	<u>\$ 114,288</u>	<u>\$ -</u>	<u>\$ 114,288</u>

\* \* \* \* \*

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating income (loss)	\$ (2,146)	\$ 4,677	\$ 2,531
Depreciation	6,687	782	7,469
Change in:			
Accounts receivable	529	911	1,440
Inventory	-	-	-
Accounts payable	4,586	-	4,586
Compensated absences	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,656</u>	<u>\$ 6,370</u>	<u>\$ 16,026</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Reporting Entity

The financial statements of the City include all organizations, funds and account groups over which the City's Board exercises significant influence over and, or is financially accountable or organizations for which the nature and significance of their relationship with the City is such that exclusion would cause the City of Kennedy , Minnesota's financial statements to be misleading.

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

The Kennedy Fire Relief Association does not meet the definition of a component unit of the City and therefore not included in these financial statements. Its members have sole authority over daily operations and financial activities.

B. Basis of Presentation

*Government-Wide Financial Statement*

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

*Fund Financial Statements*

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

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

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

1. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined.

*Governmental Funds*

General Fund

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

Special Revenue Fund

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

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

Debt Service Funds

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

Proprietary Funds

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

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

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

C. Measurement Focus and Basis of Accounting

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

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

*Measurement Focus*

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

Governmental fund financial statements are reported using, the “current financial resources” measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and claims and judgments (if any), are recorded only when payment is due.

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

D. Budgets

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

E. Revenues

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

F. Property Taxes

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

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

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



CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

G. Cash and Investments

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

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation. Estimated historical cost has been used to value primarily all capital assets for governmental activities acquired prior to January 1, 1980.

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

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

I. Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements.

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

I. Compensated Absences

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

K. Equity

In the government-wide financial statements equity is classified as "net assets" and displayed in three components:

1. Investment in Capital Assets, (net of related debt) – Consists of capital assets including restricted, net of accumulated depreciation and reduced by the outstanding balance of any related debt that is attributed to the acquisition, construction or improvement of those assets.

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

L. Interfund Balances

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

M. Fund Balance

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

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

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

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

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

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

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

N. Estimates

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

O. Subsequent Events

The City has evaluated subsequent events through June 22, 2012, the date which the financial statements were available to be issued

NOTE 2. CASH

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

Interest Rate Risk

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

Credit Risk

The City is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of Minnesota Housing Finance Agency rated "A" or better; commercial paper issued by United States'

guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City has no investment policy that would further limit its investment choices.

Concentration of Risk

The City places no limit on the amount the City may invest in any one issuer.

NOTE 3. CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2011 are as follows:

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

	Beginning of Year	Additions	Deletions	End of Year
<i>Governmental Activities</i>				
Capital Assets:				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building and improvements	486,603	-	-	486,603
Equipment and furnishing	243,588	75,742	-	319,330
Infrastructure	117,087	-	-	117,087
	<u>854,314</u>	<u>75,742</u>	<u>-</u>	<u>930,056</u>
Accumulated Depreciation:				
Building and improvements	\$ 92,153	\$ 12,276	\$ -	\$ 104,429
Equipment and furnishing	189,857	21,618	-	211,475
Infrastructure	11,475	3,469	-	14,944
	<u>293,485</u>	<u>37,363</u>	<u>-</u>	<u>330,848</u>
Net Capital Assets - Governmental Activities	<u>\$ 560,829</u>	<u>\$ 38,379</u>	<u>\$ -</u>	<u>\$ 599,208</u>

Changes in capital assets for business-type activities for the year ended December 31, 2011, are as follows:

	Balance at Beginning of Year	Additions	Deletions	Balance at End of Year
<i>Business-Type Activities</i>				
Capital Assets:				
Water -				
Distribution system	\$ 212,474	\$ -	\$ -	\$ 212,474
Equipment	32,531	-	-	32,531
Subtotal	<u>245,005</u>	<u>-</u>	<u>-</u>	<u>245,005</u>
Sewer -				
Treatment facility	46,767	-	-	46,767
Equipment	5,273	-	-	5,273
Subtotal	<u>52,040</u>	<u>-</u>	<u>-</u>	<u>52,040</u>
Total	<u>297,045</u>	<u>-</u>	<u>-</u>	<u>297,045</u>
Accumulated Depreciation:				
Water -				
Distribution system	139,493	5,151	-	144,644
Equipment	20,919	1,536	-	22,455
Subtotal	<u>160,412</u>	<u>6,687</u>	<u>-</u>	<u>167,099</u>
Sewer -				
Treatment facility	39,863	340	-	40,203
Equipment	4,260	442	-	4,702
Subtotal	<u>44,123</u>	<u>782</u>	<u>-</u>	<u>44,905</u>
Total	<u>204,535</u>	<u>7,469</u>	<u>-</u>	<u>212,004</u>
Net Capital Assets - Business-Type Activities	<u>\$ 92,510</u>	<u>\$ (7,469)</u>	<u>\$ -</u>	<u>\$ 85,041</u>

