

CITY OF KENNEDY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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CITY OF KENNEDY, MINNESOTA
DECEMBER 31, 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Kennedy, Minnesota as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 8 and Budgetary Comparison Schedule on pages 30 – 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013 on our consideration of the City of Kennedy, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

May 17, 2013
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, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1,274,796 (*net position*). Of this amount, \$310,946 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$95,932. 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). 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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,274,796 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 Position

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets:						
Current	\$ 382,273	\$ 142,927	\$ 525,200	\$ 282,937	\$ 128,033	\$ 410,970
Capital	652,970	78,473	731,443	599,208	85,041	684,249
Other noncurrent	96,848	58,049	154,897	114,198	62,643	176,841
Total Assets	<u>\$ 1,132,091</u>	<u>\$ 279,449</u>	<u>\$ 1,411,540</u>	<u>\$ 996,343</u>	<u>\$ 275,717</u>	<u>\$ 1,272,060</u>
Liabilities:						
Current	\$ 8,529	\$ 313	\$ 8,842	\$ 12,831	\$ 5,365	\$ 18,196
Noncurrent	57,902	70,000	127,902	4,000	71,000	75,000
Total Liabilities	<u>66,431</u>	<u>70,313</u>	<u>136,744</u>	<u>16,831</u>	<u>76,365</u>	<u>93,196</u>
Net Position:						
Investment in capital assets, net of related debt	\$ 589,970	\$ 78,473	\$ 668,443	\$ 593,208	\$ 85,041	\$ 678,249
Restricted	67,896	-	67,896	165,538	-	165,538
Unrestricted	407,794	130,663	538,457	220,766	114,311	335,077
Total Net Position	<u>\$ 1,065,660</u>	<u>\$ 209,136</u>	<u>\$ 1,274,796</u>	<u>\$ 979,512</u>	<u>\$ 199,352</u>	<u>\$ 1,178,864</u>

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

Governmental activities. Governmental activities increased the City's net position by \$86,148. Key elements of this increase are as follows:

Condensed Statements of Activities

	2012			2011		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program:						
Fees, fines and charges for services	\$ 53,312	\$ 78,759	\$ 132,071	\$ 53,896	\$ 70,745	\$ 124,641
Operating grants/contributions	44,643	-	44,643	25,402	-	25,402
Capital grants/contributions	39,271	-	39,271	64,840	-	64,840
General:						
Property taxes	84,240	-	84,240	75,050	-	75,050
Special assessments	295	2,218	2,513	315	3,255	3,570
Licenses and permits	2,133	-	2,133	-	-	-
Intergovernmental	67,114	44,032	111,146	71,507	-	71,507
Interest earnings	3,904	-	3,904	2,737	-	2,737
Other	4,468	-	4,468	9,724	-	9,724
Gain from sale of asset	-	-	-	750	-	750
Total Revenues	<u>299,380</u>	<u>125,009</u>	<u>424,389</u>	<u>304,221</u>	<u>74,000</u>	<u>378,221</u>

