

CITY OF KASSON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CITY OF KASSON, MINNESOTA

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CITY OF KASSON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2016

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CITY OF KASSON, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2016

Steve Johnson	Mayor
Chuck Coleman	Councilor
Dan Egger	Councilor
Doug Buck	Councilor
Coy Borgstrom	Councilor
Nancy Zaworski	Finance Director
Theresa Coleman	City Administrator

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CITY OF KASSON, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Kasson, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kasson, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, each major fund, and the aggregate remaining fund information of the City of Kasson, Minnesota, as of December 31, 2016, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund 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 through 14 and the required supplemental 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.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2015, from which such partial information was derived.

We have previously audited the City's 2015 financial statements and our report dated April 4, 2016, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kasson, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Smith, Schopf and Associates, Ltd.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Kasson, Minnesota, we offer readers of the City of Kasson, Minnesota's financial statements this narrative overview and analysis of the financial activities of the City of Kasson, Minnesota for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the City of Kasson, Minnesota exceeded its liabilities at the close of the most recent fiscal year by \$32,177,484 (*net position*). Of this amount, \$4,028,161 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's designations and fiscal policies.
- The City's total net position increased by \$741,409.
- As of the close of the current fiscal year, the City of Kasson, Minnesota's governmental funds reported combined ending fund balances of \$5,171,171. Approximately \$3,042,916 of this total amount or 59% is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,575,494 or 52% of the total expenditures of the general fund.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Kasson, Minnesota's basic financial statements. The City of Kasson, Minnesota's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

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

The *statement of net position* presents information on all of the City of Kasson, Minnesota'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 of Kasson, Minnesota 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 the 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 not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Kasson, Minnesota 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 of Kasson, Minnesota include general government, public safety, public works, health and welfare, culture and recreation, and TIF/economic development. The business-type activities of the City of Kasson, Minnesota include the water, wastewater treatment, electric, stormwater, municipal liquor store, and Maple Grove Cemetery. The government-wide financial statements can be found on pages 15-17 of this report.

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

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND 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 financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's 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 of Kasson, Minnesota maintains fourteen 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, library building fund, and the debt service fund, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Kasson, Minnesota adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund (page 22 and pages 85-90) and the special revenue funds (pages 79-80) to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds. The City of Kasson, Minnesota 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 of Kasson, Minnesota uses enterprise funds to account for its water, wastewater, electric, stormwater, municipal liquor, and cemetery funds.

The proprietary fund financial statements can be found on pages 23-30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-71 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and the debt service fund can be found on pages 75-78 and 81-84 of this report.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 of Kasson, Minnesota, assets exceeded liabilities by \$32,177,484 at the close of the most recent fiscal year.

The largest portion of the City of Kasson, Minnesota's net position (\$25,614,559) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Kasson, Minnesota uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Kasson, Minnesota'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 Kasson, Minnesota Net Position					
	Governmental		Business-Type		Totals	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,710,222	\$ 9,749,563	\$ 7,221,049	\$ 4,524,671	\$ 13,931,271	\$ 14,274,234
Capital assets	<u>16,177,227</u>	<u>16,950,387</u>	<u>22,074,430</u>	<u>21,372,678</u>	<u>38,251,657</u>	<u>38,323,065</u>
Total assets	<u>22,887,449</u>	<u>26,699,950</u>	<u>29,295,479</u>	<u>25,897,349</u>	<u>52,182,928</u>	<u>52,597,299</u>
Deferred outflows of resources	<u>2,070,321</u>	<u>285,897</u>	<u>598,741</u>	<u>150,253</u>	<u>2,669,062</u>	<u>436,150</u>
Long-term liabilities outstanding	10,689,337	10,324,325	9,788,269	7,955,947	20,477,606	18,280,272
Other liabilities	<u>517,651</u>	<u>324,844</u>	<u>1,095,623</u>	<u>1,039,948</u>	<u>1,613,274</u>	<u>1,364,792</u>
Total liabilities	<u>11,206,988</u>	<u>10,649,169</u>	<u>10,883,892</u>	<u>8,995,895</u>	<u>22,090,880</u>	<u>19,645,064</u>
Deferred inflows of resources	<u>395,132</u>	<u>145,711</u>	<u>188,494</u>	<u>51,607</u>	<u>583,626</u>	<u>197,318</u>
Net position:						
Net investment in capital assets	10,131,960	8,831,202	15,482,599	16,108,395	25,614,559	24,939,597
Restricted	2,112,079	2,472,046	422,685	388,125	2,534,764	2,860,171
Unrestricted	<u>1,111,611</u>	<u>3,132,727</u>	<u>2,916,550</u>	<u>503,580</u>	<u>4,028,161</u>	<u>3,636,307</u>
Total net position	<u>\$ 13,355,650</u>	<u>\$ 14,435,975</u>	<u>\$ 18,821,834</u>	<u>\$ 17,000,100</u>	<u>\$ 32,177,484</u>	<u>\$ 31,436,075</u>

The balance of *unrestricted net position* (\$4,028,161) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental activities. Governmental activities decreased the City of Kasson, Minnesota's net position by \$1,080,325.

Business-type activities. Business-type activities increased the City of Kasson, Minnesota's net position by \$1,821,734.

A condensed version of the Statement of Activities follows:

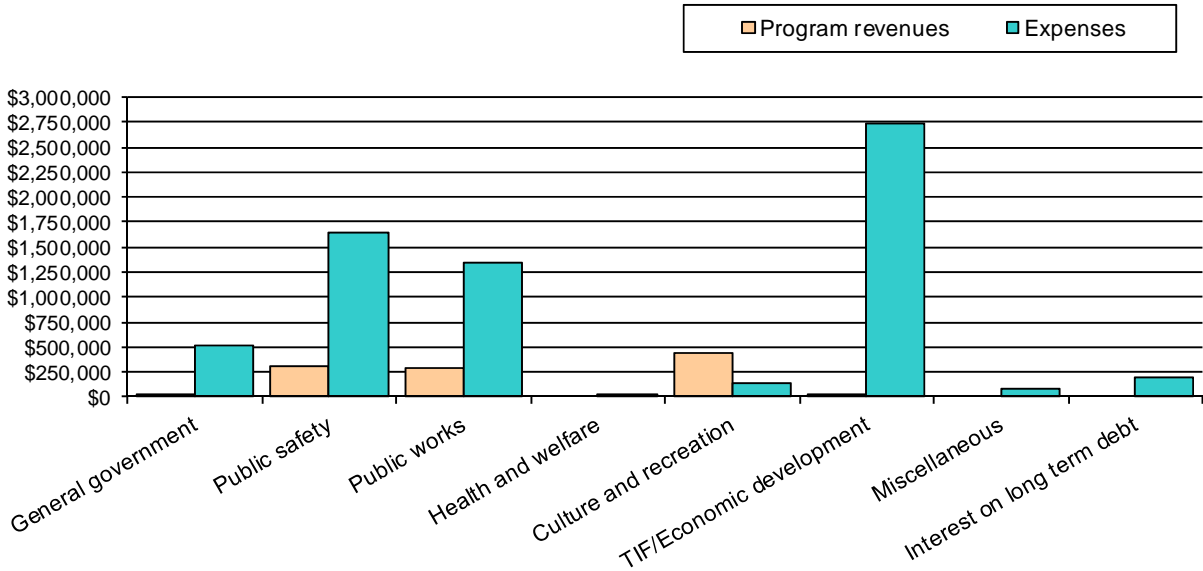
City of Kasson, Minnesota Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenue:						
Program revenues:						
Charges for services	\$ 398,458	\$ 458,944	\$ 7,112,847	\$ 6,551,689	\$ 7,511,305	\$ 7,010,633
Operating grants and contributions	245,176	341,225			245,176	341,225
Capital grants and contributions	400,569	315,142	467,509	124,925	868,078	440,067
General revenues:						
Property taxes/tax increments	2,850,968	2,691,791			2,850,968	2,691,791
Other taxes	59,870	63,470			59,870	63,470
Grants and contributions not restricted to specific programs						
Local government aid	1,016,485	1,008,140			1,016,485	1,008,140
Other	3,869	15,160			3,869	15,160
Miscellaneous	509,927	228,707	52,191	50,885	562,118	279,592
Total revenues	<u>5,485,322</u>	<u>5,122,579</u>	<u>7,632,547</u>	<u>6,727,499</u>	<u>13,117,869</u>	<u>11,850,078</u>
Expenses:						
General government	512,247	514,123			512,247	514,123
Public safety	1,647,536	1,387,416			1,647,536	1,387,416
Public works	1,350,825	1,249,054			1,350,825	1,249,054
Health and welfare	16,502	14,358			16,502	14,358
Culture and recreation	133,893	478,002			133,893	478,002
Economic development	2,742,611	858,616			2,742,611	858,616
Miscellaneous	86,056	69,284			86,056	69,284
Interest on long-term debt	204,592	307,021			204,592	307,021
Water			584,702	672,628	584,702	672,628
Wastewater			1,254,557	1,235,317	1,254,557	1,235,317
Electric			3,460,547	4,002,412	3,460,547	4,002,412
Stormwater			80,467	220,802	80,467	220,802
Liquor			251,765	244,479	251,765	244,479
Cemetery			50,160	50,363	50,160	50,363
Total expenses	<u>6,694,262</u>	<u>4,877,874</u>	<u>5,682,198</u>	<u>6,426,001</u>	<u>12,376,460</u>	<u>11,303,875</u>
Change in net position before transfers	(1,208,940)	244,705	1,950,349	301,498	741,409	546,203
Transfers	128,615	65,620	(128,615)	(65,620)		
Change in net position	(1,080,325)	310,325	1,821,734	235,878	741,409	546,203
Net position, beginning	14,435,975	14,125,650	17,000,100	16,764,222	31,436,075	30,889,872
Net position, ending	<u>\$ 13,355,650</u>	<u>\$ 14,435,975</u>	<u>\$ 18,821,834</u>	<u>\$ 17,000,100</u>	<u>\$ 32,177,484</u>	<u>\$ 31,436,075</u>

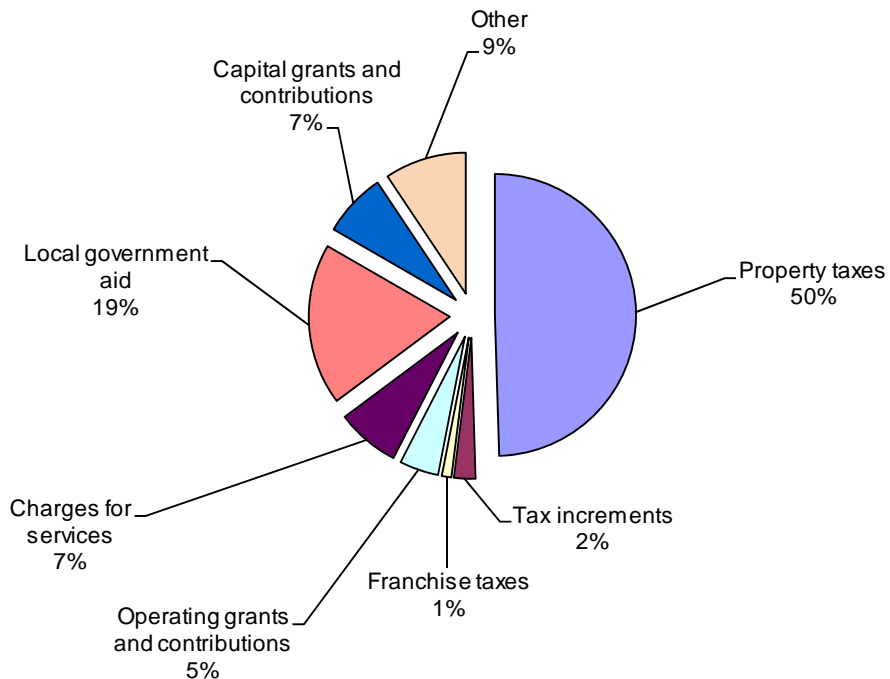
CITY OF KASSON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues - Governmental Activities



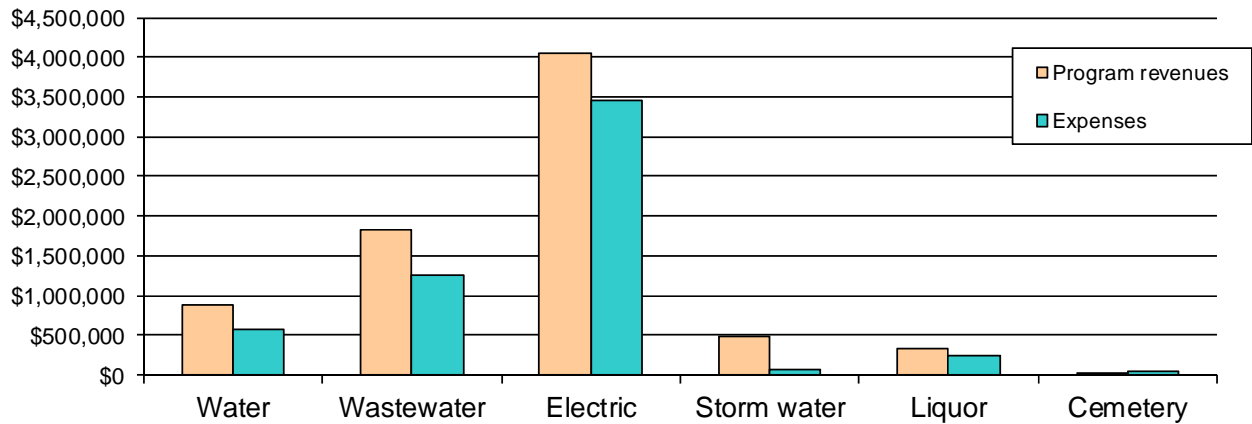
Revenues by Source - Governmental Activities



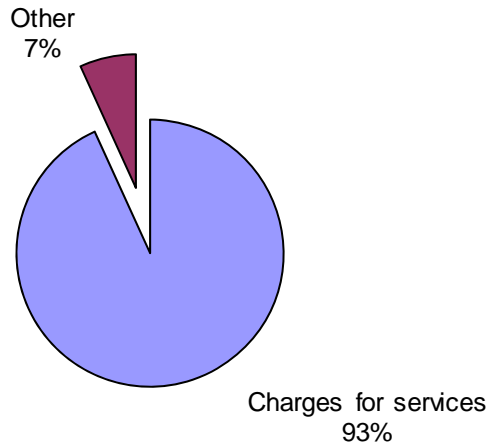
**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all of these activities require significant physical assets to operate, any excess revenues are held for planned capital expenses to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS

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

Governmental funds. The focus of the City of Kasson, Minnesota'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 of Kasson, Minnesota's financing requirements. In particular, *unassigned* and *assigned* fund balance may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose. The Council has authorized the City Administrator to assign fund balance.

