

CITY OF KASSON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2015

CITY OF KASSON, MINNESOTA

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CITY OF KASSON, MINNESOTA

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CITY OF KASSON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2015

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CITY OF KASSON, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2015

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, 2015

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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, 2015, 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, 2015, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board (GASB) Statements No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

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, 2014, from which such partial information was derived.

We have previously audited the City's 2014 financial statements and our report dated April 16, 2015, 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, 2014, 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 financial statements as a whole. 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. The 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 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.



**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, 2015.

New Accounting Pronouncement. The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*, for the year ended December 31, 2015. These Statements established accounting and financial reporting standards by local governments for pensions.

As required by these new standards, the City recorded its proportionate share of the net pension liability of the General Employees Retirement Fund (GERF), a statewide cost-sharing defined benefit plan administered by PERA and the net pension asset of the Kasson Firemen's Relief Association. The restatement to record the City's share of the net pension liability resulted in a decrease in beginning net position of \$1,023,528 (Governmental Activities) and \$822,123 (Business-Type Activities).

FINANCIAL HIGHLIGHTS

- The assets of the City of Kasson, Minnesota exceeded its liabilities at the close of the most recent fiscal year by \$31,436,075 (*net position*). Of this amount, \$3,636,307 (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 \$546,203.
- As of the close of the current fiscal year, the City of Kasson, Minnesota's governmental funds reported combined ending fund balances of \$8,103,019. Approximately \$4,243,694 of this total amount or 52% 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 \$1,399,639 or 49% of the total expenditures of the general fund.
- The City of Kasson, Minnesota increased total outstanding debt obligations by \$1,205,937 during the current fiscal year. This is related to an advance refunding of debt and is offset by an increase in restricted cash for the related debt proceeds.

**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 sixteen 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 and the debt service fund, which are considered to be major funds. Data from the other fourteen 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 84-89) and the special revenue funds (pages 78-79) 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 32-70 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 74-77 and 80-83 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 \$31,436,075 at the close of the most recent fiscal year.

The largest portion of the City of Kasson, Minnesota's net position (\$24,939,597) 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			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 9,749,563	\$ 8,612,290	\$ 4,524,671	\$ 2,615,755	\$ 14,274,234	\$ 11,228,045
Capital assets	16,950,387	17,161,674	21,372,678	21,745,590	38,323,065	38,907,264
Total assets	<u>26,699,950</u>	<u>25,773,964</u>	<u>25,897,349</u>	<u>24,361,345</u>	<u>52,597,299</u>	<u>50,135,309</u>
Deferred outflows of resources	285,897		150,253		436,150	
Long-term liabilities outstanding	12,079,317	10,324,325	7,955,947	6,091,984	20,035,264	16,416,309
Other liabilities	324,844	300,461	1,039,948	683,016	1,364,792	983,477
Total liabilities	<u>12,404,161</u>	<u>10,624,786</u>	<u>8,995,895</u>	<u>6,775,000</u>	<u>21,400,056</u>	<u>17,399,786</u>
Deferred inflows of resources	145,711		51,607		197,318	
Net position:						
Net investment in capital assets	8,831,202	8,417,702	16,108,395	15,839,345	24,939,597	24,257,047
Restricted	2,472,046	2,895,420	388,125	381,787	2,860,171	3,277,207
Unrestricted	3,132,727	3,836,056	503,580	1,365,213	3,636,307	5,201,269
Total net position	<u>\$ 14,435,975</u>	<u>\$ 15,149,178</u>	<u>\$ 17,000,100</u>	<u>\$ 17,586,345</u>	<u>\$ 31,436,075</u>	<u>\$ 32,735,523</u>

The balance of *unrestricted net position* (\$3,636,307) 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 increased the City of Kasson, Minnesota's net position by \$310,325.

Business-type activities. Business-type activities increased the City of Kasson, Minnesota's net position by \$235,878.

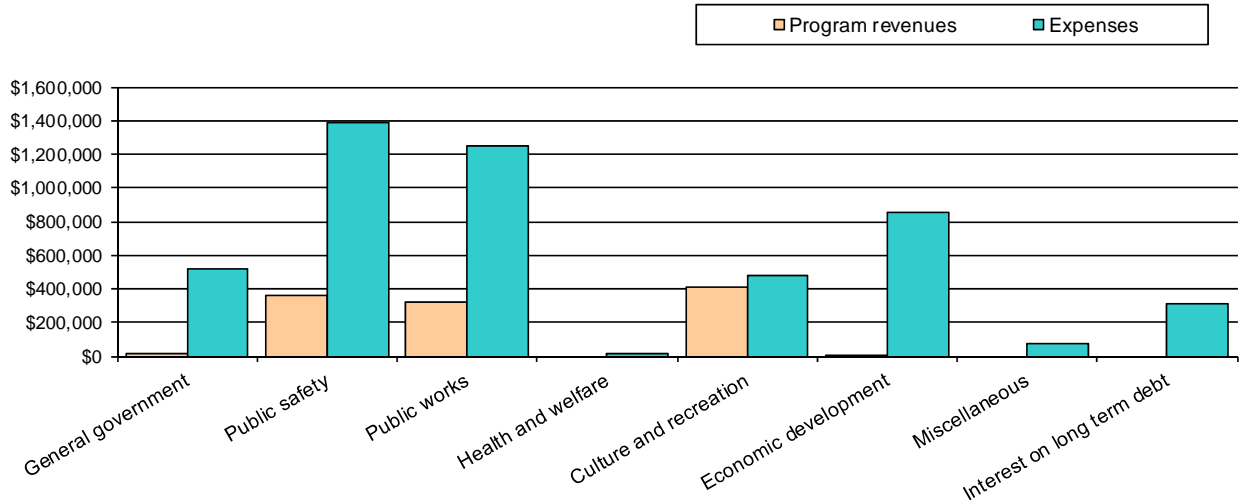
A condensed version of the Statement of Activities follows:

City of Kasson, Minnesota Change in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenue:						
Program revenues:						
Charges for services	\$ 458,944	\$ 402,006	\$ 6,551,689	\$ 6,215,502	\$ 7,010,633	\$ 6,617,508
Operating grants and contributions	341,225	301,221			341,225	301,221
Capital grants and contributions	315,142	478,811	124,925	3,079	440,067	481,890
General revenues:						
Property taxes/tax increments	2,691,791	2,513,970			2,691,791	2,513,970
Other taxes	63,470	65,750			63,470	65,750
Grants and contributions not restricted to specific programs	1,023,300	990,281			1,023,300	990,281
Other	228,707	728,530	50,885	80,293	279,592	808,823
Total revenues	<u>5,122,579</u>	<u>5,480,569</u>	<u>6,727,499</u>	<u>6,298,874</u>	<u>11,850,078</u>	<u>11,779,443</u>
Expenses:						
General government	514,123	377,967			514,123	377,967
Public safety	1,387,416	1,307,041			1,387,416	1,307,041
Public works	1,249,054	1,339,533			1,249,054	1,339,533
Health and welfare	14,358	10,156			14,358	10,156
Culture and recreation	478,002	773,713			478,002	773,713
Economic development	858,616	772,713			858,616	772,713
Miscellaneous	69,284	34,890			69,284	34,890
Interest on long-term debt	307,021	398,289			307,021	398,289
Water			672,628	659,324	672,628	659,324
Wastewater			1,235,317	1,235,827	1,235,317	1,235,827
Electric			4,002,412	3,755,235	4,002,412	3,755,235
Stormwater			220,802	282,608	220,802	282,608
Liquor			244,479	228,180	244,479	228,180
Cemetery			50,363	47,028	50,363	47,028
Total expenses	<u>4,877,874</u>	<u>5,014,302</u>	<u>6,426,001</u>	<u>6,208,202</u>	<u>11,303,875</u>	<u>11,222,504</u>
Change in net position before transfers	244,705	466,267	301,498	90,672	546,203	556,939
Transfers	65,620	146,985	(65,620)	(146,985)		
Change in net position	<u>310,325</u>	<u>613,252</u>	<u>235,878</u>	<u>(56,313)</u>	<u>546,203</u>	<u>556,939</u>
Net position as restated, beginning	14,125,650	14,535,926	16,764,222	17,642,658	30,889,872	32,178,584
Net position, end of year	<u>\$ 14,435,975</u>	<u>\$ 15,149,178</u>	<u>\$ 17,000,100</u>	<u>\$ 17,586,345</u>	<u>\$ 31,436,075</u>	<u>\$ 32,735,523</u>