City of Kennedy Management's Discussion & Analysis

	2012			2011		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Expenses						
Governmental:						
General government	57,558	-	57,558	59,241	-	59,241
Public safety	35,856	-	35,856	33,522	-	33,522
Streets and highways	77,878	-	77,878	71,618	-	71,618
Sanitation and public health	1,916	-	1,916	4,523	-	4,523
Parks and recreation	11,225	-	11,225	9,820	-	9,820
School building	11,008	-	11,008	54,426	-	54,426
Economic & community devel	-	-	-	5,100	-	5,100
Other	17,791	-	17,791	17,724	-	17,724
Interest on long-term debt	-	-	-	38	-	38
Business-Type:						
Water	-	94,161	94,161	-	53,633	53,633
Sewer	-	21,064	21,064	-	18,007	18,007
Total Expenses	<u>213,232</u>	<u>115,225</u>	<u>328,457</u>	<u>256,012</u>	<u>71,640</u>	<u>327,652</u>
Change in Net Assets	<u>\$ 86,148</u>	<u>\$ 9,784</u>	<u>\$ 95,932</u>	<u>\$ 48,209</u>	<u>\$ 2,360</u>	<u>\$ 50,569</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 \$471,523 in which 19 percent of this total amount, \$89,066 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 2012 general fund budget exceeded actual expenditures by \$17,941, which was attributed to an overall decrease in spending 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, 2012, amounts to \$731,443 (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
Governmental Capital Assets				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building & improvements	486,602	-	-	486,602
Equipment and furnishings	319,330	99,874	-	419,204
Infrastructures	117,087	-	-	117,087
	<u>930,055</u>	<u>99,874</u>	<u>-</u>	<u>1,029,929</u>
Less accumulated depreciation	<u>330,847</u>	<u>46,112</u>	<u>-</u>	<u>376,959</u>
Net Governmental Capital Assets	<u>\$ 599,208</u>	<u>\$ 53,762</u>	<u>\$ -</u>	<u>\$ 652,970</u>
Business-Type Capital Assets				
Water				
Distribution system	\$ 212,474	\$ -	\$ -	\$ 212,474
Equipment	32,531	-	-	32,531
	<u>245,005</u>	<u>-</u>	<u>-</u>	<u>245,005</u>
Less accumulated depreciation	<u>167,099</u>	<u>6,045</u>	<u>-</u>	<u>173,144</u>
Net Water	<u>77,906</u>	<u>(6,045)</u>	<u>-</u>	<u>71,861</u>
Sewer				
Treatment facility	46,767	-	-	46,767
Equipment	5,273	-	-	5,273
	<u>52,040</u>	<u>-</u>	<u>-</u>	<u>52,040</u>
Less accumulated depreciation	<u>44,905</u>	<u>523</u>	<u>-</u>	<u>45,428</u>
Net Sewer	<u>7,135</u>	<u>(523)</u>	<u>-</u>	<u>6,612</u>
Net Business-Type Activities	<u>\$ 85,041</u>	<u>\$ (6,568)</u>	<u>\$ -</u>	<u>\$ 78,473</u>

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$133,000. Of this amount, \$70,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment, \$4,000 due to the Kittson County EDA, and \$59,000 due to USDA.

Governmental Activities Outstanding Debt

	Beginning of Year	New Issues	Debt Retired	End of Year
<u>Governmental Activities</u>				
Kittson County EDA Loan	\$ 6,000	\$ -	\$ 2,000	\$ 4,000
USDA Rescue Van Loan	-	59,000	-	59,000
	<u>6,000</u>	<u>59,000</u>	<u>2,000</u>	<u>63,000</u>
<u>Business-Type Activities</u>				
GO Rural Water System Revenue Refunding Bonds of 2004	71,000	-	71,000	-
GO Rural Water System Revenue Refunding Bonds of 2011A	-	70,000	-	70,000
Total Long-Term Debt	<u>\$ 71,000</u>	<u>\$ 70,000</u>	<u>\$ 71,000</u>	<u>\$ 70,000</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 POSITION
DECEMBER 31, 2012