Unassigned – represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

At the end of the current fiscal year, the City of Kasson, Minnesota's governmental funds reported combined ending fund balances of \$5,171,171, a decrease of \$2,931,848. Approximately \$3,042,916 of this total amount constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *restricted* to indicate that it is not available for new spending because it has already been set aside 1) to liquidate contracts and purchase orders of the prior period, 2) to repay interfund advances or other debt, or 3) to fund specific capital projects or programs as obligated by statute or other regulation.

The general fund is the chief operating fund of the City of Kasson, Minnesota. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,575,494. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures for the general fund. Unassigned fund balance represents 52% of the total expenditures of the general fund.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The fund balance of the City's General fund increased by \$177,432 during the current fiscal year. Several reasons for this was the increase in charges for services and unspent budgets.

The *Debt Service fund* has a total fund balance of \$1,794,806, of which it all is restricted for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service fund was \$1,746,379. As the escrow accounts for the crossover refunding bonds was used to call the refunded bonds.

The City of Kasson, Minnesota has planned and implemented procedures to ensure that its general fund balance is at a level that meets its cash flow needs on a regular basis.

Proprietary funds. The City of Kasson, Minnesota's proprietary funds statements found on pages 23-30 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Water - \$454,854, Wastewater - \$633,363, Electric - \$1,050,704, Stormwater - \$157,696, Municipal Liquor Store - \$397,899, and Maple Grove Cemetery - \$222,034. The City has adjusted rates for 2016 to cover the rise in costs.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Revenues exceeded expectations by \$48,005, and expenditures had a positive variance of \$287,771. Transfers out exceeded budgeted amounts by \$187,366.

Capital Asset and Debt Administration

Capital assets. The City of Kasson, Minnesota's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$38,251,657 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, furniture and fixtures, wastewater treatment facility, park facilities, and roads. The total decrease in the City of Kasson, Minnesota's reported capital assets, net of depreciation, for the current fiscal year was \$71,408.

City of Kasson, Minnesota Capital Assets
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Land	\$ 657,681	\$ 657,681	\$ 452,151	\$ 377,183	\$ 1,109,832	\$ 1,034,864
Construction in process		818,251	1,164,341	238,184	1,164,341	1,056,435
Buildings and improvements	5,979,128	5,697,724	7,812,291	8,124,895	13,791,419	13,822,619
Investment in joint venture	225,079	237,912			225,079	237,912
Improvements other than buildings	703,196	722,587	4,244,180	4,469,123	4,947,376	5,191,710
Machinery and equipment	140,538	150,383	265,997	194,278	406,535	344,661
Office equipment and furnishings	129,420	38,454	13,662	22,315	143,082	60,769
Vehicles	939,888	1,054,088	12,623	21,039	952,511	1,075,127
Infrastructure	7,402,297	7,573,307	8,109,185	7,925,661	15,511,482	15,498,968
Total	<u>\$ 16,177,227</u>	<u>\$ 16,950,387</u>	<u>\$ 22,074,430</u>	<u>\$ 21,372,678</u>	<u>\$ 38,251,657</u>	<u>\$ 38,323,065</u>

Additional information on the City of Kasson, Minnesota's capital assets can be found in Note 3D on pages 48-50 of this report.

Long-term debt. At the end of the current fiscal year, the City of Kasson, Minnesota had \$15,285,935 in bonds and notes outstanding. All of this debt is backed by the full faith and credit of the City.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration (Continued)

City of Kasson, Minnesota Outstanding Debt

General Obligation and Revenue Bonds

	Governmental		Business-Type		Totals	
	Activities		Activities		2016	2015
General obligation bonds	\$ 5,888,931	\$ 6,157,931	\$	\$	\$ 5,888,931	\$ 6,157,931
GO Improvement Bonds	1,237,002	3,002,097	2,419,002	2,988,910	3,656,004	5,991,007
Lease Revenue Bonds		1,240,000				1,240,000
General obligation revenue bonds			5,741,000	3,733,000	5,741,000	3,733,000
Total	<u>\$ 7,125,933</u>	<u>\$ 10,400,028</u>	<u>\$ 8,160,002</u>	<u>\$ 6,721,910</u>	<u>\$ 15,285,935</u>	<u>\$ 17,121,938</u>

The City of Kasson, Minnesota's total bonds and notes payable decreased by \$1,836,003 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3F, beginning on page 53.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Dodge County is currently 3.8 percent.
- Property valuations within the City reflect national trends.
- Inflationary trends in the region compare favorably to national indices.
- There will be an increase of 8.0 percent for property taxes in 2017, most of which is related to an increase in operating costs.
- Utility rates were increased 5.0 percent for 2016 and varied rate increases for 2017.

All of these factors were considered in preparing the City's budget for the 2017 fiscal year.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Requests for Information

This financial report is designed to provide a general overview of the City of Kasson, Minnesota'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 information should be addressed to the Finance Director, City Hall, 401 5th Street SE, Kasson, MN 55944 or financedept@cityofkasson.com.

CITY OF KASSON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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CITY OF KASSON, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2016

With Comparative Totals for December 31, 2015

	Governmental Activities	Business-Type Activities	Totals	
			2016	2015
ASSETS				
Cash and investments	\$ 5,009,355	\$ 3,637,035	\$ 8,646,390	\$ 7,788,115
Restricted cash		2,037,118	2,037,118	3,333,415
Receivables	1,657,970	1,029,520	2,687,490	2,577,461
Inventories		352,797	352,797	328,014
Prepaid items	16,176	18,456	34,632	37,426
Intangibles - service area		146,123	146,123	152,835
Net pension asset	26,721		26,721	56,968
Capital assets:				
Nondepreciable	657,681	1,616,492	2,274,173	2,091,299
Depreciable, net	15,519,546	20,457,938	35,977,484	36,231,766
Total Assets	<u>22,887,449</u>	<u>29,295,479</u>	<u>52,182,928</u>	<u>52,597,299</u>
Deferred Outflows of Resources				
Deferred outflows from pension activity	<u>2,070,321</u>	<u>598,741</u>	<u>2,669,062</u>	<u>436,150</u>
LIABILITIES				
Accounts payable	383,946	480,794	864,740	538,794
Contracts payable	21,706	22,092	43,798	80,172
Due to other governments	25	31,993	32,018	30,272
Accrued interest payable	83,530	54,150	137,680	209,126
Accrued liabilities	28,191	18,831	47,022	41,447
Deposits payable		53,263	53,263	55,284
Unearned revenue	253	434,500	434,753	409,697
Noncurrent liabilities:				
Due within one year	795,491	897,857	1,693,348	1,673,076
Due in more than one year	6,596,002	7,449,588	14,045,590	15,984,766
Net pension liability	3,297,844	1,440,824	4,738,668	2,377,422
Total Liabilities	<u>11,206,988</u>	<u>10,883,892</u>	<u>22,090,880</u>	<u>21,400,056</u>
Deferred Inflows of Resources				
Deferred inflows from pension activity	<u>395,132</u>	<u>188,494</u>	<u>583,626</u>	<u>197,318</u>
NET POSITION				
Net investment in capital assets	10,131,960	15,482,599	25,614,559	24,939,597
Restricted for:				
Economic development	317,273		317,273	303,628
Debt service	1,794,806	422,685	2,217,491	2,556,543
Unrestricted	1,111,611	2,916,550	4,028,161	3,636,307
Total Net Position	<u>\$ 13,355,650</u>	<u>\$ 18,821,834</u>	<u>\$ 32,177,484</u>	<u>\$ 31,436,075</u>

See Notes to the Financial Statements

**CITY OF KASSON, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2016
With Comparative Totals for the Fiscal Year Ending December 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 512,247	\$ 15,726	\$	\$
Public safety	1,647,536	117,009	189,428	
Public works	1,350,825			287,878
Health and welfare	16,502			
Culture and recreation	133,893	265,723	55,748	111,110
TIF/Economic development	2,742,611			1,581
Miscellaneous	86,056			
Interest on long-term debt	204,592			
Total governmental activities	<u>6,694,262</u>	<u>398,458</u>	<u>245,176</u>	<u>400,569</u>
Business-Type activities:				
Water	584,702	732,516		145,231
Wastewater	1,254,557	1,710,645		121,559
Electric	3,460,547	4,041,067		1,373
Storm water	80,467	280,187		199,346
Liquor	251,765	330,891		
Cemetery	50,160	17,541		
Total business-type activities	<u>5,682,198</u>	<u>7,112,847</u>		<u>467,509</u>
Total	<u>\$ 12,376,460</u>	<u>\$ 7,511,305</u>	<u>\$ 245,176</u>	<u>\$ 868,078</u>

General revenues:
 General property taxes
 Property taxes levied for debt service
 Tax increments
 Franchise taxes
 Grants and contributions not restricted to specific programs
 Local government aid
 Other
 Interest earnings
 Miscellaneous
 Gain (loss) on sale of capital assets
Transfers
 Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2016	2015
\$ (496,521)	\$	\$ (496,521)	\$ (497,481)
(1,341,099)		(1,341,099)	(1,024,334)
(1,062,947)		(1,062,947)	(927,176)
(16,502)		(16,502)	(14,358)
298,688		298,688	(66,137)
(2,741,030)		(2,741,030)	(856,772)
(86,056)		(86,056)	(69,284)
(204,592)		(204,592)	(307,021)
<u>(5,650,059)</u>		<u>(5,650,059)</u>	<u>(3,762,563)</u>
	293,045	293,045	87,807
	577,647	577,647	421,963
	581,893	581,893	(348,792)
	399,066	399,066	50,953
	79,126	79,126	67,065
	<u>(32,619)</u>	<u>(32,619)</u>	<u>(28,383)</u>
	<u>1,898,158</u>	<u>1,898,158</u>	<u>250,613</u>
<u>(5,650,059)</u>	<u>1,898,158</u>	<u>(3,751,901)</u>	<u>(3,511,950)</u>
2,016,721		2,016,721	2,060,302
699,404		699,404	438,951
134,843		134,843	192,538
59,870		59,870	63,470
1,016,485		1,016,485	1,008,140
3,869		3,869	15,160
86,006		86,006	133,761
423,331	34,545	457,876	167,674
590	17,646	18,236	(21,843)
128,615	<u>(128,615)</u>		
<u>4,569,734</u>	<u>(76,424)</u>	<u>4,493,310</u>	<u>4,058,153</u>
(1,080,325)	1,821,734	741,409	546,203
<u>14,435,975</u>	<u>17,000,100</u>	<u>31,436,075</u>	<u>30,889,872</u>
<u>\$ 13,355,650</u>	<u>\$ 18,821,834</u>	<u>\$ 32,177,484</u>	<u>\$ 31,436,075</u>

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CITY OF KASSON, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2016

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CITY OF KASSON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016
With Comparative Totals for December 31, 2015

	101	416	Debt	Other	Totals	
	General	Library Building	Service	Governmental Funds	2016	2015
ASSETS						
Cash and investments	\$ 1,240,712	\$ 65,766	\$ 1,793,597	\$ 1,909,280	\$ 5,009,355	\$ 5,314,220
Restricted cash						1,372,767
Accounts receivable	86,765	1,350		13,606	101,721	119,525
Interest receivable	1,512		1,227	3,681	6,420	26,052
Notes receivable				243,682	243,682	171,008
Advances to other funds						1,240,000
Due from other governmental units	16,850			211,088	227,938	43,217
Taxes receivable delinquent	45,662				45,662	45,825
Special assessments receivable			668,428	364,119	1,032,547	1,345,473
Prepaid items	14,044			2,132	16,176	14,512
Due from other funds	323,190			74,118	397,308	112,490
TOTAL ASSETS	\$ 1,728,735	\$ 67,116	\$ 2,463,252	\$ 2,821,706	\$ 7,080,809	\$ 9,805,089
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 69,792	\$ 73	\$ 18	\$ 314,070	\$ 383,953	\$ 92,277
Contracts payable		2,175		19,531	21,706	80,172
Due to other governments	18				18	19
Accrued salaries payable	23,472			4,719	28,191	25,616
Due to other funds				397,308	397,308	112,490
Unearned revenue	253				253	197
Total Liabilities	93,535	2,248	18	735,628	831,429	310,771
Deferred Inflows of Resources:						
Unavailable revenue:						
Property taxes	45,662				45,662	45,825
Special assessments			668,428	364,119	1,032,547	1,345,474
Total Deferred Inflows of Resources	45,662		668,428	364,119	1,078,209	1,391,299
Fund Balance:						
Nonspendable:						
Prepaid items	14,044			2,132	16,176	14,512
Restricted:						
Economic development				317,273	317,273	303,628
Debt service			1,794,806		1,794,806	3,541,185
Committed:						
Economic development				90,090	90,090	82,456
Library operations				176,965	176,965	179,840
Assigned:						
Capital improvements		64,868		1,644,816	1,709,684	2,724,310
Unassigned:	1,575,494			(509,317)	1,066,177	1,257,088
Total Fund Balance	1,589,538	64,868	1,794,806	1,721,959	5,171,171	8,103,019
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,728,735	\$ 67,116	\$ 2,463,252	\$ 2,821,706	\$ 7,080,809	\$ 9,805,089