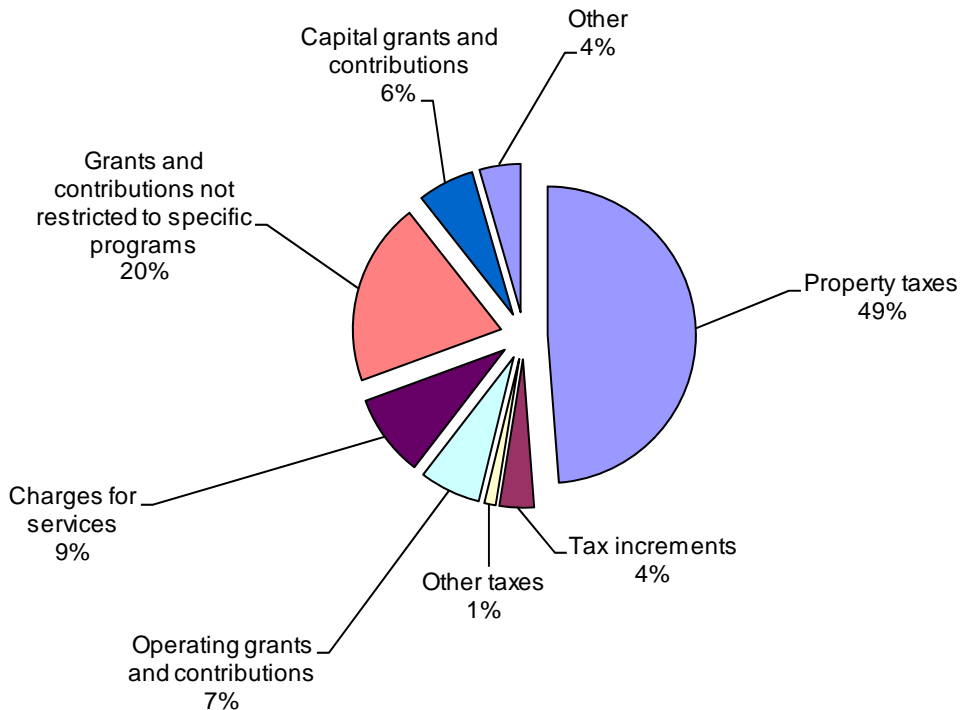
CITY OF KASSON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



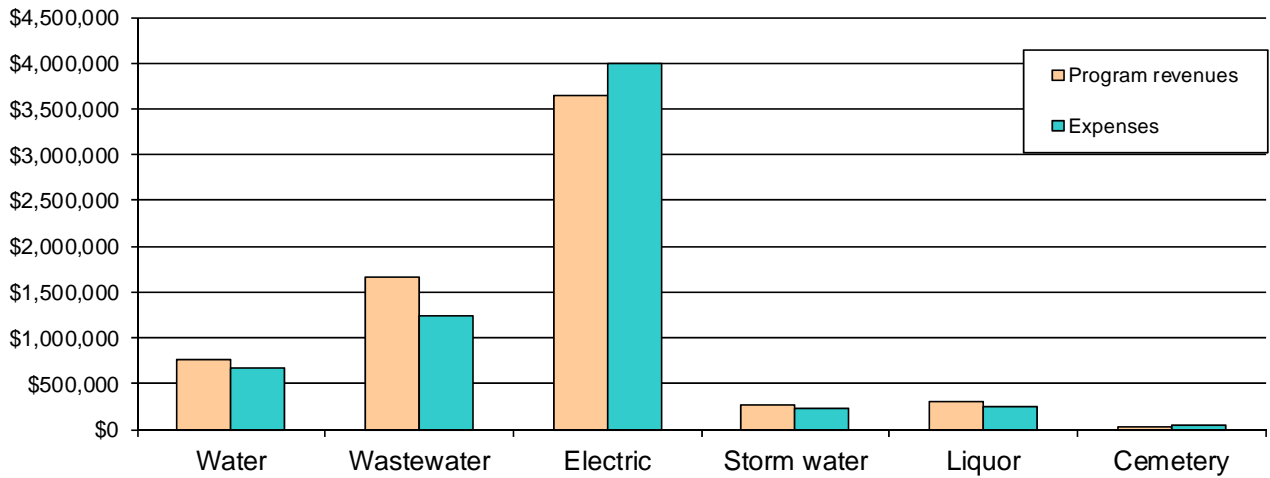
Revenues by Source - Governmental Activities



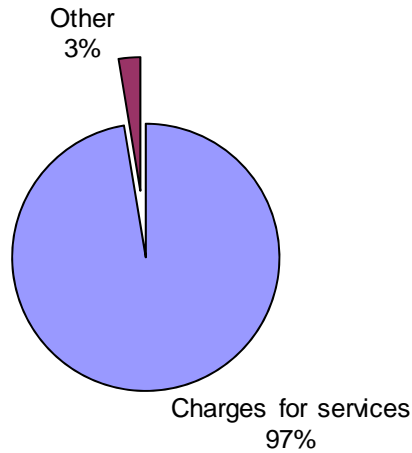
**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$8,103,019, an increase of \$1,061,984. Approximately \$4,243,694 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 \$1,399,639. 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 49% 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 \$338,352 during the current fiscal year. Several reasons for this was the increase in tax collections, building permits, and other fees related to permits.

The *Debt Service fund* has a total fund balance of \$3,541,185, of which it all is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$974,251. This is related to an advance refunding of debt and is offset by an increase in restricted cash for the related debt proceeds

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 Electric - \$180,887, Stormwater - \$102,900, Municipal Liquor Store - \$382,931, and Maple Grove Cemetery - \$241,799. The Water and Wastewater funds have deficits in unrestricted net position of \$69,715 and \$335,222, respectively. 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 \$231,575, and expenditures had a positive variance of \$287,710. Transfers out exceeded budgeted amounts by \$205,437.

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, 2015, amounts to \$38,323,065 (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, roads, and bridges. The total decrease in the City of Kasson, Minnesota's reported capital assets, net of depreciation, for the current fiscal year was \$584,199.

City of Kasson, Minnesota Capital Assets

(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 657,681	\$ 657,681	\$ 377,183	\$ 377,183	\$ 1,034,864	\$ 1,034,864
Construction in process	818,251	230,276	238,184	25,204	1,056,435	255,480
Buildings and improvements	5,697,724	5,912,048	8,124,895	8,419,179	13,822,619	14,331,227
Investment in joint venture	237,912	249,316			237,912	249,316
Improvements other than buildings	722,587	723,953	4,469,123	4,715,304	5,191,710	5,439,257
Machinery and equipment	150,383	138,005	194,278	180,375	344,661	318,380
Office equipment and furnishings	38,454	40,058	22,315	26,357	60,769	66,415
Vehicles	1,054,088	1,154,149	21,039	40,248	1,075,127	1,194,397
Infrastructure	7,573,307	8,056,188	7,925,661	7,961,740	15,498,968	16,017,928
Total	<u>\$ 16,950,387</u>	<u>\$ 17,161,674</u>	<u>\$ 21,372,678</u>	<u>\$ 21,745,590</u>	<u>\$ 38,323,065</u>	<u>\$ 38,907,264</u>

Additional information on the City of Kasson, Minnesota's capital assets can be found in Note 3D on pages 47-49 of this report.

Long-term debt. At the end of the current fiscal year, the City of Kasson, Minnesota had \$17,121,938 in bonds and notes outstanding. All of this debt is backed by the full faith and credit of the City with the exception of the lease revenue bonds. This amount reflects the refunded debt for which there is an increased offsetting amount in restricted cash for the related debt proceeds.

**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		2015	2014
General obligation bonds	\$ 6,157,931	\$ 5,285,000	\$	\$	\$ 6,157,931	\$ 5,285,000
GO Improvement Bonds	3,002,097	3,371,914	2,988,910	1,693,087	5,991,007	5,065,001
Lease Revenue Bonds	1,240,000	1,355,000			1,240,000	1,355,000
General obligation revenue bonds			3,733,000	4,211,000	3,733,000	4,211,000
Total	<u>\$ 10,400,028</u>	<u>\$ 10,011,914</u>	<u>\$ 6,721,910</u>	<u>\$ 5,904,087</u>	<u>\$ 17,121,938</u>	<u>\$ 15,916,001</u>

The City of Kasson, Minnesota's total bonds and notes payable increased by \$1,205,937 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3F, beginning on page 52.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Dodge County is currently 4.9 percent, which is unchanged from a year ago.
- 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 2016, most of which is related to an increase in operating costs and street repairs.
- Utility rates were increased 5.0 percent for 2016.