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and investments	\$ 373,381	\$ 127,519	\$ 500,900
Accounts receivable	1,775	7,816	9,591
Taxes receivable	6,572	-	6,572
Special assessments receivable	340	1,291	1,631
Due to (from) other governments	205	-	205
Inventory	-	6,301	6,301
Total Current Assets	<u>382,273</u>	<u>142,927</u>	<u>525,200</u>
Capital Assets	1,029,929	297,045	1,326,974
Accumulated depreciation	<u>(376,959)</u>	<u>(218,572)</u>	<u>(595,531)</u>
Net Capital Assets	<u>652,970</u>	<u>78,473</u>	<u>731,443</u>
Other Noncurrent Assets			
Revolving Loans Receivable	96,848	-	96,848
Deferred special assessments receivable	-	58,049	58,049
Total Other Noncurrent Assets	<u>96,848</u>	<u>58,049</u>	<u>154,897</u>
TOTAL ASSETS	<u>\$ 1,132,091</u>	<u>\$ 279,449</u>	<u>\$ 1,411,540</u>
LIABILITIES			
Current Liabilities			
Current portion long-term debt	\$ 5,098	\$ -	\$ 5,098
Accounts payable	3,431	313	3,744
Total Current Liabilities	<u>8,529</u>	<u>313</u>	<u>8,842</u>
Noncurrent Liabilities			
Bonds and notes payable, net of current	<u>57,902</u>	<u>70,000</u>	<u>127,902</u>
TOTAL LIABILITIES	<u>\$ 66,431</u>	<u>\$ 70,313</u>	<u>\$ 136,744</u>
NET POSITION			
Investment in capital assets, net of related debt	589,970	78,473	668,443
Restricted	164,744	-	164,744
Unrestricted (deficit)	<u>310,946</u>	<u>130,663</u>	<u>441,609</u>
TOTAL NET POSITION	<u>\$ 1,065,660</u>	<u>\$ 209,136</u>	<u>\$ 1,274,796</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTION	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 57,558	\$ 1,561	\$ -	\$ -	\$ (55,997)		\$ (55,997)
Public safety	35,856	18,227	20,274	39,271	41,916		41,916
Streets and highways	77,878	-	-	-	(77,878)		(77,878)
Sanitation and public health	1,916	1,949	-	-	33		33
Parks and recreation	11,225	10,000	-	-	(1,225)		(1,225)
School building	11,008	20,580	24,369	-	33,941		33,941
Economic and community development	-	995	-	-	995		995
Other	17,791	-	-	-	(17,791)		(17,791)
Interest on long-term debt	-	-	-	-	-		-
Total Governmental Activities	<u>213,232</u>	<u>53,312</u>	<u>44,643</u>	<u>39,271</u>	<u>(76,006)</u>		<u>(76,006)</u>
Business-Type Activities:							
Water	94,161	54,256	-	-		(39,905)	(39,905)
Sewer	21,064	24,503	-	-		3,439	3,439
Total Business-Type Activities	<u>115,225</u>	<u>78,759</u>	<u>-</u>	<u>-</u>		<u>(36,466)</u>	<u>(36,466)</u>
Total Government-Wide					<u>(76,006)</u>	<u>(36,466)</u>	<u>(112,472)</u>
General Revenues:							
					84,240	-	84,240
					295	2,218	2,513
					2,133	-	2,133
					67,114	44,032	111,146
					3,904	-	3,904
					4,468	-	4,468
					-	-	-
					<u>162,154</u>	<u>46,250</u>	<u>208,404</u>
Changes in Net Position					86,148	9,784	95,932
Net Position, January 1 (Restated)					<u>979,512</u>	<u>199,352</u>	<u>1,178,864</u>
Net Position, December 31					<u>\$ 1,065,660</u>	<u>\$ 209,136</u>	<u>\$ 1,274,796</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u>	<u>Fire</u>	<u>1993 Refunding Bonds</u>	<u>1995 Refunding Bonds</u>	<u>Total</u>
ASSETS					
Cash and investments	\$ 164,191	\$ 59,786	\$ 124,705	\$ 24,699	\$ 373,381
Accounts receivable	1,775	-	-	-	1,775
Due to (from) other government	205	-	-	-	205
Taxes receivable, delinquent	6,572	-	-	-	6,572
Special assessments receivable:					
Delinquent	-	-	340	-	340
Revolving loans receivable	96,848	-	-	-	96,848
TOTAL ASSETS	<u>\$ 269,591</u>	<u>\$ 59,786</u>	<u>\$ 125,045</u>	<u>\$ 24,699</u>	<u>\$ 479,121</u>
LIABILITIES					
Accounts payable	\$ 3,431	\$ -	\$ -	\$ -	\$ 3,431
Deferred revenue:					
Taxes	3,827	-	-	-	3,827
Special assessments	-	-	340	-	340
Total Liabilities	<u>7,258</u>	<u>-</u>	<u>340</u>	<u>-</u>	<u>7,598</u>
FUND BALANCE					
Nonspendable					
EDA loans	96,848	-	-	-	96,848
Restricted					
Economic development	64,925	-	-	-	64,925
Baseball field	2,071	-	-	-	2,071
Pioneer memorial	900	-	-	-	900
Unrestricted					
Committed					
Improvements and capital outlay	4,485	-	-	-	4,485
Park board	4,038	-	-	-	4,038
Assigned	-	59,786	124,705	24,699	209,190
Unassigned	89,066	-	-	-	89,066
Total Fund Balance	<u>262,333</u>	<u>59,786</u>	<u>124,705</u>	<u>24,699</u>	<u>471,523</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 269,591</u>	<u>\$ 59,786</u>	<u>\$ 125,045</u>	<u>\$ 24,699</u>	<u>\$ 479,121</u>