See Notes to the Financial Statements

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CITY OF KASSON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (page 18)	\$	5,171,171
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	26,801,090
Less: Accumulated depreciation		<u>(10,623,863)</u>
		16,177,227
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$	45,662
Special assessments		<u>1,032,547</u>
		1,078,209
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$	(7,125,933)
Net pension liability		(1,622,655)
Net pension asset		26,721
Compensated absences		(165,186)
Other postemployment benefits		(47,109)
Bond premiums net of amortization		(53,265)
Accrued interest		<u>(83,530)</u>
		<u>(9,070,957)</u>
Net position of governmental activities (page 15)	\$	<u><u>13,355,650</u></u>

See Notes to the Financial Statements

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CITY OF KASSON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	101	416	Debt Service	Other	Totals	
	General	Library Building		Governmental Funds	2016	2015
REVENUES						
Property taxes	\$ 1,682,332	\$	\$ 747,365	\$ 320,700	\$ 2,750,397	\$ 2,605,425
Tax increments				100,478	100,478	128,427
Franchise taxes	59,870				59,870	63,470
Special assessments	256		105,564	220,383	326,203	300,751
Licenses and permits	41,516				41,516	84,566
Intergovernmental revenues	1,260,015			265,211	1,525,226	1,262,492
Charges for services	335,267			1,185	336,452	348,690
Fines and forfeits	16,009			2,931	18,940	23,266
Investment income	11,396	6,164	14,208	54,238	86,006	184,760
Miscellaneous revenues	32,215	111,110	400,957	3,139	547,421	165,376
TOTAL REVENUES	3,438,876	117,274	1,268,094	968,265	5,792,509	5,167,223
EXPENDITURES						
Current						
General government	451,139				451,139	475,768
Public safety	1,238,271				1,238,271	1,196,280
Public works	358,692				358,692	380,803
Health and welfare	16,502				16,502	14,358
Culture and recreation	667,785			296,573	964,358	897,778
TIF/economic development				132,884	132,884	242,534
Miscellaneous	86,056				86,056	69,284
Capital Outlay	236,573	1,198,224		625,895	2,060,692	975,130
Debt Service			3,542,636	2,332	3,544,968	1,091,003
TOTAL EXPENDITURES	3,055,018	1,198,224	3,542,636	1,057,684	8,853,562	5,342,938
Excess (deficiency) of revenues over (under) expenditures	383,858	(1,080,950)	(2,274,542)	(89,419)	(3,061,053)	(175,715)
OTHER FINANCING SOURCES (USES)						
Sale of assets	590				590	354
Bond proceeds						1,133,931
Premium on bonds issued						37,794
Transfers in	33,000	137,700	1,862,372	187,366	2,220,438	408,735
Transfers out	(240,016)		(1,334,209)	(517,598)	(2,091,823)	(343,115)
TOTAL OTHER FINANCING SOURCES (USES)	(206,426)	137,700	528,163	(330,232)	129,205	1,237,699
Net change in fund balances	177,432	(943,250)	(1,746,379)	(419,651)	(2,931,848)	1,061,984
FUND BALANCES, beginning	1,412,106	1,008,118	3,541,185	2,141,610	8,103,019	7,041,035
FUND BALANCES, ending	\$ 1,589,538	\$ 64,868	\$ 1,794,806	\$ 1,721,959	\$ 5,171,171	\$ 8,103,019

See Notes to the Financial Statements

CITY OF KASSON, 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, 2016

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

Net change in fund balances - total governmental funds (page 20)	\$	(2,931,848)
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Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay capitalized	\$	1,657,031	
Depreciation expense		<u>(1,046,181)</u>	610,850

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(1,384,006)
--	--	-------------

Certain revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.

Unavailable revenue, December 31, 2016	\$	1,078,209	
Unavailable revenue, December 31, 2015		<u>(1,391,299)</u>	(313,090)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Other postemployment benefits		4,853	
Change in compensated absences		15,215	

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal retirement on long-term debt	\$	3,274,095	
Amortization of bond premiums, net		39,823	
Change in net pension activity		(439,250)	
Change in accrued interest		<u>43,033</u>	<u>2,917,701</u>

Change in net position of governmental activities (pages 16-17)	\$	<u><u>(1,080,325)</u></u>
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See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,671,335	\$ 1,671,335	\$ 1,682,332	\$ 10,997
Franchise taxes	66,000	66,000	59,870	(6,130)
Special assessments			256	256
Licenses and permits	47,800	47,800	41,516	(6,284)
Intergovernmental	1,266,066	1,266,066	1,260,015	(6,051)
Charges for services	294,970	294,970	335,267	40,297
Fines and forfeits	15,500	15,500	16,009	509
Investment earnings	12,500	12,500	11,396	(1,104)
Miscellaneous	16,700	16,700	32,215	15,515
TOTAL REVENUES	3,390,871	3,390,871	3,438,876	48,005
EXPENDITURES				
Current				
General Government	483,776	483,776	451,139	32,637
Public safety	1,214,117	1,214,117	1,238,271	(24,154)
Pulic works	427,086	427,086	358,692	68,394
Health and welfare	14,760	14,760	16,502	(1,742)
Culture and recreation	769,646	769,646	667,785	101,861
Miscellaneous	108,136	108,136	86,056	22,080
Capital outlay				
General Government	28,000	28,000	8,226	19,774
Pulic works	241,268	241,268	184,713	56,555
Culture and recreation	56,000	56,000	43,634	12,366
TOTAL EXPENDITURES	3,342,789	3,342,789	3,055,018	287,771
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	48,082	48,082	383,858	335,776
OTHER FINANCING SOURCES (USES)				
Sale of assets			590	590
Transfers in	33,000	33,000	33,000	
Transfers out	(52,650)	(52,650)	(240,016)	(187,366)
TOTAL FINANCING SOURCES (USES)	(19,650)	(19,650)	(206,426)	(186,776)
NET CHANGE IN FUND BALANCES	28,432	28,432	177,432	149,000
FUND BALANCES, JANUARY 1	1,412,106	1,412,106	1,412,106	
FUND BALANCES, DECEMBER 31	\$ 1,440,538	\$ 1,440,538	\$ 1,589,538	\$ 149,000

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2016 and 2015

	Business-Type Activities - Enterprise Funds					
	601 Water		602 Wastewater Treatment		604 Electric	
	2016	2015	2016	2015	2016	2015
ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
Current Assets						
Cash and temporary investments	\$ 559,355	\$ 437,605	\$ 1,431,533	\$ 777,019	\$ 893,092	\$ 485,816
Interest receivable	1,369	481	3,242	1,095	3,340	1,828
Accounts receivable	86,872	84,064	219,713	211,204	520,252	484,014
Special assessments receivable	4,340	4,875				
Due from other governments						
Inventories					246,040	217,726
Prepaid items	2,017	2,156	4,149	4,380	7,129	6,877
Total Current Assets	<u>653,953</u>	<u>529,181</u>	<u>1,658,637</u>	<u>993,698</u>	<u>1,669,853</u>	<u>1,196,261</u>
Noncurrent Assets						
Restricted cash and investments	122,130	625,475	1,824,054	713,780	43,381	385,991
Intangibles - service area					146,123	152,835
Capital assets:						
Land	32,779	32,779	156,187	156,187	6,317	6,317
Construction in process	82,385		944,297	238,184		
Buildings	1,252,796	1,252,796	10,448,848	10,448,848	648,629	648,629
Improvements other than buildings	4,201,519	4,201,519	4,851,597	4,876,673	1,985,775	1,985,775
Machinery and equipment	125,920	125,920	464,424	464,424	546,329	504,026
Office equipment and furnishings	34,776	34,776	36,766	36,766	90,600	100,382
Vehicles	63,990	63,990	22,840	22,840	316,532	316,532
Infrastructure	4,007,492	3,862,818	2,947,152	2,825,593		
Less accumulated depreciation	(4,191,439)	(3,988,688)	(7,675,120)	(7,264,906)	(2,553,275)	(2,565,568)
Net capital assets	<u>5,610,218</u>	<u>5,585,910</u>	<u>12,196,991</u>	<u>11,804,609</u>	<u>1,040,907</u>	<u>996,093</u>
Deferred Outflows of Resources						
Deferred outflows from pension activity	84,011	21,120	150,490	38,053	245,999	61,372
TOTAL ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
	<u>\$ 6,470,312</u>	<u>\$ 6,761,686</u>	<u>\$ 15,830,172</u>	<u>\$ 13,550,140</u>	<u>\$ 3,146,263</u>	<u>\$ 2,792,552</u>
LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES, AND NET POSITION						
Current Liabilities						
Current maturities of bonds payable	177,635	133,089	563,800	505,540	43,073	
Accounts payable	18,667	8,745	256,330	165,815	195,681	242,089
Contracts payable			22,092			
Advances from other funds		40,000		40,000		40,000
Due to other governments					17,041	16,092
Deposits payable					53,263	55,284
Accrued interest payable	9,308	16,563	37,767	54,373	3,896	5,549
Compensated absences payable	11,928	15,137	18,479	27,801	28,222	24,899
Unearned revenue			409,500	409,500		
Accrued salaries payable	2,587	2,379	4,443	4,008	8,092	6,617
Total Current Liabilities	<u>220,125</u>	<u>215,913</u>	<u>1,312,411</u>	<u>1,207,037</u>	<u>349,268</u>	<u>390,530</u>
Noncurrent Liabilities						
Other postemployment benefits obligation	6,282	6,929	6,951	7,667	13,405	14,786
Compensated absences payable	5,321	5,800	7,566	14,143	26,169	20,597
Advances from other funds		373,334		373,333		373,333
Net pension liability	202,522	143,875	364,900	259,231	588,508	418,085
Bonds payable, net of current maturities	1,009,968	1,296,900	5,682,103	3,834,354	339,660	384,325
Total Noncurrent Liabilities	<u>1,224,093</u>	<u>1,826,838</u>	<u>6,061,520</u>	<u>4,488,728</u>	<u>967,742</u>	<u>1,211,126</u>
Deferred Inflows of Resources						
Deferred inflows from pension activity	26,495	7,254	47,736	13,070	76,994	21,079
NET POSITION						
Net investment in capital assets	4,422,615	4,641,161	7,474,587	7,928,637	701,555	988,930
Restricted for debt service	122,130	140,235	300,555	247,890		
Unrestricted	454,854	(69,715)	633,363	(335,222)	1,050,704	180,887
Total Net Position	<u>4,999,599</u>	<u>4,711,681</u>	<u>8,408,505</u>	<u>7,841,305</u>	<u>1,752,259</u>	<u>1,169,817</u>
TOTAL LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES AND NET POSITION						
	<u>\$ 6,470,312</u>	<u>\$ 6,761,686</u>	<u>\$ 15,830,172</u>	<u>\$ 13,550,140</u>	<u>\$ 3,146,263</u>	<u>\$ 2,792,552</u>

See Notes to the Financial Statements

Business-Type Activities - Enterprise Funds

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2016	2015	2016	2015	2016	2015	2016	2015
\$ 73,226	\$ 82,839	\$ 445,152	\$ 436,215	\$ 234,677	\$ 254,401	\$ 3,637,035	\$ 2,473,895
	119	1,184	1,003	1,244	1,555	10,379	6,081
37,829	35,869	126	200	7	58	864,799	815,409
25,000						29,340	4,875
125,002						125,002	
		106,757	110,288			352,797	328,014
2,553	6,546	2,316	2,667	292	288	18,456	22,914
263,610	125,373	555,535	550,373	236,220	256,302	5,037,808	3,651,188
47,553	235,402					2,037,118	1,960,648
						146,123	152,835
74,968		49,500	49,500	132,400	132,400	452,151	377,183
137,659						1,164,341	238,184
		234,928	234,928	9,600	9,600	12,594,801	12,594,801
		7,273	7,273			11,046,164	11,071,240
117,915	117,915	7,810	7,810			1,262,398	1,220,095
2,609	2,609	67,396	67,396	10,298	10,298	242,445	252,227
						403,362	403,362
3,671,804	3,547,426					10,626,448	10,235,837
(990,332)	(906,162)	(291,456)	(279,349)	(16,058)	(15,578)	(15,717,680)	(15,020,251)
3,014,623	2,761,788	75,451	87,558	136,240	136,720	22,074,430	21,372,678
35,119	8,940	77,307	19,306	5,815	1,462	598,741	150,253
\$ 3,360,905	\$ 3,131,503	\$ 708,293	\$ 657,237	\$ 378,275	\$ 394,484	\$ 29,894,220	\$ 27,287,602
48,407	46,104					832,915	684,733
8,415	1,598	1,671	26,477	30	1,820	480,794	446,544
						22,092	
							120,000
		14,952	14,134			31,993	30,226
						53,263	55,284
3,179	6,078					54,150	82,563
3,906	3,625	1,261	585	1,146	1,239	64,942	73,286
25,000						434,500	409,500
813	724	2,719	1,901	177	202	18,831	15,831
89,720	58,129	20,603	43,097	1,353	3,261	1,993,480	1,917,967
1,664	1,835	4,984	5,497	2,029	2,238	35,315	38,952
1,109	465			759		40,924	41,005
							1,120,000
85,733	60,906	185,135	131,523	14,026	9,964	1,440,824	1,023,584
341,618	578,808					7,373,349	6,094,387
430,124	642,014	190,119	137,020	16,814	12,202	8,890,412	8,317,928
11,214	3,071	24,221	6,631	1,834	502	188,494	51,607
2,672,151	2,325,389	75,451	87,558	136,240	136,720	15,482,599	16,108,395
						422,685	388,125
157,696	102,900	397,899	382,931	222,034	241,799	2,916,550	503,580
2,829,847	2,428,289	473,350	470,489	358,274	378,519	18,821,834	17,000,100
\$ 3,360,905	\$ 3,131,503	\$ 708,293	\$ 657,237	\$ 378,275	\$ 394,484	\$ 29,894,220	\$ 27,287,602