All of these factors were considered in preparing the City's budget for the 2016 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, 2015

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CITY OF KASSON, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2015
With Comparative Totals for December 31, 2014

	Governmental Activities	Business-Type Activities	Totals	
			2015	2014
ASSETS				
Cash and investments	\$ 5,314,220	\$ 2,473,895	\$ 7,788,115	\$ 7,753,787
Restricted cash	1,372,767	1,960,648	3,333,415	391,787
Receivables	1,751,096	826,365	2,577,461	2,554,591
Internal balances	1,240,000	(1,240,000)		
Inventories		328,014	328,014	332,083
Prepaid items	14,512	22,914	37,426	36,250
Intangibles - service area		152,835	152,835	159,547
Net pension asset	56,968		56,968	
Capital assets:				
Nondepreciable	1,475,932	615,367	2,091,299	1,290,344
Depreciable, net	15,474,455	20,757,311	36,231,766	37,616,920
Total Assets	<u>26,699,950</u>	<u>25,897,349</u>	<u>52,597,299</u>	<u>50,135,309</u>
Deferred Outflows of Resources				
Deferred outflows from pension activity	<u>285,897</u>	<u>150,253</u>	<u>436,150</u>	
LIABILITIES				
Accounts payable	92,250	446,544	538,794	254,971
Contracts payable	80,172		80,172	29,846
Due to other governments	46	30,226	30,272	32,434
Accrued interest payable	126,563	82,563	209,126	243,478
Accrued liabilities	25,616	15,831	41,447	117,538
Deposits payable		55,284	55,284	55,042
Unearned revenue	197	409,500	409,697	250,168
Noncurrent liabilities:				
Due within one year	915,057	758,019	1,673,076	1,584,051
Due in more than one year	9,810,422	6,174,344	15,984,766	14,832,258
Net pension liability	<u>1,353,838</u>	<u>1,023,584</u>	<u>2,377,422</u>	
Total Liabilities	<u>12,404,161</u>	<u>8,995,895</u>	<u>21,400,056</u>	<u>17,399,786</u>
Deferred Inflows of Resources				
Deferred inflows from pension activity	<u>145,711</u>	<u>51,607</u>	<u>197,318</u>	
NET POSITION				
Net investment in capital assets	8,831,202	16,108,395	24,939,597	24,257,047
Restricted for:				
Tax increment financing expenditures				39,160
Economic development	303,628		303,628	289,326
Debt service	2,168,418	388,125	2,556,543	2,948,721
Unrestricted	<u>3,132,727</u>	<u>503,580</u>	<u>3,636,307</u>	<u>5,201,269</u>
Total Net Position	<u>\$ 14,435,975</u>	<u>\$ 17,000,100</u>	<u>\$ 31,436,075</u>	<u>\$ 32,735,523</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2015
With Comparative Totals for the Fiscal Year Ending December 31, 2014

<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	\$ 514,123	\$ 16,642	\$	\$
Public safety	1,387,416	177,219	185,863	
Public works	1,249,054		8,580	313,298
Health and welfare	14,358			
Culture and recreation	478,002	265,083	146,782	
TIF/Economic development	858,616			1,844
Miscellaneous	69,284			
Interest on long-term debt	307,021			
Total governmental activities	<u>4,877,874</u>	<u>458,944</u>	<u>341,225</u>	<u>315,142</u>
Business-Type activities:				
Water	672,628	696,378		64,057
Wastewater	1,235,317	1,609,670		47,610
Electric	4,002,412	3,649,412		4,208
Storm water	220,802	262,705		9,050
Liquor	244,479	311,544		
Cemetery	50,363	21,980		
Total business-type activities	<u>6,426,001</u>	<u>6,551,689</u>		<u>124,925</u>
Total	<u>\$ 11,303,875</u>	<u>\$ 7,010,633</u>	<u>\$ 341,225</u>	<u>\$ 440,067</u>

General revenues:

- General property taxes
- Property taxes levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Interest earnings
- Miscellaneous
- Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as originally stated
Restatement due to change in accounting standards (Note 8)

Net position - beginning, as restated

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2015	2014
\$ (497,481)	\$	\$ (497,481)	\$ (359,745)
(1,024,334)		(1,024,334)	(1,013,455)
(927,176)		(927,176)	(623,913)
(14,358)		(14,358)	(10,156)
(66,137)		(66,137)	(390,934)
(856,772)		(856,772)	(1,000,882)
(69,284)		(69,284)	(34,890)
(307,021)		(307,021)	(398,289)
<u>(3,762,563)</u>		<u>(3,762,563)</u>	<u>(3,832,264)</u>
	87,807	87,807	24,636
	421,963	421,963	353,375
	(348,792)	(348,792)	(336,285)
	50,953	50,953	(78,842)
	67,065	67,065	78,578
	<u>(28,383)</u>	<u>(28,383)</u>	<u>(31,083)</u>
	250,613	250,613	10,379
<u>(3,762,563)</u>	<u>250,613</u>	<u>(3,511,950)</u>	<u>(3,821,885)</u>
2,060,302		2,060,302	1,867,702
438,951		438,951	520,792
192,538		192,538	125,476
63,470		63,470	65,750
1,023,300		1,023,300	990,281
133,761		133,761	120,548
116,789	50,885	167,674	640,615
(21,843)		(21,843)	47,660
65,620	(65,620)		
<u>4,072,888</u>	<u>(14,735)</u>	<u>4,058,153</u>	<u>4,378,824</u>
310,325	235,878	546,203	556,939
15,149,178	17,586,345	32,735,523	32,178,584
<u>(1,023,528)</u>	<u>(822,123)</u>	<u>(1,845,651)</u>	
14,125,650	16,764,222	30,889,872	32,178,584
<u>\$ 14,435,975</u>	<u>\$ 17,000,100</u>	<u>\$ 31,436,075</u>	<u>\$ 32,735,523</u>

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CITY OF KASSON, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2015

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CITY OF KASSON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015
With Comparative Totals for December 31, 2014

	101 General	Debt Service	Other Governmental Funds	Totals	
				2015	2014
ASSETS					
Cash and investments	\$ 1,330,138	\$ 911,100	\$ 3,072,982	\$ 5,314,220	\$ 5,524,659
Restricted cash		1,372,767		1,372,767	
Accounts receivable	70,933		48,592	119,525	127,742
Interest receivable	2,682	17,154	6,216	26,052	33,245
Notes receivable			171,008	171,008	123,953
Advances to other funds		1,240,000		1,240,000	1,355,000
Due from other governmental units	27,190	165	15,862	43,217	16,894
Taxes receivable delinquent	45,825			45,825	83,649
Special assessments receivable		732,518	612,955	1,345,473	1,330,565
Prepaid items	12,467		2,045	14,512	16,641
Due from other funds	40,672		71,818	112,490	88,107
TOTAL ASSETS	\$ 1,529,907	\$ 4,273,704	\$ 4,001,478	\$ 9,805,089	\$ 8,700,455
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 49,187	\$	\$ 43,090	\$ 92,277	\$ 57,471
Contracts payable			80,172	80,172	29,846
Due to other governments	19			19	2,324
Accrued salaries payable	22,573		3,043	25,616	67,290
Due to other funds			112,490	112,490	88,107
Unearned revenue	197			197	168
Total Liabilities	71,976		238,795	310,771	245,206
Deferred Inflows of Resources:					
Unavailable revenue:					
Property taxes	45,825			45,825	83,649
Special assessments		732,519	612,955	1,345,474	1,330,565
Total Deferred Inflows of Resources	45,825	732,519	612,955	1,391,299	1,414,214
Fund Balance:					
Nonspendable:					
Prepaid items	12,467		2,045	14,512	16,641
Restricted:					
Economic development			303,628	303,628	289,326
Tax increment financing expenditures					39,160
Debt service		3,541,185		3,541,185	2,566,934
Committed:					
Economic development			82,456	82,456	79,220
Library operations			179,840	179,840	166,896
Energy efficiency for new Library					150,000
Assigned:					
Capital improvements			2,724,310	2,724,310	2,761,409
Unassigned:	1,399,639		(142,551)	1,257,088	971,449
Total Fund Balance	1,412,106	3,541,185	3,149,728	8,103,019	7,041,035
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 1,529,907	\$ 4,273,704	\$ 4,001,478	\$ 9,805,089	\$ 8,700,455

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, 2015

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

Total governmental fund balances (page 18)		\$ 8,103,019
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 26,591,097	
Less: Accumulated depreciation	(9,640,710)	16,950,387
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 45,825	
Special assessments	1,345,473	1,391,298
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	\$ (10,400,031)	
Net pension liability	(1,213,652)	
Net pension asset	56,968	
Compensated absences	(180,401)	
Other postemployment benefits	(51,962)	
Bond premiums net of amortization	(93,088)	
Accrued interest	(126,563)	(12,008,729)
Net position of governmental activities (page 15)		\$ 14,435,975

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, 2015
With Comparative Totals for the Year Ended December 31, 2014