Reconciliation to Statement of Net Position:

Total Fund Balance, From Above	471,523
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.	4,167
Capital assets used in governmental activities of \$1,029,929, net of accumulated depreciation of \$376,959, are not financial resources and, therefore, are not reported in the funds.	652,970
Loans and bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(63,000)</u>
Net Position of Governmental Activities	<u>\$ 1,065,660</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, 2012

	<u>General</u>	<u>Fire</u>	<u>1993 Refunding Bonds</u>	<u>1995 Refunding Bonds</u>	<u>Total</u>
REVENUES					
Taxes	\$ 85,708	\$ -	\$ 66	\$ -	\$ 85,774
Special assessments	-	-	190	105	295
Intergovernmental:					
State	91,483	14,838	-	-	106,321
Federal	-	31,000	-	-	31,000
Licenses and permits	2,133	-	-	-	2,133
Charges for services	22,803	18,227	-	-	41,030
Interest	3,904	-	-	-	3,904
Donations	1,092	13,707	-	-	14,799
Other	14,907	-	-	-	14,907
TOTAL REVENUES	<u>222,030</u>	<u>77,772</u>	<u>256</u>	<u>105</u>	<u>300,163</u>
EXPENDITURES					
General government	53,291	-	-	-	53,291
Public safety	-	122,126	-	-	122,126
Sanitation and public health	1,916	-	-	-	1,916
Streets and highways	58,752	-	-	-	58,752
Parks and recreation	10,563	-	-	-	10,563
School building	1,804	-	-	-	1,804
Other	17,791	-	-	-	17,791
Debt Service:					
Principal retirement	4,960	-	-	-	4,960
Interest and fees	-	-	-	-	-
TOTAL EXPENDITURES	<u>149,077</u>	<u>122,126</u>	<u>-</u>	<u>-</u>	<u>271,203</u>
Revenues Over (Under) Expenditures	72,953	(44,354)	256	105	28,960
OTHER SOURCES (USES)					
Proceeds from debt issued	-	59,000	-	-	59,000
Transfer from (to) other fund	(6,500)	6,500	-	-	-
Net Other Sources (Uses)	<u>(6,500)</u>	<u>65,500</u>	<u>-</u>	<u>-</u>	<u>59,000</u>
Net Change in Fund Balance	66,453	21,146	256	105	87,960
Fund Balance - January 1	<u>195,880</u>	<u>38,640</u>	<u>124,449</u>	<u>24,594</u>	<u>383,563</u>
Fund Balance - December 31	<u>\$ 262,333</u>	<u>\$ 59,786</u>	<u>\$ 124,705</u>	<u>\$ 24,699</u>	<u>\$ 471,523</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, 2012