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Years Ended December 31, 2016 and 2015

	Business-Type Activities - Enterprise Funds					
	601 Water		602 Wastewater Treatment		604 Electric	
	2016	2015	2016	2015	2016	2015
Operating Revenues						
Service fees and charges	\$ 706,822	\$ 671,432	\$ 1,710,645	\$ 1,609,670	\$ 4,033,264	\$ 3,645,820
Less cost of sales						
	<u>706,822</u>	<u>671,432</u>	<u>1,710,645</u>	<u>1,609,670</u>	<u>4,033,264</u>	<u>3,645,820</u>
Operating Expenses						
Personal services	191,940	229,054	303,103	398,319	617,725	642,099
Supplies	75,337	71,624	163,685	73,080	107,366	145,480
Insurance	3,812	4,517	9,884	13,200	5,925	6,477
Utilities	24,542	25,313	3,087	3,211	9,167	11,300
Purchased power					2,296,632	2,657,596
Other services and charges	66,205	74,485	218,571	182,488	321,312	403,749
Depreciation	202,752	221,017	435,291	435,591	92,570	109,909
Total Operating Expenses	<u>564,588</u>	<u>626,010</u>	<u>1,133,621</u>	<u>1,105,889</u>	<u>3,450,697</u>	<u>3,976,610</u>
Operating Income (Loss)	<u>142,234</u>	<u>45,422</u>	<u>577,024</u>	<u>503,781</u>	<u>582,567</u>	<u>(330,790)</u>
Nonoperating Revenues (Expenses)						
Special assessments	558	177			1,373	4,208
Interest income	8,500	8,326	1,541	8,955	11,049	11,603
Rents	25,694	24,946			7,803	3,592
Refunds and reimbursements	310	1,950	248	2,739	3,251	5,299
Gain on sale of assets					8,500	
Interest expense and fiscal charges	(21,905)	(48,568)	(123,056)	(135,009)	(7,981)	(25,618)
Amortization expense	1,481		1,872	2,842	(5,120)	(5,483)
Total Nonoperating Revenues (Expenses)	<u>14,638</u>	<u>(13,169)</u>	<u>(119,395)</u>	<u>(120,473)</u>	<u>18,875</u>	<u>(6,399)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>156,872</u>	<u>32,253</u>	<u>457,629</u>	<u>383,308</u>	<u>601,442</u>	<u>(337,189)</u>
Capital contributions from developers	144,673	63,880	121,559	47,610		
Transfers out	(13,627)	(14,162)	(11,988)	(12,458)	(19,000)	(25,000)
CHANGE IN NET POSITION	<u>287,918</u>	<u>81,971</u>	<u>567,200</u>	<u>418,460</u>	<u>582,442</u>	<u>(362,189)</u>
NET POSITION - BEGINNING OF YEAR AS ORIGINALLY STATED	<u>4,711,681</u>	<u>4,745,268</u>	<u>7,841,305</u>	<u>7,631,054</u>	<u>1,169,817</u>	<u>1,867,804</u>
Restatement		(115,558)		(208,209)		(335,798)
NET POSITION - AS RESTATED	<u>4,711,681</u>	<u>4,629,710</u>	<u>7,841,305</u>	<u>7,422,845</u>	<u>1,169,817</u>	<u>1,532,006</u>
NET POSITION - END OF YEAR	<u>\$ 4,999,599</u>	<u>\$ 4,711,681</u>	<u>\$ 8,408,505</u>	<u>\$ 7,841,305</u>	<u>\$ 1,752,259</u>	<u>\$ 1,169,817</u>

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2016	2015	2016	2015	2016	2015	2016	2015
\$ 280,187	\$ 262,705	\$ 1,457,993	\$ 1,390,195	\$ 17,541	\$ 21,980	\$ 8,206,452	\$ 7,601,802
		(1,127,102)	(1,078,651)			(1,127,102)	(1,078,651)
280,187	262,705	330,891	311,544	17,541	21,980	7,079,350	6,523,151
67,112	96,417	201,199	190,458	13,937	14,141	1,395,016	1,570,488
7,119	8,485	7,964	8,179	689		362,160	306,848
504	561	3,212	3,595	468	259	23,805	28,609
		11,174	10,356	347	305	48,317	50,485
						2,296,632	2,657,596
35,201	22,127	16,115	18,008	34,589	36,828	691,993	737,685
84,169	81,557	12,107	13,883	480	480	827,369	862,437
194,105	209,147	251,771	244,479	50,510	52,013	5,645,292	6,214,148
86,082	53,558	79,120	67,065	(32,969)	(30,033)	1,434,058	309,003
						1,931	4,385
2,492	4,369	7,735	12,647	3,228	4,985	34,545	50,885
						33,497	28,538
125,002		6		350	1,650	129,167	11,638
				9,146		17,646	
(12,561)	(14,523)					(165,503)	(223,718)
1,197	2,868					(570)	227
116,130	(7,286)	7,741	12,647	12,724	6,635	50,713	(128,045)
202,212	46,272	86,861	79,712	(20,245)	(23,398)	1,484,771	180,958
199,346	9,050					465,578	120,540
		(84,000)	(14,000)			(128,615)	(65,620)
401,558	55,322	2,861	65,712	(20,245)	(23,398)	1,821,734	235,878
2,428,289	2,421,886	470,489	510,413	378,519	409,920	17,000,100	17,586,345
	(48,919)		(105,636)		(8,003)		(822,123)
2,428,289	2,372,967	470,489	404,777	378,519	401,917	17,000,100	16,764,222
\$ 2,829,847	\$ 2,428,289	\$ 473,350	\$ 470,489	\$ 358,274	\$ 378,519	\$ 18,821,834	\$ 17,000,100

CITY OF KASSON, MINNESOTA

PROPRIETARY FUNDS

Statement of Cash Flows

For the Years Ended December 31, 2016 and 2015

	Business-Type Activities - Enterprise Funds					
	601		602		604	
	Water		Wastewater Treatment		Electric	
	2016	2015	2016	2015	2016	2015
Cash Flows From Operating Activities						
Cash received from customers	\$ 704,014	\$ 665,650	\$ 1,702,136	\$ 1,767,626	\$ 3,995,005	\$ 3,666,933
Other receipts	26,004	26,896	248	2,739	11,054	8,891
Cash paid to employees	(195,420)	(235,893)	(318,567)	(403,220)	(607,355)	(682,723)
Cash paid to suppliers	(145,485)	(157,865)	(428,799)	(245,680)	(2,774,097)	(3,100,854)
Net Cash Provided By (Used In) Operating Activities	389,113	298,788	955,018	1,121,465	624,607	(107,753)
Cash Flows From Noncapital Financing Activities						
Transfer in/out	(13,627)	(14,162)	(11,988)	(12,458)	(19,000)	(25,000)
Net Cash Used In Noncapital Financing Activities	(13,627)	(14,162)	(11,988)	(12,458)	(19,000)	(25,000)
Cash Flows From Capital and Related Financing Activities						
Capital asset acquisitions	(82,385)	(64,827)	(532,522)	(77,280)	(137,385)	(30,474)
Cash received from sale of assets					8,500	
Special assessment collections	1,093	177			1,373	4,208
Bond proceeds		492,796	2,500,000	470,004		384,383
Principal payments on bonds	(239,459)	(129,853)	(590,939)	(491,362)		
Principal paid on interfund advances	(413,334)	(38,333)	(413,333)	(38,334)	(413,333)	(38,333)
Interest payments on bonds	(30,608)	(49,602)	(140,842)	(147,773)	(9,633)	(26,168)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(764,693)	210,358	822,364	(284,745)	(550,478)	293,616
Cash Flows From Investing Activities						
Investment income received	7,612	9,172	(606)	10,358	9,537	13,949
Net Cash Provided By (Used In) Capital and Related Financing Activities	7,612	9,172	(606)	10,358	9,537	13,949
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(381,595)	504,156	1,764,788	834,620	64,666	174,812
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,063,080	558,924	1,490,799	656,179	871,807	696,995
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 681,485	\$ 1,063,080	\$ 3,255,587	\$ 1,490,799	\$ 936,473	\$ 871,807
Classified as:						
Cash and cash equivalents	\$ 559,355	\$ 437,605	\$ 1,431,533	\$ 777,019	\$ 893,092	\$ 485,816
Restricted cash	122,130	625,475	1,824,054	713,780	43,381	385,991
Total Cash and Cash Equivalents, End of Year	\$ 681,485	\$ 1,063,080	\$ 3,255,587	\$ 1,490,799	\$ 936,473	\$ 871,807

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2016	2015	2016	2015	2016	2015	2016	2015
\$ 278,227	\$ 256,295	\$ 330,965	\$ 311,599	\$ 17,592	\$ 21,935	\$ 7,027,939	\$ 6,690,038
		6		350	1,650	37,662	40,176
(66,098)	(101,884)	(199,705)	(195,481)	(13,296)	(15,542)	(1,400,441)	(1,634,743)
(25,394)	(27,633)	(45,883)	(15,846)	(37,055)	(34,822)	(3,456,713)	(3,582,700)
186,735	126,778	85,383	100,272	(32,409)	(26,779)	2,208,447	1,512,771
		(84,000)	(14,000)			(128,615)	(65,620)
		(84,000)	(14,000)			(128,615)	(65,620)
(137,659)	(19,972)		(19,586)	9,146		(889,951)	(212,139)
						17,646	
						2,466	4,385
	187,899					2,500,000	1,535,082
(231,511)	(45,107)					(1,061,909)	(666,322)
						(1,240,000)	(115,000)
(17,638)	(11,962)					(198,721)	(235,505)
(386,808)	110,858		(19,586)	9,146		(870,469)	310,501
2,611	4,575	7,554	12,736	3,539	5,186	30,247	55,976
2,611	4,575	7,554	12,736	3,539	5,186	30,247	55,976
(197,462)	242,211	8,937	79,422	(19,724)	(21,593)	1,239,610	1,813,628
318,241	76,030	436,215	356,793	254,401	275,994	4,434,543	2,620,915
\$ 120,779	\$ 318,241	\$ 445,152	\$ 436,215	\$ 234,677	\$ 254,401	\$ 5,674,153	\$ 4,434,543
\$ 73,226	\$ 82,839	\$ 445,152	\$ 436,215	\$ 234,677	\$ 254,401	3,637,035	\$ 2,473,895
47,553	235,402					2,037,118	1,960,648
\$ 120,779	\$ 318,241	\$ 445,152	\$ 436,215	\$ 234,677	\$ 254,401	\$ 5,674,153	\$ 4,434,543

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows - continued
For the Years Ended December 31, 2016 and 2015
RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	601 Water		602 Wastewater Treatment		604 Electric	
	2016	2015	2016	2015	2016	2015
Operating Income (Loss)	\$ 142,234	\$ 45,422	\$ 577,024	\$ 503,781	\$ 582,567	\$ (330,790)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation	202,752	221,017	435,291	435,591	92,570	109,909
Change in net pension liability	14,997	14,451	27,898	26,039	41,711	41,994
Miscellaneous nonoperating income	26,004	26,896	248	2,739	11,054	8,891
(Increase) Decrease In:						
Accounts receivable	(2,808)	(5,782)	(8,509)	(1,544)	(36,238)	20,871
Due from other governments						
Inventories					(28,314)	7,017
Prepaid items	139	1,148	231	(784)	(252)	89
Increase (Decrease) In:						
Accounts payable	9,922	2,948	(60,985)	1,568	(46,408)	76,535
Due to other governments					949	(877)
Accrued salaries payable	208	(4,695)	435	(7,924)	1,475	(14,432)
Compensated absences payable	(3,688)	(2,144)	(15,899)	3,023	8,895	(26,192)
Other postemployment benefits obligation	(647)	(473)	(716)	(524)	(1,381)	(1,010)
Unearned revenue				159,500		
Deposits payable					(2,021)	242
Net Cash Provided By (Used In) Operating Activities	\$ 389,113	\$ 298,788	\$ 955,018	\$ 1,121,465	\$ 624,607	\$ (107,753)
Noncash Capital and Related Financing Activities						
Amortization of bond discount, premium and intangibles	\$ (1,481)	\$	\$ (1,872)	\$ (2,842)	\$ 5,120	\$ 5,483
Capital asset additions included in accounts payable			173,592			

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2016	2015	2016	2015	2016	2015	2016	2015
\$ 86,082	\$ 53,558	\$ 79,120	\$ 67,065	\$ (32,969)	\$ (30,033)	\$ 1,434,058	\$ 309,003
84,169	81,557	12,107	13,883	480	480	827,369	862,437
6,791	6,118	13,201	13,212	1,041	1,001	105,639	102,815
125,002		6		350	1,650	162,664	40,176
(1,960)	(6,410)	74	55	51	(45)	(49,390)	7,145
(125,002)						(125,002)	
3,993	(3,531)	3,531	(2,948)			(24,783)	4,069
		351	(151)	(4)	(76)	4,458	(3,305)
6,817	1,078	(24,806)	13,557	(1,790)	1,798	(117,250)	97,484
		818	997			1,767	120
89	(2,952)	818	(4,150)	(25)	(266)	3,000	(34,419)
925	(2,515)	676	(873)	666	(1,135)	(8,425)	(29,836)
(171)	(125)	(513)	(375)	(209)	(153)	(3,637)	(2,660)
							159,500
						(2,021)	242
\$ 186,735	\$ 126,778	\$ 85,383	\$ 100,272	\$ (32,409)	\$ (26,779)	\$ 2,208,447	\$ 1,512,771

\$ (1,197) \$ (2,868) \$ \$ \$ \$ \$ 570 \$ (227)

CITY OF KASSON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS (FESTIVAL IN THE PARK AND ARENA FUND)
December 31, 2016

	877 Festival in Park	606 Arena	Total
ASSETS			
Cash and investments	\$ 8,089	\$ (20,028)	\$ (11,939)
Accounts receivable		40,661	40,661
Inventory		644	644
Prepaid items	25	1,189	1,214
TOTAL ASSETS	\$ 8,114	\$ 22,466	\$ 30,580
LIABILITIES			
Accounts payable	\$ 8,114	\$ 6,564	\$ 14,678
Accrued wages payable		6,911	6,911
Due to other governments		8,991	8,991
TOTAL LIABILITIES	\$ 8,114	\$ 22,466	\$ 30,580

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

City of Kasson, Minnesota, (the City) operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member Council. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are in substance, part of the City’s operations and so data from these units are combined with data of the primary government. The blended component unit presented has a December 31 year end.