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

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

Governmental Activities:	
General government	\$ 3,749
Streets and highways	13,607
Public safety	10,141
Economic development	9,204
Park and recreation	<u>662</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 37,363</u>
Business-Type Activities:	
Water	\$ 6,687
Sewer	<u>782</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 7,469</u>

NOTE 4. REVOLVING LOANS RECEIVABLE

The City of Kennedy administers a revolving loan pool. Loans have been made to qualifying businesses, based on a standard application process. Currently all loans have been issued to Todd Truedson. Terms on these notes are negotiated based on the financial circumstances of each business. Currently, all loans carry an annual interest rate of 1% and are payable over 10 years. At December 31, 2011, the balance remaining on the loans was \$114,198.

NOTE 5. LONG-TERM DEBT

Long-term indebtedness is made up of the following issues as of December 31, 2011:

	<u>Original Issue</u>	<u>Secured Interest</u>	<u>Revenue Sources for Retirement</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance</u>
<i>Governmental Activities</i>						
Kittson County EDA Loan	\$ 10,000	n/a	repayments	n/a	12/15/2014	<u>6,000</u>
						<u>6,000</u>
<i>Business-Type Activities</i>						
GO Rural Water System Revenue Refunding Bonds of 2004	\$ 108,000	n/a	service fees	1.75 - 5.0%	1/1/2023	<u>71,000</u>
						<u>\$ 77,000</u>

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Balance at Beginning of Year	New Issues	Debt Retired	Balance at End of Year	Due Within a Year
<i>Governmental Activities</i>					
Capital Debt Obligations:					
John Deere Credit - Mower	\$ 5,920	\$ -	\$ 5,920	\$ -	\$ -
Kittson County EDA Loan	<u>8,000</u>	<u>-</u>	<u>2,000</u>	<u>6,000</u>	<u>2,000</u>
Total Governmental Activities	<u>\$ 13,920</u>	<u>\$ -</u>	<u>\$ 7,920</u>	<u>\$ 6,000</u>	<u>\$ 2,000</u>
<i>Business-Type Activities</i>					
GO Rural Water System Revenue					
Refunding Bonds of 2004	\$ 76,000	\$ -	\$ 5,000	\$ 71,000	-
Total Business-Type Activities	<u>\$ 76,000</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 71,000</u>	<u>\$ -</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except compensated absences, as of December 31, 2011 are as follows:

Year Ended December 31,	Governmental Activities		Business-Type Activities	
	Kittson County Loan		Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 2,000	\$ -	\$ -	\$ -
2013	2,000	-	5,000	3,306
2014	2,000	-	5,000	3,125
2015	-	-	6,000	2,931
2016	-	-	6,000	2,705
2017-2021	-	-	33,000	9,488
2022-2026	-	-	<u>16,000</u>	<u>1,768</u>
Total	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 71,000</u>	<u>\$ 23,323</u>

NOTE 6. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Kennedy, Minnesota are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's 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 GERF's Coordinated and Basic Plan members. The retiring member receives the higher of 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 10 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 10 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 all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at [mnpera.com](http://mnpera.com) or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The City of Kennedy, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The City's contributions to the Public Employees Retirement

CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

Fund for the years ending December 30, 2011, 2010 and 2009 were \$5,362, \$5,531 and \$5,186, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 7. INTERFUND BALANCES AND TRANSFERS

The following comprises the interfund balances and transfers as of and for the year ended December 31, 2011:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>	<u>Amount</u>	<u>Purpose</u>
Sewer Fund	Water Fund	<u>\$ 50,454</u>	Cover fund expenditures
<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	
Fire Department Fund	General Fund	<u>\$ 6,500</u>	Fire protection contract

NOTE 8. EXCESS EXPENDITURES OVER BUDGET

Expenditures exceeded appropriations in the General Fund for the year ended December 31, 2011, by \$23,978, which was attributed to a federal grant and related expenses that had not been budgeted. Currently, no remedial action is planned.