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Governmental Funds	\$ 87,960
Tax and special assessment revenue that does not provide current financial resources are not reported as revenue in the funds.	(1,534)
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	99,874
Depreciation expense	(46,112)
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	(59,000)
Debt principal payments	<u>4,960</u>
Change in Net Position - Governmental Activities	<u>\$ 86,148</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and investments	\$ 127,519	\$ -	\$ 127,519
Accounts receivable	4,888	2,928	7,816
Due from other funds	46,786	-	46,786
Inventory	3,788	2,513	6,301
Special assessments receivable:			
Delinquent	1,291	-	1,291
Deferred	58,049	-	58,049
Total Current Assets	<u>242,321</u>	<u>5,441</u>	<u>247,762</u>
Capital Assets	245,005	52,040	297,045
Accumulated depreciation	<u>(173,144)</u>	<u>(45,428)</u>	<u>(218,572)</u>
Net Capital Assets	<u>71,861</u>	<u>6,612</u>	<u>78,473</u>
TOTAL ASSETS	<u>\$ 314,182</u>	<u>\$ 12,053</u>	<u>\$ 326,235</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 264	\$ 49	\$ 313
Due to other funds	<u>-</u>	<u>46,786</u>	<u>46,786</u>
Total Current Liabilities	<u>264</u>	<u>46,835</u>	<u>47,099</u>
Noncurrent Liabilities			
Bonds payable, net of current	<u>70,000</u>	<u>-</u>	<u>70,000</u>
TOTAL LIABILITIES	<u>\$ 70,264</u>	<u>\$ 46,835</u>	<u>\$ 117,099</u>
FUND NET POSITION			
Investment in capital assets, net of related debt	\$ 71,861	\$ 6,612	\$ 78,473
Unrestricted (Deficit)	<u>172,057</u>	<u>(41,394)</u>	<u>130,663</u>
TOTAL FUND NET POSITION	<u>\$ 243,918</u>	<u>\$ (34,782)</u>	<u>\$ 209,136</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 54,256	\$ 24,503	\$ 78,759
OPERATING EXPENSES			
Salaries and benefits	15,756	7,719	23,475
Utilities	2,586	534	3,120
Repairs and maintenance	51,066	10,652	61,718
Purchased water	15,613	-	15,613
Chemicals and supplies	(1,666)	116	(1,550)
Other	2,479	1,520	3,999
Depreciation	6,045	523	6,568
Total Operating Expenses	<u>91,879</u>	<u>21,064</u>	<u>112,943</u>
Operating Income	(37,623)	3,439	(34,184)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	44,032	-	44,032
Interest on special assessments	2,218	-	2,218
Interest and bond fees	(2,282)	-	(2,282)
Net Nonoperating Revenues (Expenses)	<u>43,968</u>	<u>-</u>	<u>43,968</u>
Change in Net Position	6,345	3,439	9,784
Fund Net Position (Deficit), January 1	<u>237,573</u>	<u>(38,221)</u>	<u>199,352</u>
Fund Net Position (Deficit), December 31	<u>\$ 243,918</u>	<u>\$ (34,782)</u>	<u>\$ 209,136</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 54,172	\$ 24,490	\$ 78,662
Payments to suppliers	(76,879)	(13,106)	(89,985)
Payments to employees	(15,756)	(7,719)	(23,475)
Net Cash Provided (Used) by Operating Activities	<u>(38,463)</u>	<u>3,665</u>	<u>(34,798)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipt or repayment from other fund	<u>3,665</u>	<u>(3,665)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessments collected	7,279	-	7,279
Purchase of property and equipment	-	-	-
Interest and fees paid on bonds	(2,282)	-	(2,282)
Capital contributions	44,032	-	44,032
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>48,029</u>	<u>-</u>	<u>48,029</u>
Net Increase in Cash	13,231	-	13,231
Cash Balance, January 1	<u>114,288</u>	<u>-</u>	<u>114,288</u>
Cash Balance, December 31	<u>\$ 127,519</u>	<u>\$ -</u>	<u>\$ 127,519</u>

* * * * *

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating income (loss)	\$ (37,623)	\$ 3,439	\$ (34,184)
Depreciation	6,045	523	6,568
Change in:			
Accounts receivable	(84)	(13)	(97)
Inventory	(1,700)	(333)	(2,033)
Accounts payable	(5,101)	49	(5,052)
Net Cash Provided (Used) by Operating Activities	<u>\$ (38,463)</u>	<u>\$ 3,665</u>	<u>\$ (34,798)</u>

See notes to the basic financial statements.

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Fund Financial Statements

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

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 Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by type of asset is as follows:

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

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 Position” 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 Position – Consists of net position 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 Position – the portion of net position that does 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 Position 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 May 17, 2013, 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.