Blended Component Unit. The Economic Development Authority (EDA) is responsible for economic and industrial development and redevelopment within the City’s jurisdiction. The seven members of the EDA’s governing board, including two council members, are appointed and approved by the Council. In accordance with GASB accounting standards, this entity is properly presented as a blended presented component unit as a governmental fund type. This is shown as a blended component unit because there were bonds issued by the EDA to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements, other than time requirements, are met and recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unavailable revenue in the fund financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Library Building fund* accounts for the accumulation of resources for payment of the library building capital project.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Wastewater Treatment fund* accounts for the costs associated with the City's waste water treatment system and to ensure that user charges are sufficient to pay for those costs.

The *Electric fund* accounts for the costs associated with the City's electrical system and to ensure that user charges are sufficient to pay for those costs.

The *Stormwater fund* accounts for the costs associated with the City's storm water system, which are financed by the storm water surcharge, and to ensure that user charges are sufficient to pay for those costs.

The *Municipal Liquor Store fund* accounts for the operations of the City's off-sale liquor store.

The *Maple Grove Cemetery fund* accounts for the costs associated with maintaining and operating the Maple Grove Cemetery.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *Agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. Agency funds account for Festival in the Park and Arena activities.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, sewer and electric functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, related in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated “A” or better; revenue obligations rated “AA” or better.
4. General obligations of the Minnesota Housing Finance Agency rated “A” or better.
5. Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. 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.
8. Guaranteed investment contracts (GIC’s) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. Broker money market accounts operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Cash and Investments (continued)

Investment policy

The three main objectives of all investment activities can be prioritized as safety, liquidity, and yield. Safety of principal is the foremost objective of the City. Each investment transaction shall seek to first insure that capital losses are avoided. The objective will be to mitigate credit risk and interest rate risk. Credit risk is the risk of loss due to failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated demands. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. The investment portfolio of the City shall be designed to attain the market-average rate of return through budgetary and economic cycles, taking into consideration the City's investment risk constraints, cash flow characteristics of the portfolio and prudent investment policies.

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 50 percent of total investments, based upon year end investment balance of the prior year, should extend beyond five years and in no circumstance should any extend beyond ten years.

The purpose of this policy is to establish specific guidelines the City will use in the investment of City funds. It will be the responsibility of the Finance Director or City Administrator to invest City funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk investments.

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Interfund Transactions (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources unless the proceeds from those advances meets the definition of restricted, committed, or assigned fund balance.

Property Taxes

Property tax levies are set by the City Council in December each year and are certified for collection in the following year. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. In Minnesota, counties are responsible and act as collection agents for all property taxes and tax settlements are made to the City during January, June and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, an allowance for uncollectible accounts of \$4,000 has been provided on current receivables.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Inventories and Prepaid Items

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash and temporary investments restricted to specific purposes by bonded debt requirements and other agreements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Capital Assets (continued)

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Land and Land Improvements	\$ 5,000
Other Improvements	5,000
Buildings	5,000
Building Improvements	5,000
Machinery and Equipment	2,500
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life <u>in Years</u>
System improvements/Infrastructure	15 - 50
Buildings and Improvements	5 - 15
Land Improvements	15 - 20
Other Improvements	15 - 20
Vehicles	5 - 15
Machinery and Equipment	5 - 15

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick and comp time which is paid to the employees upon separation and meeting policy requirements. Vacation, sick and comp time pay is accrued when incurred and reported as a fund liability. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Postemployment Benefits Other Than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirements. All premiums are funded on a pay as you go basis. The liability was determined by the alternative valuation method, in accordance with GASB Statement 45, at January 1, 2015.

Long-Term Obligations

In the government-wide financial 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 activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Net Position / Fund Balance

In the government-wide and proprietary financial statements, net position are classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

The City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The council also delegates the power to assign fund balances for specific purposes to the Finance Director.

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Pensions

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

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Implementation of New Accounting Principles

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value and requires disclosures to be made about fair value measurements including the level of fair value hierarchy and the valuation techniques utilized by the City.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the order and priority of pronouncements and other sources of accounting and financial reporting guidance that governments should apply. This statement did not impact the preparation of these financial statements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. This statement requires the disclosure of information related to tax abatement agreements entered into by the City such as the financial statement impact, amount of taxes the City has promised to forego, and commitments made, under the agreements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No.67, No.68 and No.73*. The objective of this statement is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised during implementation of the three standards listed above. One of the significant changes included in this statement clarifies the presentation of covered payroll in the required supplementary information to reflect the amount of payroll on which contributions made to the pension plan are based.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and the Library and Economic Development special revenue funds. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

Each August, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. Before September 15, the proposed budget is presented to the council for review and the proposed levy is adopted. The Council prepared a final budget and it is adopted in early December. The Council invites the public to the meeting when the budget is discussed.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted.

3. Detailed Notes on All Funds

A. Summary of Cash and Investments

As of December 31, 2016, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash on hand	None	N/A	\$ 874
Deposits	None	N/A	4,434,298
Certificates of deposit	June 2017 - November 2026	N/A	5,946,270
U.S. Government Bonds	August 2017	AAA	299,823
Money Market Funds	None	N/A	2,243
Total Cash and Investments			<u>\$ 10,683,508</u>
Cash and Investments			\$ 8,646,390
Restricted Cash and Investments			<u>2,037,118</u>
Cash and Investments per Statement of Net Position			<u>\$ 10,683,508</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (continued)

Collateralization of Cash Deposits

The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Fair Value Measurements

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other meansIf the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (continued)

Fair Value Measurements (Continued)

The City's investments within the fair value hierarchy at December 31, 2016 and 2015 were as follows:

	At December 31, 2016			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
U.S. Government Bonds	\$ 299,823	\$	\$ 299,823	\$

	At December 31, 2015			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
U.S. Government Bonds	\$ 246,725	\$	\$ 246,725	\$

Interest Rate Risk

The City has a formal investment policy that limits investment maturities up to ten years to manage decline in fair values of an investment.

Custodial Credit Risk

The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.

Credit Risk

The City has a formal investment policy that aims to minimize credit risk by limiting its investment choices to specific types of investments, pre-qualifying financial institutions, and diversifying the investment portfolio.

Concentration of Credit Risk

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

B. Deferred Special Assessments Receivable

Deferred assessments receivable represent levies made on the property of owners benefited by public improvement projects. Assessments are payable over various periods.

C. Notes Receivable

The Economic Development Authority (EDA) has loaned various economic development notes to city businesses. These notes are receivable by the EDA with interest at 2.0 percent to 5.0 percent per annum. The balance on notes receivable at December 31, 2016 is \$243,682.

D. Capital Assets

Capital asset activity, including internal service fund capital assets, for the year ended December 31, 2016 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 657,681	\$	\$	\$ 657,681
Construction in progress	818,251		818,251	
Total capital assets, not being depreciated	1,475,932		818,251	657,681
Capital assets, being depreciated:				
Buildings	6,578,702	1,826,642	1,444,186	6,961,158
Investment in joint venture	381,973			381,973
Improvements other than buildings	1,140,922	37,621		1,178,543
Machinery and equipment	788,139	34,758	2,852	820,045
Office equipment and furnishings	97,591	110,265		207,856
Vehicles	2,764,607			2,764,607
Infrastructure	13,363,231	465,996		13,829,227
Total capital assets, being depreciated	25,115,165	2,475,282	1,447,038	26,143,409
Less accumulated depreciation for:				
Buildings	880,978	161,228	60,176	982,030
Investment in joint venture	144,061	12,833		156,894
Improvements other than buildings	418,335	57,012		475,347
Machinery and equipment	637,756	44,603	2,852	679,507
Office equipment and furnishings	59,137	19,299		78,436
Vehicles	1,710,519	114,200		1,824,719
Infrastructure	5,789,924	637,006		6,426,930
Total accumulated depreciation	9,640,710	1,046,181	63,028	10,623,863
Total capital assets, being depreciated, net	15,474,455	1,429,101	1,384,010	15,519,546
Governmental activities capital assets, net	\$ 16,950,387	\$ 1,429,101	\$ 2,202,261	\$ 16,177,227

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets (continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 377,183	\$ 74,968	\$	\$ 452,151
Construction in progress	238,184	926,157		1,164,341
Total capital assets, not being depreciated	<u>615,367</u>	<u>1,001,125</u>		<u>1,616,492</u>
Capital assets, being depreciated:				
Buildings	12,594,801			12,594,801
Improvements other than buildings	11,071,240		25,076	11,046,164
Machinery and equipment	1,220,095	137,385	95,082	1,262,398
Office equipment and furnishings	252,227		9,782	242,445
Vehicles	403,362			403,362
Infrastructure	<u>10,235,837</u>	<u>390,611</u>		<u>10,626,448</u>
Total capital assets, being depreciated	<u>35,777,562</u>	<u>527,996</u>	<u>129,940</u>	<u>36,175,618</u>
Less accumulated depreciation for:				
Buildings	4,469,906	312,604		4,782,510
Improvements other than buildings	6,602,117	224,943	25,076	6,801,984
Machinery and equipment	1,025,817	65,666	95,082	996,401
Office equipment and furnishings	229,912	8,653	9,782	228,783
Vehicles	382,323	8,416		390,739
Infrastructure	<u>2,310,176</u>	<u>207,087</u>		<u>2,517,263</u>
Total accumulated depreciation	<u>15,020,251</u>	<u>827,369</u>	<u>129,940</u>	<u>15,717,680</u>
Total capital assets, being depreciated, net	<u>20,757,311</u>	<u>(299,373)</u>		<u>20,457,938</u>
Business-type activities capital assets, net	<u>\$ 21,372,678</u>	<u>\$ 701,752</u>	<u>\$</u>	<u>\$ 22,074,430</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 22,110
Public safety	124,759
Public works	687,442
Culture and recreation	<u>211,870</u>
Total depreciation expense - governmental activities	<u><u>\$ 1,046,181</u></u>
 Business-Type Activities:	
Water	\$ 202,752
Wastewater treatment	435,291
Electric	92,570
Stormwater	84,169
Liquor	12,107
Cemetery	<u>480</u>
Total depreciation expense - business-type activities	<u><u>\$ 827,369</u></u>

Construction Commitments

The City has an active utility improvement construction project as of December 31, 2016. At year end, the City's commitments with the contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
WWTP Expansion	\$ 894,297	\$ 3,348,900

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. Interfund Balances and Transfers

The amounts due to and from other funds as of December 31, 2016, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
General Fund	\$ 323,190	\$
Nonmajor governmental - EDA	74,118	
Nonmajor governmental - Commerce Drive		289,754
Nonmajor governmental - 2017 Street Assessment Project		11,267
Nonmajor governmental - Downtown TIF		73,118
Nonmajor governmental - Oppidan Folkestad TIF		23,169
Total	\$ 397,308	\$ 397,308

At December 31, 2016 the following funds have deficit fund balances:

Fund	Amount
Special Revenue	
Downtown TIF	\$ 73,000
Oppidan Folkestad TIF	23,169
Capital Projects	
2017 Street Assessment Project	277,395
Commerce Drive	135,753

The City plans to eliminate the deficits in the special revenue funds through future tax increment collections, operating transfers and developer reimbursements.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. *Interfund Balances and Transfers (continued)*

Transfers during the year ended December 31, 2016 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 33,000	\$ 240,016
Debt Service	1,862,372	1,334,209
Nonmajor Governmental		
Stabilization/Capital Projects Reserves	187,366	66,000
Library Building	137,700	
Oppidan Folkestad TIF - Capital Project		397,965
Oppidan Folkestad TIF - Special Revenue		51,933
Library		1,700
Enterprise		
Water		13,627
Wastewater		11,988
Electric		19,000
Municipal Liquor Store		84,000
Total Transfers	\$ 2,220,438	\$ 2,220,438

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt

General Obligation Bonds

The City and EDA issue general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation debt is backed by the full faith and credit of the City. Each year the tax levy equal 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax payments.