NOTE 9. FUND DEFICIENCIES / DEFICITS

The City's sewer fund had a deficit fund balance of \$38,221 at December 31, 2011. The deficit is expected to be recovered by future revenues, or if necessary, by transfers from other funds.

NOTE 10. WATER AGREEMENT

The City has entered into agreement with North Kittson Rural Water for the delivery of water. The purchase rate agreed to by both parties for the year ended December 31, 2011 required the City to pay \$2.04 per thousand gallons. Also, the City has agreed to pay a monthly bond fee of \$312.50. These rates are reviewed annually and subject to increases based on the operating needs of North Kittson Rural Water.

NOTE 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT.



CITY OF KENNEDY, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

NOTE 13. CONTINGENCIES

The City participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2011, may be impaired. The City is not aware of any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

NOTE 14. GASB 54 ADJUSTMENT

An adjustment to beginning fund balance in the general fund of \$121,243 was made as a result of the implementation of Governmental Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The adjustment was made to reclass long-term receivables from deferred revenue to nonspendable fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENNEDY, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUE</b>				
Property taxes	\$ 82,324	\$ 82,324	\$ 73,969	\$ (8,355)
Intergovernmental:				
State:				
Local governmental aid	66,764	66,764	66,764	-
MV and MV Ag credits	-	-	2,671	2,671
Other state aid	324	324	6,870	6,546
Other local governments	-	-	750	750
Total Intergovernmental	<u>67,088</u>	<u>67,088</u>	<u>77,055</u>	<u>9,967</u>
Other:				
Licenses and permits	1,600	1,600	1,748	148
Charges for services	29,250	29,250	33,854	4,604
EDA loan repayments	-	-	2,385	2,385
Interest	5,500	5,500	2,701	(2,799)
Donations	1,500	1,500	2,307	807
Other	7,000	7,000	6,701	(299)
Total Other	<u>44,850</u>	<u>44,850</u>	<u>49,696</u>	<u>4,846</u>
<b>TOTAL REVENUE</b>	<u>194,262</u>	<u>194,262</u>	<u>200,720</u>	<u>6,458</u>
<b>EXPENDITURES</b>				
General government:				
Mayor and council	3,550	3,550	-	3,550
Clerk	30,500	30,500	25,277	5,223
Professional fees	6,000	6,000	6,602	(602)
Election	-	-	-	-
City hall	11,500	11,500	-	11,500
Capital outlay	800	800	7,851	(7,051)
Unallocated insurance	7,000	7,000	10,279	(3,279)
Other	3,850	3,850	5,334	(1,484)
Total General Government	<u>63,200</u>	<u>63,200</u>	<u>55,343</u>	<u>7,857</u>
Public Safety and Welfare:				
Fire protection	500	500	6,925	(6,425)
Sanitation and Public Health:				
Garbage	-	-	1,957	(1,957)
Pest Control	3,000	3,000	2,566	434
Total Sanitation and Public Health	<u>3,000</u>	<u>3,000</u>	<u>4,523</u>	<u>(1,523)</u>
Streets and Highways:				
Street lighting and signs	8,100	8,100	8,802	(702)
Wages and benefits	33,800	33,800	28,691	5,109
Street maintenance	12,650	12,650	15,494	(2,844)
Snow removal and ditching	2,700	2,700	2,655	45
Capital outlay	22,000	22,000	2,395	19,605
Total Streets and Highways	<u>79,250</u>	<u>79,250</u>	<u>58,037</u>	<u>21,213</u>