	101 General	Debt Service	Other Governmental Funds	Totals	
				2015	2014
REVENUES					
Property taxes	\$ 1,623,784	\$ 648,655	\$ 332,986	\$ 2,605,425	\$ 2,404,151
Tax increments			128,427	128,427	125,476
Franchise taxes	63,470			63,470	65,750
Special assessments	518	90,572	209,661	300,751	232,966
Licenses and permits	84,566			84,566	58,045
Intergovernmental revenues	1,203,221		59,271	1,262,492	1,599,852
Charges for services	347,547		1,143	348,690	340,568
Fines and forfeits	19,952		3,314	23,266	17,148
Investment income	15,339	56,587	112,834	184,760	176,171
Miscellaneous revenues	30,342	16,188	118,846	165,376	368,161
TOTAL REVENUES	3,388,739	812,002	966,482	5,167,223	5,388,288
EXPENDITURES					
Current					
General government	475,768			475,768	434,015
Public safety	1,196,280			1,196,280	1,146,526
Public works	376,228		4,575	380,803	380,759
Health and welfare	14,358			14,358	10,156
Culture and recreation	612,217		285,561	897,778	890,841
TIF/economic development			242,534	242,534	375,218
Miscellaneous	69,284			69,284	34,894
Capital Outlay	87,519		887,611	975,130	3,353,243
Debt Service		1,088,774	2,229	1,091,003	1,028,497
TOTAL EXPENDITURES	2,831,654	1,088,774	1,422,510	5,342,938	7,654,149
Excess (deficiency) of revenues over (under) expenditures	557,085	(276,772)	(456,028)	(175,715)	(2,265,861)
OTHER FINANCING SOURCES (USES)					
Sale of assets	354			354	245,109
Bond proceeds		1,133,931		1,133,931	3,110,000
Premium on bonds issued		37,794		37,794	16,340
Transfers in	39,000	79,298	290,437	408,735	2,296,010
Transfers out	(258,087)		(85,028)	(343,115)	(2,149,025)
TOTAL OTHER FINANCING SOURCES (USES)	(218,733)	1,251,023	205,409	1,237,699	3,518,434
Net change in fund balances	338,352	974,251	(250,619)	1,061,984	1,252,573
FUND BALANCES, beginning	1,073,754	2,566,934	3,400,347	7,041,035	5,788,462
FUND BALANCES, ending	\$ 1,412,106	\$ 3,541,185	\$ 3,149,728	\$ 8,103,019	\$ 7,041,035

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, 2015

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

Net change in fund balances - total governmental funds (page 20)	\$	1,061,984
<p>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.</p>		
Capital outlay capitalized	\$	865,349
Depreciation expense		<u>(1,054,439)</u>
		(189,090)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
		(22,197)
<p>Certain revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.</p>		
Unavailable revenue, December 31, 2015	\$	1,391,299
Unavailable revenue, December 31, 2014		<u>(1,414,214)</u>
		(22,915)
<p>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.</p>		
Other postemployment benefits		3,664
Change in compensated absences		(10,674)
<p>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.</p>		
Principal retirement on long-term debt	\$	745,814
Bond proceeds		(1,133,931)
Amortization of bond premiums, net		(6,030)
Change in net pension activity		(133,156)
Change in accrued interest		<u>16,856</u>
		<u>(510,447)</u>
Change in net position of governmental activities (pages 16-17)	\$	<u><u>310,325</u></u>

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, 2015

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,560,047	\$ 1,560,047	\$ 1,623,784	\$ 63,737
Franchise taxes	65,000	65,000	63,470	(1,530)
Special assessments			518	518
Licenses and permits	34,800	34,800	84,566	49,766
Intergovernmental	1,167,917	1,167,917	1,203,221	35,304
Charges for services	287,400	287,400	347,547	60,147
Fines and forfeits	15,500	15,500	19,952	4,452
Investment earnings	10,500	10,500	15,339	4,839
Miscellaneous	16,000	16,000	30,342	14,342
TOTAL REVENUES	3,157,164	3,157,164	3,388,739	231,575
EXPENDITURES				
Current				
General Government	485,131	485,131	475,768	9,363
Public safety	1,151,424	1,151,424	1,196,280	(44,856)
Public works	475,898	475,898	376,228	99,670
Health and welfare	19,960	19,960	14,358	5,602
Culture and recreation	711,696	711,696	612,217	99,479
Miscellaneous	119,255	119,255	69,284	49,971
Capital outlay				
General Government	27,000	27,000	11,920	15,080
Public works	70,500	70,500	52,601	17,899
Culture and recreation	58,500	58,500	22,998	35,502
TOTAL EXPENDITURES	3,119,364	3,119,364	2,831,654	287,710
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	37,800	37,800	557,085	519,285
OTHER FINANCING SOURCES (USES)				
Sale of assets			354	354
Transfers in	39,000	39,000	39,000	
Transfers out	(52,650)	(52,650)	(258,087)	(205,437)
TOTAL FINANCING SOURCES (USES)	(13,650)	(13,650)	(218,733)	(205,083)
NET CHANGE IN FUND BALANCES	24,150	24,150	338,352	314,202
FUND BALANCES, JANUARY 1	865,914	865,914	865,914	
FUND BALANCES, DECEMBER 31	\$ 890,064	\$ 890,064	\$ 1,204,266	\$ 314,202

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2015 and 2014

	Business-Type Activities - Enterprise Funds					
	601		602		604	
	Water		Wastewater Treatment		Electric	
	2015	2014	2015	2014	2015	2014
ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
Current Assets						
Cash and temporary investments	\$ 437,605	\$ 419,953	\$ 777,019	\$ 413,363	\$ 485,816	\$ 696,995
Interest receivable	481	1,327	1,095	2,498	1,828	4,174
Accounts receivable	88,939	83,157	211,204	209,660	484,014	504,885
Inventories					217,726	224,743
Prepaid items	2,156	3,304	4,380	3,596	6,877	6,966
Total Current Assets	<u>529,181</u>	<u>507,741</u>	<u>993,698</u>	<u>629,117</u>	<u>1,196,261</u>	<u>1,437,763</u>
Noncurrent Assets						
Restricted cash and investments	625,475	138,971	713,780	242,816	385,991	
Intangibles - service area					152,835	159,547
Capital assets:						
Land	32,779	32,779	156,187	156,187	6,317	6,317
Construction in process			238,184	25,204		
Buildings	1,252,796	1,252,796	10,448,848	10,448,848	648,629	648,629
Improvements other than buildings	4,201,519	4,201,940	4,876,673	4,876,673	1,985,775	1,975,475
Machinery and equipment	125,920	108,093	464,424	449,020	504,026	483,852
Office equipment and furnishings	34,776	33,680	36,766	36,370	100,382	116,998
Vehicles	63,990	64,290	22,840	23,140	316,532	316,532
Infrastructure	3,862,818	3,754,077	2,825,593	2,777,983		
Less accumulated depreciation	<u>(3,988,688)</u>	<u>(3,769,436)</u>	<u>(7,264,906)</u>	<u>(6,833,787)</u>	<u>(2,565,568)</u>	<u>(2,473,447)</u>
Net capital assets	<u>5,585,910</u>	<u>5,678,219</u>	<u>11,804,609</u>	<u>11,959,638</u>	<u>996,093</u>	<u>1,074,356</u>
Deferred Outflows of Resources						
Deferred outflows from pension activity	21,120		38,053		61,372	
TOTAL ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
	<u>\$ 6,761,686</u>	<u>\$ 6,324,931</u>	<u>\$ 13,550,140</u>	<u>\$ 12,831,571</u>	<u>\$ 2,792,552</u>	<u>\$ 2,671,666</u>
LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES, AND NET POSITION						
Current Liabilities						
Current maturities of bonds payable	133,089	131,711	505,540	491,361		
Accounts payable	8,745	5,797	165,815	12,747	242,089	165,554
Advances from other funds	40,000	38,333	40,000	38,334	40,000	38,333
Due to other governments					16,092	16,969
Deposits payable					55,284	55,042
Accrued interest payable	16,563	17,597	54,373	69,979	5,549	6,097
Compensated absences payable	15,137	14,514	27,801	25,102	24,899	28,430
Unearned revenue			409,500	250,000		
Accrued salaries payable	2,379	7,074	4,008	11,932	6,617	21,049
Total Current Liabilities	<u>215,913</u>	<u>215,026</u>	<u>1,207,037</u>	<u>899,455</u>	<u>390,530</u>	<u>331,474</u>
Noncurrent Liabilities						
Other postemployment benefits obligation	6,929	7,402	7,667	8,191	14,786	15,796
Compensated absences payable	5,800	8,567	14,143	13,819	20,597	43,258
Advances from other funds	373,334	413,333	373,333	413,333	373,333	413,334
Net pension liability	143,875		259,231		418,085	
Bonds payable, net of current maturities	<u>1,296,900</u>	<u>935,335</u>	<u>3,834,354</u>	<u>3,865,719</u>	<u>384,325</u>	
Total Noncurrent Liabilities	<u>1,826,838</u>	<u>1,364,637</u>	<u>4,488,728</u>	<u>4,301,062</u>	<u>1,211,126</u>	<u>472,388</u>
Deferred Inflows of Resources						
Deferred inflows from pension activity	7,254		13,070		21,079	
NET POSITION						
Net investment in capital assets	4,641,161	4,611,173	7,928,637	7,602,558	988,930	1,074,356
Restricted for debt service	140,235	138,971	247,890	242,816		
Unrestricted	<u>(69,715)</u>	<u>(4,876)</u>	<u>(335,222)</u>	<u>(214,320)</u>	<u>180,887</u>	<u>793,448</u>
Total Net Position	<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>
TOTAL LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES AND NET POSITION						
	<u>\$ 6,761,686</u>	<u>\$ 6,324,931</u>	<u>\$ 13,550,140</u>	<u>\$ 12,831,571</u>	<u>\$ 2,792,552</u>	<u>\$ 2,671,666</u>