G.O. Bonds

The following notes were issued to finance various improvements and will be repaid primarily from ad valorem tax levies. All general obligation debt is backed by the full faith and credit of the City. Each year the tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax payments.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Aquatic Center Bonds of 2013A	\$ 2,800,000	0.3 - 3.00 %	03/14/13	02/01/28	\$ 2,260,000
G.O. Equipment Certificate Bonds of 2014A	\$ 1,025,000	2.35	03/12/14	02/01/24	840,000
G.O. Tax Increment Bonds of 2014B	\$ 1,655,000	4.00 - 5.50	06/02/14	02/01/42	1,655,000
G.O. Crossover Refunding Bonds of 2015A	\$ 2,620,000	2.00 - 4.00	09/01/15	02/01/24	<u>2,620,000</u>
Total G.O. Bonds					<u>\$ 7,375,000</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (continued)

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from specific assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equal 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding					
Bonds of 2011A	\$ 1,775,000	2.00 - 2.70 %	11/01/11	02/01/21	\$ 770,000
G.O. Street Reconstruction and Utility Revenue Bonds of 2012A	1,430,000	0.40 - 2.10	07/01/12	02/01/23	994,935
G.O. Improvement Bonds of 2014C	430,000	2.00 - 3.50	06/02/14	02/01/30	405,000
Total G.O. Special Assessment Bonds					<u>\$ 2,169,935</u>

G.O. Revenue Notes

The following notes were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue Note of 2001 (PFA)	\$ 7,632,919	3.07 %	08/30/01	08/20/21	\$ 2,446,000
G.O. Sewer Revenue Note of 2011 (PFA)	994,038	1.86	08/31/11	08/20/31	795,000
G.O. Temporary Utility Revenue Note of 2016A	2,500,000	2.00	11/16/16	11/01/19	2,500,000
Total G.O. Revenue Bonds					<u>\$ 5,741,000</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2016, over the life of the debt, are summarized below:

Years	General Obligation Bonds		General Improvement Bonds		Total
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2017	\$ 433,003	\$ 223,322	\$ 261,082	\$ 28,601	\$ 946,008
2018	438,167	309,949	210,196	24,319	982,631
2019	444,495	310,365	151,862	20,055	926,777
2020	457,495	304,523	93,529	16,314	871,861
2021	461,659	300,882	93,529	13,152	869,222
2022-2026	1,954,112	1,058,450	296,804	35,913	3,345,279
2027-2031	690,000	294,005	130,000	9,376	1,123,381
2032-2036	375,000	210,034			585,034
2037-2041	510,000	104,794			614,794
2042	125,000	3,438			128,438
Totals	<u>\$ 5,888,931</u>	<u>\$ 3,119,762</u>	<u>\$ 1,237,002</u>	<u>\$ 147,730</u>	<u>\$ 10,393,425</u>
	<u>General Obligation Revenue</u>		<u>General Obligation Special</u>		
	Principal	Interest	Principal	Interest	
<u>Business-Type Activities</u>					
2017	\$ 506,000	\$ 137,804	\$ 326,915	\$ 48,401	\$ 1,019,120
2018	521,000	124,909	305,637	42,683	994,229
2019	3,037,000	109,483	374,643	36,790	3,557,916
2020	553,000	43,577	332,976	31,050	960,603
2021	569,000	27,193	335,812	25,528	957,533
2022-2026	265,000	41,964	743,019	32,856	1,082,839
2027-2031	290,000	16,378			306,378
Totals	<u>\$ 5,741,000</u>	<u>\$ 501,308</u>	<u>\$ 2,419,002</u>	<u>\$ 217,308</u>	<u>\$ 8,878,618</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (continued)

The following is a summary of changes in long-term debt obligations during the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
2013A GO Aquatic Center	\$ 2,435,000	\$	\$ 175,000	\$ 2,260,000	\$ 175,000
2014A GO Equipment Certificate	934,000		94,000	840,000	96,000
2014B GO Tax Increment Bonds	1,655,000			1,655,000	30,000
2015A GO Crossover Refunding Bonds	1,133,931			1,133,931	132,003
General Improvement Bonds					
2008C GO PIR Fund Note	291,703		291,703		
2011A GO Refunding Bond	510,000		165,000	345,000	170,000
2008B GO PIR Fund and Refunding	1,217,309		1,217,309		
2012A GO Street Reconstruction and Utility	553,085		66,083	487,002	66,082
2014C GO Improvement Bond	430,000		25,000	405,000	25,000
Revenue Bond					
2008A EDA Lease Revenue Bonds	1,240,000		1,240,000		
Plus: Unamortized premiums	93,088		39,823	53,265	
Total Bonds and Notes Payable	10,493,116		3,313,918	7,179,198	694,085
Other Liabilities:					
Other postemployment benefits obligation	51,962		4,853	47,109	
Compensated Absences	180,401		15,215	165,186	101,406
Governmental Activities					
Long-term Liabilities	10,725,479		3,333,986	7,391,493	795,491
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General Obligation Revenue Bonds:					
2001 PFA Loan	2,892,000		446,000	2,446,000	460,000
2011 PFA Loan	841,000		46,000	795,000	46,000
2016A GO Temporary Utility Revenue Note		2,500,000		2,500,000	
General Obligation Special Assessment Bonds:					
2008B GO PIR Fund and Refunding	352,694		352,694		
2008C GO PIR Fund Note	63,297		63,297		
2011A GO Refunding Bond	510,000		85,000	425,000	85,000
2012A GO Street Reconstruction and Utility	576,850		68,917	507,933	68,918
2015A GO Crossover Refunding Bonds	1,486,069			1,486,069	172,997
Plus: Unamortized premiums	59,973		11,408	48,565	
Less: Unamortized discount	(2,763)		(460)	(2,303)	
Other Liabilities:					
Other postemployment benefits obligation	38,952		3,637	35,315	
Compensated Absences	114,291		8,425	105,866	64,942
Business-type Activities					
Long-term Liabilities	6,932,363	2,500,000	1,084,918	8,347,445	897,857
Total	\$ 17,657,842	\$ 2,500,000	\$ 4,418,904	\$ 15,738,938	\$ 1,693,348

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide

Plan Description

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

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

2. Public Employees Police and Fire Fund (Police and Fire Plan (accounted for in the Police and Fire Fund)) The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

1. General Employees Plan Benefits

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

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$135,921. The City's contributions were equal to the required contributions as set by state statute.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City's was required to contribute 16.20 percent of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$92,805. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$2,370,895 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0292 percent which was a decrease of 0.0033 percent from its proportion measured at June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$285,858 for its proportionate share of the General Employees Plan's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 198,343
Changes in actuarial assumptions	464,220	
Difference between projected and actual investment earnings	462,150	
Changes in proportion		111,826
Contributions paid to PERA subsequent to the measurement date	61,289	
Total	<u>\$ 987,659</u>	<u>\$ 310,169</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

\$61,289 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 170,158
2018	170,157
2019	190,243
2020	85,643

2. Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$2,367,773 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.059 percent which was a decrease of 0.002 percent from its proportion measured at June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$398,828 for its proportionate share of the Police and Fire Fund's pension expense. The City also recognized \$5,310 for the year ended December 31, 2016 as pension expense (and offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 269,447
Changes in actuarial assumptions	1,266,892	
Difference between projected and actual investment earnings	364,308	
Changes in proportion		4,010
Contributions paid to PERA subsequent to the measurement date	50,203	
Total	<u>\$ 1,681,403</u>	<u>\$ 273,457</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

\$50,144 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 293,536
2018	293,536
2019	293,532
2020	263,349
2021	213,790

Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Actuarial Assumptions (continued)

There following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Discount Rate

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

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.50%	7.50%	8.50%
City's proportionate share of the GERP net pension liability	\$ 3,367,374	\$ 2,370,895	\$ 1,550,068
	4.60%	5.60%	6.60%
City's proportionate share of the PEPFF net pension	3,314,567	2,367,773	1,594,169
Total Net Pension Liability	<u>\$ 6,681,941</u>	<u>\$ 4,738,668</u>	<u>\$ 3,144,237</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Pension Plan Fiduciary Net Position

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

5. Defined Benefit Pension Plan – Fire Relief Association

The Kasson Firemen's Relief Association has not had an actuarial study performed. The Association believes the funding status determined using the calculation required by the Minnesota State Auditor is sufficient to determine the reportable amounts under GASB No. 68, *Accounting and Financial Reporting for Pensions*.

Plan Description

The Kasson Firemen's Relief Association (the Association) is the administrator of a single-employer Public Employee Retirement System (PERS) established to provide benefits for members of the Kasson Fire Department (the Department).

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is partially from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). From 2010 to 2014, the City was required to make a contribution to the Association.

The financial requirements of the Special fund are determined in accordance with Minnesota statutes section 69.772 which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership, or upon death.

Benefits are accumulated at \$2,400 per year of active service in the Department. The accrued liability for these accumulated benefits is computed using increasing percentages based on years of service. At 20 years of service, the liability is equal to the number of years of service times benefits per year. Association members are fully vested after 20 years.

All members of the Department are covered by a defined benefit plan (the Plan) administered by the Association. The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Defined Benefit Pension Plan – Fire Relief Association (Continued)

Plan Description (Continued)

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is partially from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report. The report may be obtained by writing to Kasson Firefighters' Relief Association, Kasson, MN 55944.

Funding Status and Progress

The financial requirements of the Special fund are determined in accordance with Section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and to years of Association membership or upon death.

At December 31, 2015 (most current information available) the Association's funding status is as follows:

Total plan assets	\$	407,321
Total accrued liability		<u>(380,600)</u>
Excess (Deficiency) of Plan Assets over Accrued Liability	\$	<u>26,721</u>

Contributions Required and Contributions Made

Financial requirements of the Association are determined on a computation based on member years of service. The City's minimum obligation is the financial requirement for the year less Association investment earnings and State aids. The funding strategy should provide sufficient resources to pay relief association benefits on a timely basis. The City was not obligated to make a contribution in 2016.

The computation of the pension contribution requirements for 2016 was based on the same assumptions, benefit provision, lump sum funding method, and other significant factors used to determine pension contributions requirements in previous years.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions

In 2009, the City prospectively implemented the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

A. Plan Description

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan until Medicare age, which covers both active and retired members. There are 33 active participants and 2 retired participants. Benefit provisions are established through negotiations between the City and the unions representing City employees and are renegotiated from time to time. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding Policy

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The City does not contribute any of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2016, the City contributed \$22,403 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

C. Defined Contribution Plan

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>Primary Government</u>
Annual required contribution	\$ 14,858
Interest on net OPEB	2,712
Adjustment to annual required contribution	<u>(3,152)</u>
Annual OPEB cost (expense)	14,418
Contributions made	<u>(22,403)</u>
Decrease in net OPEB obligation	(7,985)
Net OPEB obligation - beginning of year	<u>90,409</u>
Net OPEB obligation - end of year	<u><u>\$ 82,424</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015, and 2014 follows:

Year Ending	Three Year Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/2016	\$ 14,418	155.38%	\$ 82,424
12/31/2015	14,385	147.50%	90,409
12/31/2014	17,819	116.60%	97,239

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

D. Funded Status and Funding Progress

As of January 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$170,095 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,928,347 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.8 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average age of retirement and expectations of management, the retirement age for active plan members was determined on an individual level. In addition, spouses of retired employees were assumed to discontinue coverage on the plan when the retired employee reaches Medicare age.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2008 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

E. Methods and Assumptions (continued)

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on actual rate changes for 2015 along with projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate increase of 5.0 percent initially in 2015, followed by a 5.6 percent increase in 2016, to an ultimate average rate increase of 5.8 percent after six years, was used.

Health insurance premiums - 2014 and 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 2.70 percent was based on average changes over the past ten years in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 3.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016 was twenty-six years.

7. Other Information

A. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Other Information (Continued)

A. Risk management (continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Legal debt margin

The City's statutory debt limit is three percent of estimated market value of real and personal property located within the City (\$343,056,700) which is \$10,291,701. The City currently has \$3,100,000 of general obligation debt subject to this limit, leaving a debt margin of \$7,567,490 after adding back debt service restricted fund balances. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

D. Joint venture – Arena

On April 3, 1996, the Cities of Kasson, Dodge Center, Mantorville and the County of Dodge entered into a joint powers agreement to construct and operate an all-purpose arena. All members had an interest in the property as tenants-in-common. The City of Kasson had a 35 percent interest. Effective January 1, 2010 this agreement was terminated and a new agreement between Dodge County and the City of Kasson was signed which also designated the arena to be under the management of the City of Kasson.

The agreement further states that Dodge County and the City of Kasson will share in one-half of the net income or net loss from operations. The entity has a calendar year end. Arena activities are reported as an agency fund of the City.

E. Tax increment districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax Abatement Agreements

The City may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.1812, 469.1813 and 469.1815. Any parcel of property in the City qualifies for tax abatement. The City negotiates tax abatement agreements on an individual basis generally with the purpose of adding employment and or increasing the tax capacity of the parcel.

The City has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the City for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The City had the following tax abatement agreements as of December 31, 2016.

The City entered into a tax abatement agreement in January 2017 for the purpose of remodeling an existing commercial facility. Under the agreement, the City shall abate 100% of the City's 2016 property tax amount generated by the Abatement Property for a period not to exceed 10 years commencing with taxes payable 2017 for as long as the taxpayer is operating its business on the Abatement Property. No amount was abated in 2016.

The City entered into a tax abatement agreement in January 2017 for the purpose of building a new structure. Under the agreement, the City shall abate 90% of the new city taxes generated by the Abatement Property for a period of 10 years commencing with taxes payable 2017. No amount was abated in 2016.