CITY OF KENNEDY, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Culture and Recreation:				
Rinks and ice rental	\$ 1,400	\$ 1,400	\$ 5,700	\$ (4,300)
Summer recreation	2,500	2,500	2,659	(159)
Parks	6,300	6,300	799	5,501
Total Culture and Recreation	<u>10,200</u>	<u>10,200</u>	<u>9,158</u>	<u>1,042</u>
School Facility	<u>15,000</u>	<u>15,000</u>	<u>45,222</u>	<u>(30,222)</u>
Community & Economic Development	<u>-</u>	<u>-</u>	<u>5,100</u>	<u>(5,100)</u>
Other:				
Real estate taxes	5,180	5,180	5,146	34
Unallocated payroll benefits	9,682	9,682	12,578	(2,896)
Total Other	<u>14,862</u>	<u>14,862</u>	<u>17,724</u>	<u>(2,862)</u>
Debt Service:				
Principal payment	-	-	7,920	(7,920)
Interest payment	-	-	38	(38)
Total Debt Service	<u>-</u>	<u>-</u>	<u>7,958</u>	<u>(7,958)</u>
TOTAL EXPENDITURES	<u>186,012</u>	<u>186,012</u>	<u>209,990</u>	<u>(23,978)</u>
Revenues Over (Under) Expenditures	8,250	8,250	(9,270)	(17,520)
OTHER SOURCES (USES)				
Proceeds from capital financing	-	-	-	-
Transfer to other fund	(8,250)	(8,250)	(6,500)	1,750
Net Other Sources (Uses)	<u>(8,250)</u>	<u>(8,250)</u>	<u>(6,500)</u>	<u>1,750</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(15,770)	(15,770)
Fund Balance - January 1	<u>211,650</u>	<u>211,650</u>	<u>211,650</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 211,650</u>	<u>\$ 211,650</u>	<u>\$ 195,880</u>	<u>\$ (15,770)</u>

CITY OF KENNEDY, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011

Minnesota Statutes require the City to prepare budget for governmental funds supported by property tax revenues. Budgets are prepared on the modified accrual basis of accounting. Budgeted fund expenditures are limited under State statutes to the total budgeted amount which may be amended as defined by statutes. There were no budget amendments in 2011.

Final budgets are typically set after the Truth and Taxation Hearing in November or December for the following year. Original budget must be submitted to the State Auditor's office by January 31 for the current year.

Any budget changes are approved by the Council and all unencumbered appropriations lapse at year-end.

OTHER SUPPLEMENTARY INFORMATION

**Drees, Risky & Vallager, Ltd.**  
*Certified Public Accountants*

Grand Forks:  
1405 Library Circle  
Telephone (701) 746-4466  
FAX (701) 772-6659

Crookston:  
117 South Broadway  
Telephone (218) 281-3789  
FAX (218) 281-5245

AUDITORS' REPORT ON LEGAL COMPLIANCE

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

We have audited the financial statements of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 22, 2012.

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 and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main 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 study included all of the listed categories, except tax increment financing, which did not apply.

The results of our tests indicate that for the items tested the City of Kennedy, Minnesota complied with the material terms and conditions of applicable legal provisions, except as discussed in a separate letter. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the City of Kennedy, Minnesota had not complied with such legal provisions.

This report is intended solely for the information and use of the Mayor and City Council, management, and the Office of the State Auditor of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

June 22, 2012  
Crookston, Minnesota

**Drees, Risky & Vallager, Ltd.**  
*Certified Public Accountants*

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 1405 Library Circle  
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
 REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
 GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
 City Council  
 City of Kennedy, Minnesota

We have audited the financial statements of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 22, 2012. 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.

Internal Control Over Financial Reporting

In planning and Performing our audit, we considered the City of Kennedy, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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* 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 misstatements and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2011-1 and 2011-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kennedy, Minnesota's financial statements are free of material misstatement, we Performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance that would be required to be reported under *Government Auditing Standards*.

City of Kennedy, Minnesota's response to the findings identified in our audit report is described in the accompanying schedule of findings and responses. We did not audit City of Kennedy, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal and state awarding agencies and is not intended to be, and should not be used by anyone other than these specified parties.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

June 22, 2012  
Crookston, MN

CITY OF KENNEDY, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Deficiency 2011-1**

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

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

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

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

Management's Response: The City is aware of this situation and will continue to monitor operations, but is considering additional staffing and developing a segregation of duties plan to provide adequate controls over utility and service billings.

**Deficiency 2011-2**

Condition: An internal control deficiency over financial reporting may be determined present in the absence of the City's preparation of its financial statements. This control deficiency could result in a material misstatement to the financial statements that would not be detected or prevented.

Cause: As auditors we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation: The City evaluate the benefit of providing additional training to staff relating to generally accepted government accounting principles and reporting requirements.

Management's Response: Currently the board charged with governance will evaluate a plan to provide additional training to staff which could provide sufficient expertise necessary to properly review and accept the prepared financial statements.