See Notes to the Financial Statements

Business-Type Activities - Enterprise Funds

605		609		610		Totals	
Stormwater		Municipal Liquor Store		Maple Grove Cemetery			
2015	2014	2015	2014	2015	2014	2015	2014
\$ 82,839	\$ 76,030	\$ 436,215	\$ 356,793	\$ 254,401	\$ 275,994	\$ 2,473,895	\$ 2,239,128
119	325	1,003	1,092	1,555	1,756	6,081	11,172
35,869	29,459	200	255	58	13	820,284	827,429
		110,288	107,340			328,014	332,083
6,546	3,015	2,667	2,516	288	212	22,914	19,609
125,373	108,829	550,373	467,996	256,302	277,975	3,651,188	3,429,421
<hr/>		<hr/>		<hr/>		<hr/>	
235,402						1,960,648	381,787
<hr/>		<hr/>		<hr/>		<hr/>	
						152,835	159,547
		49,500	49,500	132,400	132,400	377,183	377,183
						238,184	25,204
		234,928	215,343	9,600	9,600	12,594,801	12,575,216
		7,273	7,273			11,071,240	11,061,361
117,915	99,039	7,810	7,810			1,220,095	1,147,814
2,609	1,513	67,396	67,396	10,298	10,298	252,227	266,255
						403,362	403,962
3,547,426	3,538,376					10,235,837	10,070,436
(906,162)	(824,606)	(279,349)	(265,467)	(15,578)	(15,098)	(15,020,251)	(14,181,841)
2,761,788	2,814,322	87,558	81,855	136,720	137,200	21,372,678	21,745,590
<hr/>		<hr/>		<hr/>		<hr/>	
8,940		19,306		1,462		150,253	
<hr/>		<hr/>		<hr/>		<hr/>	
\$ 3,131,503	\$ 2,923,151	\$ 657,237	\$ 549,851	\$ 394,484	\$ 415,175	\$ 27,287,602	\$ 25,716,345
<hr/>		<hr/>		<hr/>		<hr/>	
46,104	45,108					684,733	668,180
1,598	520	26,477	12,920	1,820	22	446,544	197,560
		14,134	13,137			120,000	115,000
						30,226	30,106
						55,284	55,042
6,078	6,385					82,563	100,058
3,625	5,063	585	1,458	1,239	1,067	73,286	75,634
						409,500	250,000
724	3,676	1,901	6,051	202	468	15,831	50,250
58,129	60,752	43,097	33,566	3,261	1,557	1,917,967	1,541,830
<hr/>		<hr/>		<hr/>		<hr/>	
1,835	1,960	5,497	5,872	2,238	2,391	38,952	41,612
465	1,542				1,307	41,005	68,493
						1,120,000	1,240,000
60,906		131,523		9,964		1,023,584	
578,808	437,011					6,094,387	5,238,065
642,014	440,513	137,020	5,872	12,202	3,698	8,317,928	6,588,170
<hr/>		<hr/>		<hr/>		<hr/>	
3,071		6,631		502		51,607	
<hr/>		<hr/>		<hr/>		<hr/>	
2,325,389	2,332,203	87,558	81,855	136,720	137,200	16,108,395	15,839,345
						388,125	381,787
102,900	89,683	382,931	428,558	241,799	272,720	503,580	1,365,213
2,428,289	2,421,886	470,489	510,413	378,519	409,920	17,000,100	17,586,345
<hr/>		<hr/>		<hr/>		<hr/>	
\$ 3,131,503	\$ 2,923,151	\$ 657,237	\$ 549,851	\$ 394,484	\$ 415,175	\$ 27,287,602	\$ 25,716,345

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

	Business-Type Activities - Enterprise Funds					
	601 Water		602 Wastewater Treatment		604 Electric	
	2015	2014	2015	2014	2015	2014
Operating Revenues						
Service fees and charges	\$ 671,432	\$ 658,052	\$ 1,609,670	\$ 1,589,139	\$ 3,645,820	\$ 3,414,031
Less cost of sales						
	<u>671,432</u>	<u>658,052</u>	<u>1,609,670</u>	<u>1,589,139</u>	<u>3,645,820</u>	<u>3,414,031</u>
Operating Expenses						
Personal services	229,054	193,064	398,319	340,731	642,099	569,880
Supplies	71,624	73,751	73,080	77,471	145,480	84,845
Insurance	4,517	5,043	13,200	11,974	6,477	6,643
Utilities	25,313	21,850	3,211	3,395	11,300	16,446
Purchased power					2,657,596	2,522,221
Other services and charges	74,485	99,474	182,488	197,894	403,749	415,047
Depreciation	221,017	220,862	435,591	433,225	109,909	124,513
Total Operating Expenses	<u>626,010</u>	<u>614,044</u>	<u>1,105,889</u>	<u>1,064,690</u>	<u>3,976,610</u>	<u>3,739,595</u>
Operating Income (Loss)	45,422	44,008	503,781	524,449	(330,790)	(325,564)
Nonoperating Revenues (Expenses)						
Special assessments	177	1,689		63	4,208	1,327
Interest income	8,326	5,313	8,955	5,121	11,603	44,174
Rents	24,946	24,219			3,592	3,592
Refunds and reimbursements	1,950	674	2,739		5,299	9,730
Gain on sale of assets						7,500
Interest expense and fiscal charges	(48,568)	(44,998)	(135,009)	(170,422)	(25,618)	(18,658)
Amortization expense		(956)	2,842	(715)	(5,483)	(6,712)
Total Nonoperating Revenues (Expenses)	<u>(13,169)</u>	<u>(14,059)</u>	<u>(120,473)</u>	<u>(165,953)</u>	<u>(6,399)</u>	<u>40,953</u>
INCOME (LOSS) BEFORE TRANSFERS	32,253	29,949	383,308	358,496	(337,189)	(284,611)
Capital contributions from developers	63,880		47,610			
Transfers out	(14,162)	(23,185)	(12,458)	(21,418)	(25,000)	(88,382)
CHANGE IN NET POSITION	81,971	6,764	418,460	337,078	(362,189)	(372,993)
NET POSITION - BEGINNING OF YEAR AS ORIGINALLY STATED	4,745,268	4,738,504	7,631,054	7,293,976	1,867,804	2,240,797
Restatement (Note 8)	(115,558)		(208,209)		(335,798)	
NET POSITION - AS RESTATED	4,629,710	4,738,504	7,422,845	7,293,976	1,532,006	2,240,797
NET POSITION - END OF YEAR	<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>

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2015	2014	2015	2014	2015	2014	2015	2014
\$ 262,705	\$ 203,766	\$ 1,390,195	\$ 1,324,533	\$ 21,980	\$ 15,945	\$ 7,601,802	\$ 7,205,466
		(1,078,651)	(1,017,775)			(1,078,651)	(1,017,775)
262,705	203,766	311,544	306,758	21,980	15,945	6,523,151	6,187,691
96,417	79,498	190,458	167,329	14,141	21,492	1,570,488	1,371,994
8,485	10,037	8,179	13,725		2,926	306,848	262,755
561	508	3,595	3,624	259	296	28,609	28,088
		10,356	10,155	305	251	50,485	52,097
						2,657,596	2,522,221
22,127	97,948	18,008	20,838	36,828	20,345	737,685	851,546
81,557	79,883	13,883	12,509	480	2,168	862,437	873,160
209,147	267,874	244,479	228,180	52,013	47,478	6,214,148	5,961,861
53,558	(64,108)	67,065	78,578	(30,033)	(31,533)	309,003	225,830
						4,385	3,079
4,369	1,243	12,647	3,943	4,985	10,862	50,885	70,656
						28,538	27,811
				1,650	450	11,638	10,854
					2,137		9,637
(14,523)	(14,894)					(223,718)	(248,972)
2,868	160					227	(8,223)
(7,286)	(13,491)	12,647	3,943	6,635	13,449	(128,045)	(135,158)
46,272	(77,599)	79,712	82,521	(23,398)	(18,084)	180,958	90,672
9,050						120,540	
		(14,000)	(14,000)			(65,620)	(146,985)
55,322	(77,599)	65,712	68,521	(23,398)	(18,084)	235,878	(56,313)
2,421,886	2,499,485	510,413	441,892	409,920	428,004	17,586,345	17,642,658
(48,919)		(105,636)		(8,003)		(822,123)	
2,372,967	2,499,485	404,777	441,892	401,917	428,004	16,764,222	17,642,658
\$ 2,428,289	\$ 2,421,886	\$ 470,489	\$ 510,413	\$ 378,519	\$ 409,920	\$ 17,000,100	\$ 17,586,345

**CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Cash Flows

For the Years Ended December 31, 2015 and 2014

	Business-Type Activities - Enterprise Funds					
	601 Water		602 Wastewater Treatment		604 Electric	
	2015	2014	2015	2014	2015	2014
Cash Flows From Operating Activities						
Cash received from customers	\$ 665,650	\$ 654,869	\$ 1,767,626	\$ 1,833,154	\$ 3,666,933	\$ 3,401,872
Other receipts	26,896	24,893	2,739		8,891	13,322
Cash paid to employees	(235,893)	(189,555)	(403,220)	(333,651)	(682,723)	(560,073)
Cash paid to suppliers	(157,865)	(201,200)	(245,680)	(295,246)	(3,100,854)	(3,194,827)
Net Cash Provided By (Used In) Operating Activities	298,788	289,007	1,121,465	1,204,257	(107,753)	(339,706)
Cash Flows From Noncapital Financing Activities						
Increase (decrease) in due from other funds				(58,308)		
(Increase) decrease in due to other funds		58,308				
Transfer in/out	(14,162)	(23,185)	(12,458)	(21,418)	(25,000)	(88,382)
Net Cash Provided By (Used In) Noncapital Financing Activities	(14,162)	35,123	(12,458)	(79,726)	(25,000)	(88,382)
Cash Flows From Capital and Related Financing Activities						
Capital asset acquisitions	(64,827)	(17,298)	(77,280)	(46,096)	(30,474)	(12,099)
Cash received from sale of assets						7,500
Special assessment collections	177	8,151		903	4,208	1,327
Bond proceeds	492,796		470,004		384,383	
Principal payments on bonds	(129,853)	(92,268)	(491,362)	(479,520)		
Principal paid on interfund advances	(38,333)	(36,667)	(38,334)	(36,667)	(38,333)	(36,666)
Interest payments on bonds	(49,602)	(44,282)	(147,773)	(157,568)	(26,168)	(19,188)
Net Cash (Used In) Capital and Related Financing Activities	210,358	(182,364)	(284,745)	(718,948)	293,616	(59,126)
Cash Flows From Investing Activities						
Purchase of service territory						(7,900)
Investment income received	9,172	5,892	10,358	3,051	13,949	45,578
Net Cash (Used In) Capital and Related Financing Activities	9,172	5,892	10,358	3,051	13,949	37,678
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	504,156	147,658	834,620	408,634	174,812	(449,536)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	558,924	411,266	656,179	247,545	696,995	1,146,531
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,063,080	\$ 558,924	\$ 1,490,799	\$ 656,179	\$ 871,807	\$ 696,995
Classified as:						
Cash and cash equivalents	\$ 437,605	\$ 419,953	\$ 777,019	\$ 413,363	\$ 485,816	\$ 696,995
Restricted cash	625,475	138,971	713,780	242,816	385,991	
Total Cash and Cash Equivalents, End of Year	\$ 1,063,080	\$ 558,924	\$ 1,490,799	\$ 656,179	\$ 871,807	\$ 696,995

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2015	2014	2015	2014	2015	2014	2015	2014
\$ 256,295	\$ 200,771	\$ 311,599	\$ 306,503	\$ 21,935	\$ 15,932	\$ 6,690,038	\$ 6,413,101
				1,650	450	40,176	38,665
(101,884)	(76,918)	(195,481)	(167,147)	(15,542)	(21,249)	(1,634,743)	(1,348,593)
(27,633)	(109,251)	(15,846)	(41,490)	(34,822)	(24,739)	(3,582,700)	(3,866,753)
126,778	14,602	100,272	97,866	(26,779)	(29,606)	1,512,771	1,236,420
							(58,308)
							58,308
		(14,000)	(14,000)			(65,620)	(146,985)
		(14,000)	(14,000)			(65,620)	(146,985)
(19,972)	(1,400)	(19,586)	(3,947)			(212,139)	(80,840)
					2,137		9,637
						4,385	10,381
187,899						1,535,082	
(45,107)	(39,700)					(666,322)	(611,488)
						(115,000)	(110,000)
(11,962)	(13,010)					(235,505)	(234,048)
110,858	(54,110)	(19,586)	(3,947)		2,137	310,501	(1,016,358)
							(7,900)
4,575	918	12,736	3,581	5,186	9,307	55,976	68,327
4,575	918	12,736	3,581	5,186	9,307	55,976	60,427
242,211	(38,590)	79,422	83,500	(21,593)	(18,162)	1,813,628	133,504
76,030	114,620	356,793	273,293	275,994	294,156	2,620,915	2,487,411
\$ 318,241	\$ 76,030	\$ 436,215	\$ 356,793	\$ 254,401	\$ 275,994	\$ 4,434,543	\$ 2,620,915
\$ 82,839	\$ 76,030	\$ 436,215	\$ 356,793	\$ 254,401	\$ 275,994	2,473,895	\$ 2,239,128
235,402						1,960,648	381,787
\$ 318,241	\$ 76,030	\$ 436,215	\$ 356,793	\$ 254,401	\$ 275,994	\$ 4,434,543	\$ 2,620,915

**CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Cash Flows - continued

For the Years Ended December 31, 2015 and 2014

**RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	601 Water		602 Wastewater Treatment		604 Electric	
	2015	2014	2015	2014	2015	2014
Operating Income (Loss)	\$ 45,422	\$ 44,008	\$ 503,781	\$ 524,449	\$ (330,790)	\$ (325,564)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation	221,017	220,862	435,591	433,225	109,909	124,513
Change in net pension liability	14,451		26,039		41,994	
Miscellaneous nonoperating income	26,896	24,893	2,739		8,891	13,322
(Increase) Decrease In:						
Accounts receivable	(5,782)	(3,183)	(1,544)	(5,985)	20,871	1,796
Due from other governments						
Inventories					7,017	(65,090)
Prepaid items	1,148	35	(784)	265	89	187
Increase (Decrease) In:						
Accounts payable	2,948	(892)	1,568	(4,528)	76,535	(83,141)
Due to other governments					(877)	(1,101)
Accrued salaries payable	(4,695)	1,399	(7,924)	2,902	(14,432)	2,702
Compensated absences payable	(2,144)	2,110	3,023	4,178	(26,192)	7,105
Other postemployment benefits obligation	(473)	(225)	(524)	(249)	(1,010)	(480)
Unearned revenue			159,500	250,000		
Deposits payable					242	(13,955)
Net Cash Provided By (Used In) Operating Activities	\$ 298,788	\$ 289,007	\$ 1,121,465	\$ 1,204,257	\$ (107,753)	\$ (339,706)
Noncash Capital and Related Financing Activities						
Amortization of bond discount, premium and intangibles	\$	\$ 956	\$ (2,842)	\$ 715	\$ 5,483	\$ 6,712
Capital asset additions included						

See Notes to the Financial Statements

605		609		610		Totals	
Stormwater		Municipal Liquor Store		Maple Grove Cemetery			
2015	2014	2015	2014	2015	2014	2015	2014
\$ 53,558	\$ (64,108)	\$ 67,065	\$ 78,578	\$ (30,033)	\$ (31,533)	\$ 309,003	\$ 225,830
81,557	79,883	13,883	12,509	480	2,168	862,437	873,160
6,118		13,212		1,001		102,815	
				1,650	450	40,176	38,665
(6,410)	(2,995)	55	(255)	(45)	(13)	7,145	(10,635)
		(2,948)	(1,558)			4,069	(66,648)
(3,531)	26	(151)	(103)	(76)		(3,305)	410
1,078	(724)	13,557	7,926	1,798	(848)	97,484	(82,207)
		997	766			120	(335)
(2,952)	1,210	(4,150)	368	(266)	60	(34,419)	8,641
(2,515)	1,370	(873)	(186)	(1,135)	183	(29,836)	14,760
(125)	(60)	(375)	(179)	(153)	(73)	(2,660)	(1,266)
						159,500	250,000
						242	(13,955)
<u>\$ 126,778</u>	<u>\$ 14,602</u>	<u>\$ 100,272</u>	<u>\$ 97,866</u>	<u>\$ (26,779)</u>	<u>\$ (29,606)</u>	<u>\$ 1,512,771</u>	<u>\$ 1,236,420</u>

\$ (2,868) \$ (160) \$ \$ \$ \$ \$ (227) \$ 8,223

CITY OF KASSON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS (FESTIVAL IN THE PARK AND ARENA FUND)
December 31, 2015

	877 Festival in Park	606 Arena	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 3,043	\$ (17,523)	\$ (14,480)
Accounts receivable		29,413	29,413
Due from other governmental units		1,236	1,236
Inventory		518	518
Prepaid items	45	1,105	1,150
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,088</u>	<u>\$ 14,749</u>	<u>\$ 17,837</u>
LIABILITIES			
Accounts payable	\$ 3,088	\$ 7,338	\$ 10,426
Accrued wages payable		6,962	6,962
Due to other governments		449	449
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 3,088</u>	<u>\$ 14,749</u>	<u>\$ 17,837</u>

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.

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 2015. 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. 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, 2012.

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.

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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds

A. Summary of Cash and Investments

As of December 31, 2015, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Cash on hand	\$	774
Deposits		2,768,116
Certificates of deposit		3,913,613
Bonds		1,530,187
Money Market Funds		21,236
Escrow		<u>2,887,604</u>
Total Cash and Investments	\$	<u>11,121,530</u>
Cash and Investments	\$	7,788,115
Restricted Cash and Investments		<u>3,333,415</u>
	\$	<u>11,121,530</u>

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 of 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.

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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (continued)

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.