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CITY OF KASSON, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

CITY OF KASSON, MINNESOTA
Schedules of Pension Contributions
December 31, 2016

PERA General Employees Retirement Fund

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 120,876	\$ 120,876	\$	\$ 1,667,255	7.25%
2015	140,991	140,991		1,879,880	7.50%
2016	135,921	135,921		1,812,280	7.50%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Pension Contributions
PERA Public Employees Police and Fire Fund Pension Plan

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 78,392	\$ 78,392	\$	\$ 512,366	15.3%
2015	87,418	87,418		539,617	16.2%
2016	92,805	92,805		572,870	16.2%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF KASSON, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2016

PERA General Employees Retirement Fund

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0318%	\$ 1,493,805	\$ 1,667,255	90%	78.7%
2015	0.0325%	1,684,319	1,773,568	95%	78.2%
2016	0.0292%	2,370,895	1,846,080	128%	68.9%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Proportionate Share of Net Pension Liability
PERA Public Employees Police and Fire Fund Pension Plan

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.059%	\$ 637,224	\$ 512,366	124%	87.1%
2015	0.061%	693,103	525,992	132%	86.6%
2016	0.059%	2,367,773	556,244	426%	63.9%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF KASSON, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Simplified Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/d)
1/1/2015	\$ -	\$ 170,095	\$ 170,095	0.00%	\$1,928,347	8.8%
1/1/2012	-	198,937	198,937	0.00	1,681,157	11.8%

CITY OF KASSON, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR FUNDS
STATEMENTS AND SCHEDULES
DECEMBER 31, 2016

**CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**
December 31, 2016

	Special Revenue					
	211 Library	225 EDA Financial Assistance	247 2004 Assisted Living TIF	248 Downtown TIF	249 Oppidan Folkestad TIF	290 Economic Development
ASSETS						
Cash and investments	\$ 183,738	\$ 73,591	\$	\$ 118	\$	\$ 16,758
Accounts receivable	167					20
Interest receivable						
Notes receivable		243,682				
Due from other governmental units						
Prepaid expenses	2,097					35
Special assessments receivable		29,271				
Due from other funds						74,118
TOTAL ASSETS	\$ 186,002	\$ 346,544	\$	\$ 118	\$	\$ 90,931
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 2,970	\$	\$	\$	\$	\$ 57
Contracts payable						
Accrued salaries	3,970					749
Due to other funds				73,118	23,169	
Total Liabilities	6,940			73,118	23,169	806
Deferred Inflows of Resources:						
Unavailable revenue:						
Special assessments		29,271				
Total Deferred Inflows of Resources		29,271				
Fund Balance						
Nonspendable:						
Prepaid items	2,097					35
Restricted:						
Economic development		317,273				
Committed:						
Economic development						90,090
Library Operations	176,965					
Assigned:						
Capital improvements						
Unassigned:						
Total Fund Balance	179,062	317,273		(73,000)	(23,169)	90,125
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 186,002	\$ 346,544	\$	\$ 118	\$	\$ 90,931

Capital Projects

210 Stabilization/ Cap Projects Reserve	421 Oppidan Folkestad TIF	401 Permanent Improvement Revolving	423 2017 Street Assessment Project	422 Commerce Drive	Total Nonmajor Governmental Funds
\$ 478,818	\$	\$ 1,156,257	\$	\$	\$ 1,909,280
		13,419			13,606
972		2,709			3,681
					243,682
				211,088	211,088
					2,132
		334,848			364,119
					74,118
<u>\$ 479,790</u>	<u>\$</u>	<u>\$ 1,507,233</u>	<u>\$</u>	<u>\$ 211,088</u>	<u>\$ 2,821,706</u>
\$	\$	\$ 7,359	\$ 266,128	\$ 37,556	\$ 314,070
				19,531	19,531
					4,719
			11,267	289,754	397,308
		7,359	277,395	346,841	735,628
		334,848			364,119
		334,848			364,119
					2,132
					317,273
					90,090
					176,965
479,790		1,165,026			1,644,816
			(277,395)	(135,753)	(509,317)
<u>479,790</u>		<u>1,165,026</u>	<u>(277,395)</u>	<u>(135,753)</u>	<u>1,721,959</u>
<u>\$ 479,790</u>	<u>\$</u>	<u>\$ 1,507,233</u>	<u>\$</u>	<u>\$ 211,088</u>	<u>\$ 2,821,706</u>

CITY OF KASSON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Special Revenue					
	211 Library	225 EDA Financial Assistance	247 2004 Assisted Living TIF	248 Downtown TIF	249 Oppidan Folkestad TIF	290 Economic Development
REVENUES						
Property tax collected	\$ 235,604					\$ 67,928
Special assessments		7,435				
Tax increments			69,714		30,764	
Fines and forfeits	2,931					
Intergovernmental	54,123					
Charges for services	1,185					
Investment income		6,210				2,332
Miscellaneous	3,139					
TOTAL REVENUES	<u>296,982</u>	<u>13,645</u>	<u>69,714</u>		<u>30,764</u>	<u>70,260</u>
EXPENDITURES						
Current:						
Culture and recreation	296,573					
TIF/economic development			69,714	496		62,674
Debt service						
Interest and fiscal charges				2,302	30	
Capital outlay						
Culture and recreation	1,449					
TIF/economic development					972	
Public works						
TOTAL EXPENDITURES	<u>298,022</u>		<u>69,714</u>	<u>2,798</u>	<u>1,002</u>	<u>62,674</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,040)</u>	<u>13,645</u>		<u>(2,798)</u>	<u>29,762</u>	<u>7,586</u>
OTHER FINANCING SOURCES (USES)						
Transfer in						
Transfer out	(1,700)				(51,933)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,700)</u>				<u>(51,933)</u>	
Net change in fund balances	(2,740)	13,645		(2,798)	(22,171)	7,586
FUND BALANCES, beginning	<u>181,802</u>	<u>303,628</u>		<u>(70,202)</u>	<u>(998)</u>	<u>82,539</u>
FUND BALANCES, ending	<u>\$ 179,062</u>	<u>\$ 317,273</u>	<u>\$</u>	<u>\$ (73,000)</u>	<u>\$ (23,169)</u>	<u>\$ 90,125</u>

Capital Projects

210 Stabilization/ Cap Projects Reserve	421 Oppidan Folkestad TIF	401 Permanent Improvement Revolving	423 2017 Street Assessment Project	422 Commerce Drive	Total Nonmajor Governmental Funds
\$ 17,168	\$	\$ 212,948	\$	\$	\$ 320,700
					220,383
					100,478
					2,931
				211,088	265,211
					1,185
6,279	365	39,052			54,238
					3,139
<u>23,447</u>	<u>365</u>	<u>252,000</u>		<u>211,088</u>	<u>968,265</u>
					296,573
					132,884
					2,332
					1,449
	36,652	33,937			71,561
			277,395	275,490	552,885
	36,652	33,937	277,395	275,490	1,057,684
<u>23,447</u>	<u>(36,287)</u>	<u>218,063</u>	<u>(277,395)</u>	<u>(64,402)</u>	<u>(89,419)</u>
187,366					187,366
(66,000)	(397,965)				(517,598)
<u>121,366</u>	<u>(397,965)</u>				<u>(330,232)</u>
144,813	(434,252)	218,063	(277,395)	(64,402)	(419,651)
<u>334,977</u>	<u>434,252</u>	<u>946,963</u>		<u>(71,351)</u>	<u>2,141,610</u>
<u>\$ 479,790</u>	<u>\$</u>	<u>\$ 1,165,026</u>	<u>\$ (277,395)</u>	<u>\$ (135,753)</u>	<u>\$ 1,721,959</u>

CITY OF KASSON, MINNESOTA
LIBRARY FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 235,604	\$ 235,604	\$ 235,604	\$	\$ 239,508
Intergovernmental revenues	56,561	56,561	54,123	(2,438)	56,673
Library fines	5,000	5,000	2,931	(2,069)	3,314
Investment income	150	150		(150)	11
Miscellaneous	2,200	2,200	4,324	2,124	2,936
TOTAL REVENUES	299,515	299,515	296,982	(2,533)	302,442
EXPENDITURES					
Library					
Salaries	188,030	188,030	193,391	(5,361)	184,174
Employee benefits and retirement	28,400	28,400	28,494	(94)	27,948
Workers compensation	1,000	1,000	1,093	(93)	1,476
Health insurance	30,091	30,091	24,296	5,795	27,877
Operating supplies/small tools	17,500	17,500	19,265	(1,765)	18,732
Insurance	2,000	2,000	1,591	409	1,992
Telephone	1,200	1,200	1,339	(139)	914
Professional fees	14,500	14,500	12,454	2,046	12,095
Capital outlay	2,000	2,000	1,449	551	3,127
Other	14,794	14,794	14,650	144	10,354
TOTAL EXPENDITURES	299,515	299,515	298,022	1,493	288,689
Excess (deficiency) of revenues over (under) expenditures			(1,040)	(1,040)	13,753
OTHER FINANCING USES					
Transfers out			(1,700)	(1,700)	
Net change in fund balances			(2,740)	(2,740)	13,753
FUND BALANCES, beginning	181,802	181,802	181,802		168,049
FUND BALANCES, ending	\$ 181,802	\$ 181,802	\$ 179,062	\$ (2,740)	\$ 181,802

CITY OF KASSON, MINNESOTA
EDA FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 64,795	\$ 64,795	\$ 67,928	\$ 3,133	\$ 72,763
Investment Income	2,000	2,000	2,332	332	2,229
Intergovernmental					2,598
TOTAL REVENUES	<u>66,795</u>	<u>66,795</u>	<u>70,260</u>	<u>3,465</u>	<u>77,590</u>
EXPENDITURES					
Economic development					
Personal services	50,045	50,045	48,775	1,270	55,130
Supplies	400	400	471	(71)	355
Other services and charges	16,350	16,350	12,180	4,170	18,308
Capital outlay			1,248	(1,248)	629
TOTAL EXPENDITURES	<u>66,795</u>	<u>66,795</u>	<u>62,674</u>	<u>4,121</u>	<u>74,422</u>
Net change in fund balances			7,586	7,586	3,168
FUND BALANCES, beginning	<u>82,539</u>	<u>82,539</u>	<u>82,539</u>		<u>79,371</u>
FUND BALANCES, ending	<u>\$ 82,539</u>	<u>\$ 82,539</u>	<u>\$ 90,125</u>	<u>\$ 7,586</u>	<u>\$ 82,539</u>

CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
December 31, 2016

	Debt Service				
	380	381	382	383	384
	PIR & Refunding Note of 2008B	Lease Revenue Bonds of 2008A	G.O. Street Reconstruction & Utility Revenue Bonds of 2012A	PIR Fund Bonds of 2008C	G.O. Refunding Bond of 2011A
ASSETS					
Cash and investments	\$	\$	\$ 83,054	\$	\$ 135,645
Interest receivable					23
Special assessments receivable					5,295
TOTAL ASSETS	\$	\$	\$ 83,054	\$	\$ 140,963
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable					
Deferred Inflows of Resources:					
Unavailable revenue:					
Special assessments					5,295
Total Deferred Inflows of Resources					5,295
Fund Balance					
Restricted:					
Debt service			83,054		135,668
Total Fund Balance			83,054		135,668
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$	\$	\$ 83,054	\$	\$ 140,963

Debt Service					
385	386	389	391	392	
Aquatic Center Bonds of 2013A	Fire Truck and Equipment	Oppidan Assessment	Oppidan Folkestad TIF	G.O. Crossover Refunding Bonds of 2015A	Total Debt Service Funds
\$ 269,891	\$ 105,898	\$ 35,437	\$ 907,869	\$ 255,803	\$ 1,793,597
			1,204		1,227
		386,525		276,608	668,428
<u>\$ 269,891</u>	<u>\$ 105,898</u>	<u>\$ 421,962</u>	<u>\$ 909,073</u>	<u>\$ 532,411</u>	<u>\$ 2,463,252</u>
			18		18
		386,525		276,608	668,428
		<u>386,525</u>		<u>276,608</u>	<u>668,428</u>
<u>269,891</u>	<u>105,898</u>	<u>35,437</u>	<u>909,055</u>	<u>255,803</u>	<u>1,794,806</u>
<u>269,891</u>	<u>105,898</u>	<u>35,437</u>	<u>909,055</u>	<u>255,803</u>	<u>1,794,806</u>
<u>\$ 269,891</u>	<u>\$ 105,898</u>	<u>\$ 421,962</u>	<u>\$ 909,073</u>	<u>\$ 532,411</u>	<u>\$ 2,463,252</u>

CITY OF KASSON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS

For the Year Ended December 31, 2016

	Debt Service				
	380	381	382	383	384
	PIR & Refunding Note of 2008B	Lease Revenue Bonds of 2008A	G.O. Street Reconstruction & Utility Revenue Bonds of 2012A	PIR Fund Bonds of 2008C	G.O. Refunding Bond of 2011A
REVENUES					
Property tax collected	\$ 140,961	\$	\$ 81,758	\$	\$ 122,902
Special assessments					3,648
Investment income	2,238				165
Miscellaneous					
TOTAL REVENUES	<u>143,199</u>		<u>81,758</u>		<u>126,715</u>
EXPENDITURES					
Current:					
Debt service					
Principal	1,217,309	1,240,000	66,083	291,703	165,000
Interest and fiscal charges	24,757	23,175	7,591	7,161	9,921
TOTAL EXPENDITURES	<u>1,242,066</u>	<u>1,263,175</u>	<u>73,674</u>	<u>298,864</u>	<u>174,921</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,098,867)</u>	<u>(1,263,175)</u>	<u>8,084</u>	<u>(298,864)</u>	<u>(48,206)</u>
OTHER FINANCING SOURCES (USES)					
Transfer in	927,306			200,972	78,265
Transfer out	(188,680)	(17,251)			
TOTAL OTHER FINANCING SOURCES (USES)	<u>738,626</u>	<u>(17,251)</u>		<u>200,972</u>	<u>78,265</u>
Net change in fund balances	(360,241)	(1,280,426)	8,084	(97,892)	30,059
FUND BALANCES, beginning	<u>360,241</u>	<u>1,280,426</u>	<u>74,970</u>	<u>97,892</u>	<u>105,609</u>
FUND BALANCES, ending	<u>\$</u>	<u>\$</u>	<u>\$ 83,054</u>	<u>\$</u>	<u>\$ 135,668</u>