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended December 31, 2012 are as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
<i>Governmental Activities</i>				
Capital Assets:				
Land	\$ 7,036	\$ -	\$ -	\$ 7,036
Building and improvements	486,602	-	-	486,602
Equipment and furnishing	319,330	99,874	-	419,204
Infrastructure	<u>117,087</u>	<u>-</u>	<u>-</u>	<u>117,087</u>
	<u>930,055</u>	<u>99,874</u>	<u>-</u>	<u>1,029,929</u>
Accumulated Depreciation:				
Building and improvements	\$ 104,429	\$ 10,520	\$ -	\$ 114,949
Equipment and furnishing	211,474	32,123	-	243,597
Infrastructure	<u>14,944</u>	<u>3,469</u>	<u>-</u>	<u>18,413</u>
	<u>330,847</u>	<u>46,112</u>	<u>-</u>	<u>376,959</u>
Net Capital Assets - Governmental Activities	<u>\$ 599,208</u>	<u>\$ 53,762</u>	<u>\$ -</u>	<u>\$ 652,970</u>

Changes in capital assets for business-type activities for the year ended December 31, 2012, are as follows:

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of Year</u>
<i>Business-Type Activities</i>				
Capital Assets:				
Water -				
Distribution system	\$ 212,474	\$ -	\$ -	\$ 212,474
Equipment	<u>32,531</u>	<u>-</u>	<u>-</u>	<u>32,531</u>
Subtotal	<u>245,005</u>	<u>-</u>	<u>-</u>	<u>245,005</u>
Sewer -				
Treatment facility	46,767	-	-	46,767
Equipment	<u>5,273</u>	<u>-</u>	<u>-</u>	<u>5,273</u>
Subtotal	<u>52,040</u>	<u>-</u>	<u>-</u>	<u>52,040</u>
Total	<u>\$ 297,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,045</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

	Balance at Beginning of Year	Additions	Deletions	Balance at End of Year
Accumulated Depreciation:				
Water -				
Distribution system	\$ 144,644	\$ 5,123	\$ -	\$ 149,767
Equipment	<u>22,455</u>	<u>922</u>	<u>-</u>	<u>23,377</u>
Subtotal	<u>167,099</u>	<u>6,045</u>	<u>-</u>	<u>173,144</u>
Sewer -				
Treatment facility	40,203	258	-	40,461
Equipment	<u>4,702</u>	<u>265</u>	<u>-</u>	<u>4,967</u>
Subtotal	<u>44,905</u>	<u>523</u>	<u>-</u>	<u>45,428</u>
Total	<u>212,004</u>	<u>6,568</u>	<u>-</u>	<u>218,572</u>
Net Capital Assets -				
Business-Type Activities	<u>\$ 85,041</u>	<u>\$ (6,568)</u>	<u>\$ -</u>	<u>\$ 78,473</u>

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

Governmental Activities:

General government	\$ 3,516
Streets and highways	9,204
Public safety	13,604
Economic development	19,126
Park and recreation	<u>662</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 46,112</u>

Business-Type Activities:

Water	\$ 6,045
Sewer	<u>523</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 6,568</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, 2012, the balance remaining on the loans was \$96,848.

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT

Long-term indebtedness is made up of the following issues as of December 31, 2012:

	<u>Original</u> <u>Issue</u>	<u>Secured</u> <u>Interest</u>	<u>Revenue</u> <u>Sources for</u> <u>Retirement</u>	<u>Interest</u> <u>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	\$ 4,000
USDA Rescue Van Loan	\$ 59,000		repayments	3.375%	5/28/2027	<u>59,000</u>
						<u>\$ 63,000</u>
<i>Business-Type Activities</i>						
GO Rural Water Revenue Crossover			service			
Refunding Bonds of 2011A	\$ 70,000	n/a	fees	1.75 - 5.0%	1/1/2023	<u>\$ 70,000</u>
						<u>\$ 133,000</u>