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 of Kasson, Minnesota. 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, 2015 is \$171,008.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity, including internal service fund capital assets, for the year ended December 31, 2015 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 657,681	\$	\$	\$ 657,681
Construction in progress	230,276	587,975		818,251
Total capital assets, not being depreciated	887,957	587,975		1,475,932
Capital assets, being depreciated:				
Buildings	6,601,180		22,478	6,578,702
Investment in joint venture	378,281	3,692		381,973
Improvements other than buildings	1,086,273	54,649		1,140,922
Machinery and equipment	756,095	56,282	24,238	788,139
Office equipment and furnishings	86,693	10,898		97,591
Vehicles	2,780,201	12,853	28,447	2,764,607
Infrastructure	13,224,231	139,000		13,363,231
Total capital assets, being depreciated	24,912,954	277,374	75,163	25,115,165
Less accumulated depreciation for:				
Buildings	689,132	192,127	281	880,978
Investment in joint venture	128,965	15,096		144,061
Improvements other than buildings	362,320	56,015		418,335
Machinery and equipment	618,090	43,904	24,238	637,756
Office equipment and furnishings	46,635	12,502		59,137
Vehicles	1,626,052	112,914	28,447	1,710,519
Infrastructure	5,168,043	621,881		5,789,924
Total accumulated depreciation	8,639,237	1,054,439	52,966	9,640,710
Total capital assets, being depreciated, net	16,273,717	(777,065)	22,197	15,474,455
Governmental activities capital assets, net	\$ 17,161,674	\$ (189,090)	\$ 22,197	\$ 16,950,387

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	\$	\$	\$ 377,183
Construction in progress	25,204	212,980		238,184
Total capital assets, not being depreciated	402,387	212,980		615,367
Capital assets, being depreciated:				
Buildings	12,575,216	19,585		12,594,801
Improvements other than buildings	11,061,362	10,300	422	11,071,240
Machinery and equipment	1,147,811	76,802	4,518	1,220,095
Office equipment and furnishings	266,255	4,459	18,487	252,227
Vehicles	403,962		600	403,362
Infrastructure	10,070,438	165,399		10,235,837
Total capital assets, being depreciated	35,525,044	276,545	24,027	35,777,562
Less accumulated depreciation for:				
Buildings	4,156,037	313,869		4,469,906
Improvements other than buildings	6,346,058	256,481	422	6,602,117
Machinery and equipment	967,436	62,899	4,518	1,025,817
Office equipment and furnishings	239,898	8,501	18,487	229,912
Vehicles	363,714	19,209	600	382,323
Infrastructure	2,108,698	201,478		2,310,176
Total accumulated depreciation	14,181,841	862,437	24,027	15,020,251
Total capital assets, being depreciated, net	21,343,203	(585,892)		20,757,311
Business-type activities capital assets, net	\$ 21,745,590	\$ (372,912)	\$	\$ 21,372,678

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	\$ 22,470
Public safety	124,674
Public works	669,150
Culture and recreation	<u>238,145</u>
Total depreciation expense - governmental activities	<u>\$ 1,054,439</u>
 Business-Type Activities:	
Water	\$ 221,017
Wastewater treatment	435,591
Electric	109,909
Stormwater	81,557
Liquor	13,883
Cemetery	<u>480</u>
Total depreciation expense - business-type activities	<u>\$ 862,437</u>

Construction Commitments

The City has active street utility improvement construction projects as of December 31, 2015. 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>
Blaine's 12th Phase V	\$ 278,983	\$ 91,017

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, 2015, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
General Fund	\$ 40,672	\$
Nonmajor governmental - Fourth Street		40,672
Nonmajor governmental - EDA	71,818	
Nonmajor governmental - Downtown TIF		70,818
Nonmajor governmental - Oppidan Folkestad TIF		1,000
Total	\$ 112,490	\$ 112,490

The amounts advanced to and from other funds as of December 31, 2015, at the individual fund level are summarized below:

Funds	Advances To Other Funds	Advances From Other Funds
Debt Service	\$ 1,240,000	\$
Water		413,334
Wastewater Treatment		413,333
Electric		413,333
Total	\$ 1,240,000	\$ 1,240,000

At December 31, 2015 the following funds have deficit fund balances:

Fund	Amount
Special Revenue	
Downtown TIF	\$ 70,202
Oppidan Folkestad TIF	998
Capital Projects	
Fourth Street	71,351

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, 2015 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 39,000	\$ 258,087
Debt Service	79,298	
Nonmajor Governmental		
Stabilization/Capital Projects Reserves	205,437	85,000
Library Building	85,000	
Fire Truck and Equipment		28
Enterprise		
Water		14,162
Wastewater		12,458
Electric		25,000
Municipal Liquor Store		14,000
Total Transfers	\$ 408,735	\$ 408,735

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. Interfund Balances and Transfers (continued)

Excess of expenditures over budgeted appropriations at the individual fund level during 2015 are as follows:

Special Revenue Funds	
Economic development	\$ 2,360

These over expenditures were funded by available fund balance.

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.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Aquatic Center Bonds of 2013A	\$ 2,800,000	0.3 - 3.00 %	03/14/13	02/01/28	\$ 2,435,000
G.O. Equipment Certificate Bonds of 2014A	\$ 1,025,000	2.35	03/12/14	02/01/24	934,000
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>\$ 7,644,000</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.

<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. Refunding Bonds of 2011A	\$ 1,775,000	2.00 - 2.70 %	11/01/11	02/01/21	\$ 1,020,000
G.O. Street Reconstruction and Utility Revenue Bonds of 2012A	1,430,000	0.40 - 2.10	07/01/12	02/01/23	1,129,935
G.O. Improvement Bonds of 2014C	430,000	2.00 - 3.50	06/02/14	02/01/30	430,000
G.O. PIR Fund and Refunding Note of 2008B	2,355,000	4.05	05/27/08	03/01/24	1,570,003
G.O. PIR Fund Note of 2008C	535,000	3.80 - 4.95	10/30/08	03/01/24	<u>355,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 4,504,938</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.

<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. Sewer Revenue Note of 2001 (PFA)	\$ 7,632,919	3.07 %	08/30/01	08/20/21	\$ 2,892,000
G.O. Sewer Revenue Note of 2011 (PFA)	994,038	1.86	08/31/11	08/20/31	<u>841,000</u>
Total G.O. Revenue Bonds					<u>\$ 3,733,000</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (continued)

Revenue Bonds

The following bonds were issued by the EDA 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
EDA Lease Revenue Bonds of 2008A	\$ 1,860,000	4.05 %	05/01/08	03/01/24	<u>\$ 1,240,000</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2015, over the life of the debt, are summarized below:

Years	General Obligation Bonds		General Improvement Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>							
2016	\$ 269,000	\$ 169,043	\$ 361,205	\$ 89,370	\$ 120,000	\$ 47,790	\$ 1,056,408
2017	432,999	166,272	367,581	80,213	120,000	42,930	1,209,995
2018	438,168	158,807	333,908	70,394	125,000	37,969	1,164,246
2019	444,496	150,825	348,269	60,209	130,000	32,805	1,166,604
2020	457,496	142,213	298,267	50,106	135,000	27,439	1,110,521
2021-2025	2,170,772	546,167	1,132,870	107,322	610,000	50,423	4,617,554
2026-2030	875,000	320,605	160,000	14,226			1,369,831
2031-2035	350,000	226,653					576,653
2036-2040	480,000	129,563					609,563
2041-2042	240,000	13,476					253,476
Totals	<u>\$ 6,157,931</u>	<u>\$ 2,023,624</u>	<u>\$ 3,002,100</u>	<u>\$ 471,840</u>	<u>\$ 1,240,000</u>	<u>\$ 239,356</u>	<u>\$ 13,134,851</u>
	<u>General Obligation Revenue</u>		<u>General Obligation Special</u>				
	Principal	Interest	Principal	Interest			
<u>Business-Type Activities</u>							
2016	\$ 492,000	\$ 104,435	\$ 233,795	\$ 68,648			\$ 898,878
2017	506,000	89,887	410,420	65,855			1,072,162
2018	521,000	74,909	376,925	57,615			1,030,449
2019	537,000	59,483	388,235	49,161			1,033,879
2020	553,000	43,577	338,235	40,977			975,789
2021-2025	779,000	62,737	1,241,300	75,870			2,158,907
2026-2030	285,000	21,681					306,681
2031	60,000	1,117					61,117
Totals	<u>\$ 3,733,000</u>	<u>\$ 457,826</u>	<u>\$ 2,988,910</u>	<u>\$ 358,126</u>	<u>\$ 7,537,862</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, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
2013A GO Aquatic Center	\$ 2,605,000	\$	\$ 170,000	\$ 2,435,000	\$ 175,000
2014A GO Equipment Certificate	1,025,000		91,000	934,000	94,000
2014B GO Tax Increment Bonds	1,655,000			1,655,000	30,000
2015A GO Crossover Refunding Bonds		1,133,931		1,133,931	
General Improvement Bonds					
2008C Go PIR Fund Note	320,463		28,760	291,703	28,760
2011A GO Refunding Bond	675,000		165,000	510,000	165,000
2008B GO PIR Fund and Refunding	1,329,731		112,422	1,217,309	112,425
2012A GO Street Reconstruction and Utility	616,720		63,635	553,085	66,082
2014C GO Improvement Bond	430,000			430,000	25,000
Revenue Bond					
2008A EDA Lease Revenue Bonds	1,355,000		115,000	1,240,000	120,000
Plus: Unamortized premiums	87,058	6,030		93,088	
Total Bonds and Notes Payable	10,098,972	1,139,961	745,817	10,493,116	816,267
Other Liabilities:					
Other postemployment benefits obligation	55,626		3,664	51,962	
Compensated Absences	169,727	10,674		180,401	98,790
Governmental Activities					
Long-term Liabilities	10,324,325	1,150,635	749,481	10,725,479	915,057
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General Obligation Revenue Bonds:					
2001 PFA Loan	3,325,000		433,000	2,892,000	446,000
2011 PFA Loan	886,000		45,000	841,000	46,000
General Obligation Special Assessment Bonds:					
2008B GO PIR Fund and Refunding	385,276		32,582	352,694	32,575
2008C GO PIR Fund Note	69,596		6,299	63,297	6,240
2011A GO Refunding Bond	595,000		85,000	510,000	85,000
2012A GO Street Reconstruction and Utility	643,215		66,365	576,850	68,918
2015A GO Crossover Refunding Bonds		1,486,069		1,486,069	
Plus: Unamortized premiums	5,382	64,972	10,381	59,973	
Less: Unamortized discount	(3,224)		(461)	(2,763)	
Other Liabilities:					
Other postemployment benefits obligation	41,612		2,660	38,952	
Compensated Absences	144,127		29,836	114,291	73,286
Business-type Activities					
Long-term Liabilities	6,091,984	1,551,041	710,662	6,932,363	758,019
Total	\$ 16,416,309	\$ 2,701,676	\$ 1,460,143	\$ 17,657,842	\$ 1,673,076