Debt Service					
385	386	389	391	392	
Aquatic Center Bonds of 2013A	Fire Truck and Equipment	Oppidan Assessment	Oppidan Folkestad TIF	G.O. Crossover Refunding Bonds of 2015A	Total Debt Service Funds
\$ 220,875	\$ 115,740	\$ 39,752	\$ 65,129	\$ 62,164	\$ 747,365
			11,676	129	105,564
			400,957		14,208
					400,957
<u>220,875</u>	<u>115,740</u>	<u>39,752</u>	<u>477,762</u>	<u>62,293</u>	<u>1,268,094</u>
175,000	94,000	25,000			3,274,095
45,932	20,844	12,094	77,041	40,025	268,541
<u>220,932</u>	<u>114,844</u>	<u>37,094</u>	<u>77,041</u>	<u>40,025</u>	<u>3,542,636</u>
<u>(57)</u>	<u>896</u>	<u>2,658</u>	<u>400,721</u>	<u>22,268</u>	<u>(2,274,542)</u>
			449,898	205,931	1,862,372
				(1,128,278)	(1,334,209)
			<u>449,898</u>	<u>(922,347)</u>	<u>528,163</u>
(57)	896	2,658	850,619	(900,079)	(1,746,379)
<u>269,948</u>	<u>105,002</u>	<u>32,779</u>	<u>58,436</u>	<u>1,155,882</u>	<u>3,541,185</u>
<u>\$ 269,891</u>	<u>\$ 105,898</u>	<u>\$ 35,437</u>	<u>\$ 909,055</u>	<u>\$ 255,803</u>	<u>\$ 1,794,806</u>

**CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 1,671,335	\$ 1,671,335	\$ 1,682,332	\$ 10,997	\$ 1,623,784
Franchise taxes	66,000	66,000	59,870	(6,130)	63,470
Special Assessments			256	256	518
Licenses and Permits					
Business	13,500	13,500	13,033	(467)	13,245
Nonbusiness	34,300	34,300	28,483	(5,817)	71,321
Total Licenses and Permits	47,800	47,800	41,516	(6,284)	84,566
Intergovernmental					
Local government aid	1,016,489	1,016,489	1,016,485	(4)	1,008,140
Fire relief aid	39,000	39,000	41,266	2,266	40,144
Police aid	61,000	61,000	66,150	5,150	63,805
Highway aid	72,640	72,640	65,352	(7,288)	8,580
Other aid	18,937	18,937	13,563	(5,374)	32,060
Total State Aid	1,208,066	1,208,066	1,202,816	(5,250)	1,152,729
School					
Other School aid	58,000	58,000	57,199	(801)	50,492
Total School	58,000	58,000	57,199	(801)	50,492
Total Intergovernmental	1,266,066	1,266,066	1,260,015	(6,051)	1,203,221
Charges for Service					
General government	22,300	22,300	23,908	1,608	35,580
Public safety	51,670	51,670	51,302	(368)	53,763
Culture and recreation	221,000	221,000	260,057	39,057	258,204
Total Charges for Service	294,970	294,970	335,267	40,297	347,547
Fines and Forfeits	15,500	15,500	16,009	509	19,952
Investment Earnings	12,500	12,500	11,396	(1,104)	15,339
Miscellaneous					
Rents and leases	2,700	2,700	3,050	350	2,862
Refunds and reimbursements	14,000	14,000	19,356	5,356	18,478
Contributions and donations			9,809	9,809	9,002
Total Miscellaneous	16,700	16,700	32,215	15,515	30,342
TOTAL REVENUES	\$ 3,390,871	\$ 3,390,871	\$ 3,438,876	\$ 48,005	\$ 3,388,739

**CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Personal services	\$ 44,846	\$ 44,846	\$ 41,003	\$ 3,843	\$ 44,268
Legal fees			16,616	(16,616)	
Other services and charges	24,000	24,000	19,773	4,227	26,445
Total Mayor and Council	<u>68,846</u>	<u>68,846</u>	<u>77,392</u>	<u>(8,546)</u>	<u>70,713</u>
Ordinances and Proceedings					
Other services and charges	2,000	2,000	3,502	(1,502)	6,187
City Clerk					
Personal services	152,349	152,349	144,752	7,597	165,208
Supplies	8,820	8,820	5,774	3,046	5,875
Other services and charges	27,470	27,470	30,773	(3,303)	20,481
Total City Clerk's	<u>188,639</u>	<u>188,639</u>	<u>181,299</u>	<u>7,340</u>	<u>191,564</u>
Elections and Voter Registration					
Personal services	15,316	15,316	15,077	239	4,278
Other services and charges	2,450	2,450	849	1,601	
Total Elections and Voter Registration	<u>17,766</u>	<u>17,766</u>	<u>15,926</u>	<u>1,840</u>	<u>4,278</u>
Assessor					
Other services and charges	30,124	30,124	29,824	300	27,619
Accounting					
Other services and charges	5,900	5,900	5,343	557	4,994
Legal					
Other services and charges	63,000	63,000	51,555	11,445	86,118
Planning and Zoning					
Personal services	46,584	46,584	41,827	4,757	45,416
Supplies	500	500	496	4	419
Other services and charges	26,100	26,100	16,064	10,036	14,427
Total Planning and Zoning	<u>73,184</u>	<u>73,184</u>	<u>58,387</u>	<u>14,797</u>	<u>60,262</u>

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	2015 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Data Processing					
Other services and charges	\$ 6,950	\$ 6,950	\$ 3,036	\$ 3,914	\$ 2,913
General Government Buildings					
Personal services	11,142	11,142	8,192	2,950	8,453
Supplies	1,525	1,525	1,707	(182)	136
Other services and charges	14,700	14,700	14,976	(276)	12,531
Total General Governmental Buildings	27,367	27,367	24,875	2,492	21,120
Total General Government	483,776	483,776	451,139	32,637	475,768
Public Safety					
Police					
Personal services	870,540	870,540	926,520	(55,980)	858,899
Supplies	34,500	34,500	36,279	(1,779)	23,231
Other services and charges	90,177	90,177	68,915	21,262	71,837
Total Police	995,217	995,217	1,031,714	(36,497)	953,967
Fire					
Personal services	68,900	68,900	54,394	14,506	59,507
Supplies	30,700	30,700	20,569	10,131	51,087
Other services and charges	86,100	86,100	81,566	4,534	77,919
Total Fire	185,700	185,700	156,529	29,171	188,513
Building inspection					
Other services and charges	31,200	31,200	48,093	(16,893)	51,522

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Animal Control					
Other services and charges	\$ 2,000	\$ 2,000	\$ 1,935	\$ 65	\$ 2,278
Total Animal Control	2,000	2,000	1,935	65	2,278
Total Public Safety	1,214,117	1,214,117	1,238,271	(24,154)	1,196,280
Public Works					
Street and Alleys					
Personal services	203,856	203,856	148,375	55,481	182,157
Supplies	32,000	32,000	41,294	(9,294)	30,415
Other services and charges	38,160	38,160	45,246	(7,086)	34,934
Total Streets and Alleys	274,016	274,016	234,915	39,101	247,506
Engineer					
Other services and charges	13,000	13,000	32,780	(19,780)	14,329
Snow and Ice Removal					
Personal services	17,720	17,720	10,519	7,201	17,520
Supplies	29,500	29,500	29,837	(337)	22,197
Other services and charges	14,050	14,050	1,319	12,731	6,119
Total Snow and Ice Removal	61,270	61,270	41,675	19,595	45,836
Street Lighting					
Other services and charges	19,000	19,000	22,619	(3,619)	19,845
Sidewalks					
Other services and charges	50,000	50,000	18,022	31,978	39,450
Sanitation					
Waste collection and disposal					
Other services and charges	9,800	9,800	8,681	1,119	9,262
Total Public Works	427,086	427,086	358,692	68,394	376,228

**CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Health and Welfare					
Supplies	\$ 2,000	\$ 2,000	\$ 186	\$ 1,814	\$ 100
Other services and charges	12,760	12,760	16,316	(3,556)	14,258
Total Health and Welfare	14,760	14,760	16,502	(1,742)	14,358
Culture and Recreation					
Parks and Recreation					
Personal services	100	100	428	(328)	3,897
Supplies	500	500	135	365	147
Other services and charges	8,680	8,680	5,847	2,833	6,696
Total Parks and Recreation	9,280	9,280	6,410	2,870	10,740
Playgrounds					
Supplies	8,800	8,800	9,950	(1,150)	4,616
Swimming Pool					
Personal services	160,704	160,704	156,194	4,510	155,409
Supplies	60,000	60,000	56,813	3,187	55,778
Other services and charges	66,960	66,960	35,695	31,265	39,363
Total Swimming Pool	287,664	287,664	248,702	38,962	250,550
Municipal Parks					
Personal services	268,640	268,640	256,348	12,292	233,404
Supplies	25,000	25,000	18,953	6,047	26,870
Other services and charges	38,050	38,050	27,839	10,211	22,794
Total Municipal Parks	331,690	331,690	303,140	28,550	283,068
Water Tower					
Other services and charges	6,500	6,500	3,741	2,759	3,586
Dodge County Arena					
Other services and charges	54,037	54,037	42,327	11,710	7,464
Other Recreational Facilities					
Personal services	1,200	1,200	3,293	(2,093)	3,304
Supplies	13,350	13,350	14,526	(1,176)	13,512
Other services and charges	43,650	43,650	29,049	14,601	26,717
Total Recreational Facilities	58,200	58,200	46,868	11,332	43,533
Forestry and Nursery					
Supplies	1,350	1,350	993	357	362
Other services and charges	12,125	12,125	5,654	6,471	9,340
Total Forestry and Nursery	13,475	13,475	6,647	6,828	9,702
Total Culture and Recreation	769,646	769,646	667,785	101,861	613,259

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Miscellaneous					
Other services and charges	\$ 108,136	\$ 108,136	\$ 86,056	\$ 22,080	\$ 69,288
Total Current Expenditures	<u>3,017,521</u>	<u>3,017,521</u>	<u>2,818,445</u>	<u>199,076</u>	<u>2,745,181</u>
Capital Outlay					
General government	28,000	28,000	8,226	19,774	11,920
Public works	241,268	241,268	184,713	56,555	52,601
Culture and recreation	56,000	56,000	43,634	12,366	21,956
Total Capital Outlay	<u>325,268</u>	<u>325,268</u>	<u>236,573</u>	<u>88,695</u>	<u>86,477</u>
TOTAL EXPENDITURES	<u>3,342,789</u>	<u>3,342,789</u>	<u>3,055,018</u>	<u>287,771</u>	<u>2,831,658</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>48,082</u>	<u>48,082</u>	<u>383,858</u>	<u>335,776</u>	<u>557,081</u>
OTHER FINANCING SOURCES (USES)					
Sale of assets			590	590	354
Transfers in	33,000	33,000	33,000		39,000
Transfers out	<u>(52,650)</u>	<u>(52,650)</u>	<u>(240,016)</u>	<u>(187,366)</u>	<u>(258,087)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(19,650)</u>	<u>(19,650)</u>	<u>(206,426)</u>	<u>(186,776)</u>	<u>(218,733)</u>
NET CHANGE IN FUND BALANCES	28,432	28,432	177,432	149,000	338,348
FUND BALANCES, JANUARY 1	<u>1,412,106</u>	<u>1,412,106</u>	<u>1,412,106</u>		<u>1,073,753</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,440,538</u>	<u>\$ 1,440,538</u>	<u>\$ 1,589,538</u>	<u>\$ 149,000</u>	<u>\$ 1,412,101</u>

CITY OF KASSON, MINNESOTA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
December 31, 2016

FESTIVAL IN PARK (877)

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
ASSETS				
Cash and investments	\$ 3,043	\$ 39,285	\$ 34,239	\$ 8,089
Prepaid items	45		20	25
TOTAL ASSETS	<u>\$ 3,088</u>	<u>\$ 39,285</u>	<u>\$ 34,259</u>	<u>\$ 8,114</u>
LIABILITIES				
Accounts payable	<u>\$ 3,088</u>	<u>\$ 39,285</u>	<u>\$ 34,259</u>	<u>\$ 8,114</u>

ARENA (606)

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
ASSETS				
Cash and investments	\$ (17,523)	\$ 339,027	\$ 341,532	\$ (20,028)
Accounts receivable	29,413	40,661	29,413	40,661
Due from other governmental units	1,236		1,236	
Inventory	518	644	518	644
Prepaid items	1,105	1,187	1,103	1,189
TOTAL ASSETS	<u>\$ 14,749</u>	<u>\$ 381,519</u>	<u>\$ 373,802</u>	<u>\$ 22,466</u>
LIABILITIES				
Accounts payable	\$ 7,338	\$ 6,564	\$ 7,338	\$ 6,564
Accrued wages payable	6,962	6,911	6,962	6,911
Due to other governments	449	8,991	449	8,991
TOTAL LIABILITIES	<u>\$ 14,749</u>	<u>\$ 22,466</u>	<u>\$ 14,749</u>	<u>\$ 22,466</u>

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Kasson, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Kasson, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Kasson, Minnesota's basic financial statements, and have issued our report thereon dated April 4, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

The results of our tests indicate that for the items tested, the City of Kasson, Minnesota complied with the material terms and conditions of applicable legal provisions, except as follows:

- The City was under collateralized with regard to the City cash deposits at December 31, 2016 as required by Minnesota State Statute.

This report is intended solely for the information and use of those charged with governance and management of City of Kasson, Minnesota, and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Smith, Schafn and Associates, Ltd.

Rochester, Minnesota
April 4, 2017