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

	<u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>New</u> <u>Issues</u>	<u>Debt</u> <u>Retired</u>	<u>Balance at</u> <u>End</u> <u>of Year</u>	<u>Due Within</u> <u>a Year</u>
<i>Governmental Activities</i>					
Capital Debt Obligations:					
John Deere Credit - Mower	\$ 2,960	\$ -	\$ 2,960	\$ -	\$ -
Kittson County EDA Loan	6,000	-	2,000	4,000	2,000
USDA Rescue Van Loan	<u>-</u>	<u>59,000</u>	<u>-</u>	<u>59,000</u>	<u>3,098</u>
Total Governmental Activities	<u>\$ 8,960</u>	<u>\$ 59,000</u>	<u>\$ 4,960</u>	<u>\$ 63,000</u>	<u>\$ 5,098</u>
<i>Business-Type Activities</i>					
GO Rural Water System Revenue					
Refunding Bonds of 2004	\$ 71,000	\$ -	\$ 71,000	\$ -	\$ -
GO Rural Water Revenue Crossover					
Refunding Bonds of 2011A	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 71,000</u>	<u>\$ 70,000</u>	<u>\$ 71,000</u>	<u>\$ 70,000</u>	<u>\$ -</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except compensated absences, as of December 31, 2012 are as follows:

Year Ended December 31,	Governmental Activities						Business-Type Activities	
	Kittson County Loan		USDA Rescue Van		Total Notes		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 2,000	\$ -	\$ 3,098	\$ 1,980	\$ 5,098	\$ 1,980	\$ -	\$ 1,769
2014	2,000	-	3,191	1,887	5,191	1,887	6,000	1,709
2015	-	-	3,299	1,779	3,299	1,779	7,000	1,579
2016	-	-	3,410	1,668	3,410	1,668	7,000	1,430
2017	-	-	3,525	1,553	3,525	1,553	7,000	1,272
2018-2022	-	-	19,494	5,896	19,494	5,896	35,000	4,005
2023-2027	-	-	22,983	2,375	22,983	2,375	8,000	126
Total	\$ 4,000	\$ -	\$ 59,000	\$ 17,138	\$ 63,000	\$ 17,138	\$ 70,000	\$ 11,888

Refunding Issue

In 2012 the general obligation water system revenue refunding bonds of 2004 became callable and paid off with the issue of general obligation water revenue crossover refunding bonds of 2011A. The City realized a net present value cash flow savings of \$10,186. The bonds are expected to be retired from water user fees charged.

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.

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

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

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 GERS 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 GERS. That report may be obtained on the web at 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. GERS 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 GERS members, 7.25% for Coordinated Plan GERS members. The City's contributions to the Public Employees Retirement Fund for the years ending December 30, 2012, 2011 and 2010 were \$ 5,558, \$5,362 and \$5,531, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. INTERFUND BALANCES AND TRANSFERS

The following comprises the interfund balances and transfers as of and for the year ended December 31, 2012:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>	<u>Amount</u>	<u>Purpose</u>
Sewer Fund	Water Fund	<u>\$ 46,786</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. FUND DEFICIENCIES / DEFICITS

The City's sewer fund had a deficit fund balance of \$34,782 at December 31, 2012. The deficit is expected to be recovered by future revenues, or if necessary, by transfers from other funds.

NOTE 9. 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, 2012 required the City to pay \$2.20 per thousand gallons. Also, the City has agreed to pay a monthly bond fee of \$312.50. These rates are reviewed annually and subject to increases based on the operating needs of North Kittson Rural Water.

NOTE 10. RISK MANAGEMENT

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

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

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

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

CITY OF KENNEDY, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 11. 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, 2012, 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENNEDY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
REVENUE				
Property taxes	\$ 85,037	\$ 85,037	\$ 85,708	\$ 671
Intergovernmental:				
State:				
Local governmental aid	66,764	66,764	66,764	-
MV and MV Ag credits	-	-	26	26
Other state aid	324	324	324	-
Federal	-	-	24,369	24,369
Total Intergovernmental	<u>67,088</u>	<u>67,088</u>	<u>91,483</u>	<u>24,395</u>
Other:				
Licenses and permits	1,600	1,600	2,133	533
Charges for services	18,600	18,600	22,803	4,203
EDA loan interest	-	-	3,584	3,584
Interest	2,155	2,155	3,904	1,749
Donations	-	-	1,092	1,092
Other	4,325	4,325	11,323	6,998
Total Other	<u>26,680</u>	<u>26,680</u>	<u>44,839</u>	<u>18,159</u>
TOTAL REVENUE	<u>178,805</u>	<u>178,805</u>	<u>222,030</u>	<u>43,225</u>
EXPENDITURES				
General government:				
Clerk	32,616	32,616	26,948	5,668
Professional fees	7,100	7,100	6,148	952
Election	1,000	1,000	706	294
City hall	9,000	9,000	738	8,262
Capital outlay	3,500	3,500	6,036	(2,536)
Unallocated insurance	13,458	13,458	5,967	7,491
Other	3,000	3,000	6,748	(3,748)
Total General Government	<u>69,674</u>	<u>69,674</u>	<u>53,291</u>	<u>16,383</u>
Sanitation and Public Health:				
Garbage	-	-	1,916	(1,916)
Total Sanitation and Public Health	<u>-</u>	<u>-</u>	<u>1,916</u>	<u>(1,916)</u>
Streets and Highways:				
Street lighting and signs	10,500	10,500	10,583	(83)
Wages and benefits	35,327	35,327	34,259	1,068
Street maintenance	13,100	13,100	9,220	3,880
Snow removal and ditching	3,300	3,300	2,167	1,133
Capital outlay	2,500	2,500	2,523	(23)
Total Streets and Highways	<u>64,727</u>	<u>64,727</u>	<u>58,752</u>	<u>5,975</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	\$ 1,200	\$ 1,200	\$ 6,128	\$ (4,928)
Summer recreation	2,500	2,500	1,250	1,250
Parks	6,000	6,000	3,185	2,815
Total Culture and Recreation	<u>9,700</u>	<u>9,700</u>	<u>10,563</u>	<u>(863)</u>
School Facility	<u>6,000</u>	<u>6,000</u>	<u>1,804</u>	<u>4,196</u>
Other:				
Real estate taxes	5,146	5,146	5,147	(1)
Unallocated payroll benefits	11,771	11,771	11,644	127
Senior meals program	-	-	1,000	(1,000)
Total Other	<u>16,917</u>	<u>16,917</u>	<u>17,791</u>	<u>(874)</u>
Debt Service:				
Principal payment	-	-	4,960	(4,960)
Total Debt Service	<u>-</u>	<u>-</u>	<u>4,960</u>	<u>(4,960)</u>
TOTAL EXPENDITURES	<u>167,018</u>	<u>167,018</u>	<u>149,077</u>	<u>17,941</u>
Revenues Over (Under) Expenditures	11,787	11,787	72,953	61,166
OTHER SOURCES (USES)				
Transfer to other fund	<u>(6,500)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>-</u>
Net Other Sources (Uses)	<u>(6,500)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>-</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	5,287	5,287	66,453	61,166
Fund Balance - January 1	<u>195,880</u>	<u>195,880</u>	<u>195,880</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 201,167</u>	<u>\$ 201,167</u>	<u>\$ 262,333</u>	<u>\$ 61,166</u>

CITY OF KENNEDY, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

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 2012.

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.

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Certified Public Accountants

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INDEPENDENT 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, 2012, and have issued our report thereon dated May 17, 2013.

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 Political Subdivisions*, 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 Political Subdivisions* 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

May 17, 2013
Crookston, Minnesota

Drees, Risky & Vallager, Ltd.

Certified Public Accountants

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

Honorable Mayor and Council
City of Kennedy

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the City of Kennedy, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-2 to be a significant deficiency.

Compliance and Other Matters

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

Response to Findings

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

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DREES, RISKEY & VALLAGER, LTD.

Certified Public Accountants

May 17, 2013
Crookston, MN

CITY OF KENNEDY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Deficiency 2012-1

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 2012-2

Condition: The City should design an internal control system to provide the preparation of its financial statements.

Cause: The City's personnel doesn't have sufficient time to draft the financial statements and notes to the financial statements.

Effect: Auditor is requested to draft the financial statements and notes to the financial statements.

Recommendation: Management and those charged with governance are responsible to make the determination on whether to accept the degree of risk associated with the above stated condition because of cost or other considerations.

Management's Response: We concur with the auditors finding and will consider the risks and cost associated with the financial statements preparation.