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 (GERF) – All full-time and certain part-time employees of the City of Chatfield, Minnesota are covered by the General Employees Retirement Fund (GERF). GERF 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 (PEPFF) – The PEPFF, 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 PEPFF 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% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% 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. GERS Benefits

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% of average salary for each of the first ten years of service and 2.7% 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% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% 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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF 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. GERS Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERS for the year ended December 31, 2015, were \$126,270. 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. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City's was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$100,287. The City's contributions were equal to the required contributions as set by state Statute.

Pension Costs

1. GERS Pension Costs

At December 31, 2015, the City reported a liability of \$1,684,319 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0325% at the end of the measurement period and 0.0318% for the beginning of the period.

For the year ended December 31, 2015, the City recognized pension expense of \$232,737 for its proportionate share of the GERS's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERS'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	\$	\$ 84,918
Difference between projected and actual investment earnings	159,447	
Changes in proportion	24,662	
Contributions paid to PERA subsequent to the measurement date	63,135	
Total	<u>\$ 247,244</u>	<u>\$ 84,918</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Included in deferred outflows of resources related to pensions is \$63,135 resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Pension Expense Amount</u>
2016	\$ 19,777
2017	19,777
2018	19,776
2019	39,861

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$693,103 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was .061% at the end of the measurement period and .059% for the beginning of the period.

For the year ended December 31, 2015, the City recognized pension expense of \$123,038 for its proportionate share of the PEPFF's pension expense. The City also recognized \$5,490 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF'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	\$	\$ 112,399
Difference between projected and actual investment earnings	120,762	
Changes in proportion	18,001	
Contributions paid to PERA subsequent to the measurement date	50,144	
Total	<u>\$ 188,907</u>	<u>\$ 112,399</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Included in deferred outflows of resources related to pensions is \$50,144 resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Pension Expense Amount</u>
2016	\$ 11,311
2017	11,311
2018	11,311
2019	11,309
2020	(18,878)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% Per year
Active Member Payroll Growth	3.50% Per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic 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%

Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

<u></u>	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
City's proportionate share of the GERF net pension liability	\$ 2,648,348	\$ 1,684,319	\$ 888,179
City's proportionate share of the PEPFF net pension liability	1,350,865	693,103	149,677

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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). Since 2010, the City has been 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 \$2,000 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Plan Description (Continued)

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.

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 and the required City contribution.

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, 2014 (most current information available) the Association's funding status is as follows:

Total plan assets	\$	429,528
Total accrued liability		<u>(372,560)</u>
Excess (Deficiency) of Plan Assets over Accrued Liability	\$	<u>56,968</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 2015.

The computation of the pension contribution requirements for 2015 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.

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 2015, the City contributed \$21,215 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	2,917
Adjustment to annual required contribution	<u>(3,390)</u>
Annual OPEB cost (expense)	14,385
Contributions made	<u>(21,215)</u>
Decrease in net OPEB obligation	(6,830)
Net OPEB obligation - beginning of year	<u>97,239</u>
Net OPEB obligation - end of year	<u>\$ 90,409</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 2015, 2014 and 2013 follows:

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2015	\$ 14,385	147.5 %	\$ 90,409
12/31/2014	17,819	116.6	97,239
12/31/2013	17,729	144.2	100,196

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 \$173,485 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 9.0 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

E. Methods and Assumptions (continued)

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.

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, 2015 was twenty-seven years.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 (\$336,251,200) which is \$10,087,536. The City currently has \$3,369,000 of general obligation debt subject to this limit, leaving a debt margin of \$7,093,486 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Other Information (Continued)

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. At December 31, 2015, the City's portion of the joint venture assets is \$381,973. 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. Change in Accounting Standards

During the Year Ended December 31, 2015, the City implemented Governmental Accounting standards (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board (GASB) Statements No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Restatement of all prior periods presented is not practical, therefore the cumulative effect of applying this statement is reported as a restatement of beginning net position for the current period.

Following is a reconciliation of the previously reported December 31, 2014 balances with the amounts reported on the December 31, 2015 financial statements:

<u>Activities/Fund</u>	<u>Net Position December 31, 2014, as Previously Reported</u>	<u>Restatement for Net Pension Liability</u>	<u>Net Position December 31, 2014, as Restated</u>
Governmental Activities	\$ 15,149,178	\$ (1,023,528)	\$ 14,125,650
Business-Type Activities	\$ 17,586,345	\$ (822,123)	\$ 16,764,222
Proprietary Funds:			
Water Fund	\$ 4,745,268	\$ (115,558)	\$ 4,629,710
Wastewater Fund	7,631,054	(208,209)	7,422,845
Electric Fund	1,867,804	(335,798)	1,532,006
Stormwater Fund	2,421,886	(48,919)	2,372,967
Municipal Liquor Store Fund	510,413	(105,636)	404,777
Maple Grove Cemetery Fund	409,920	(8,003)	401,917
	<u>\$ 17,586,345</u>	<u>\$ (822,123)</u>	<u>\$ 16,764,222</u>

CITY OF KASSON, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015

CITY OF KASSON, MINNESOTA
Schedules of City Contributions
December 31, 2015

Schedule of City Contributions
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	\$ 110,893	\$ 110,893	\$	\$ 1,750,307	6.3%
2015	232,737	232,737		1,968,917	11.8%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of City 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	\$ 68,257	\$ 68,257	\$	\$ 540,749	12.6%
2015	123,038	123,038		585,647	21.0%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF KASSON, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2015

Schedule of Proportionate Share of Net Pension Liability
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	\$ 1,750,307	85%	78.7%
2015	0.0325%	1,684,319	1,968,917	86%	78.2%
2016					
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	\$ 540,749	118%	87.1%
2015	0.061%	693,103	585,647	118%	86.6%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF KASSON, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2015

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, 2015

CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2015

	Special Revenue					
	211 Library	225 EDA Financial Assistance	236 Southridge Townhomes TIF 1-9	222 Erdman/Mayo TIF 1-2	247 2004 Assisted Living TIF	248 Downtown TIF
ASSETS						
Cash and investments	\$ 184,803	\$ 132,569	\$	\$	\$	\$ 616
Accounts receivable	235	51				
Interest receivable						
Notes receivable		171,008				
Due from other governmental units						
Prepaid expenses	1,962					
Special assessments receivable		35,125				
Due from other funds						
TOTAL ASSETS	<u>\$ 187,000</u>	<u>\$ 338,753</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 616</u>
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 2,741	\$	\$	\$	\$	\$
Contracts payable						
Accrued salaries	2,457					
Due to other funds						70,818
Total Liabilities	<u>5,198</u>					<u>70,818</u>
Deferred Inflows of Resources:						
Unavailable revenue:						
Special assessments		35,125				
Total Deferred Inflows of Resources		<u>35,125</u>				
Fund Balance						
Nonspendable:						
Prepaid items	1,962					
Restricted:						
Economic development		303,628				
Committed:						
Economic development						
Library Operations	179,840					
Assigned:						
Capital improvements						
Unassigned:						(70,202)
Total Fund Balance	<u>181,802</u>	<u>303,628</u>				<u>(70,202)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 187,000</u>	<u>\$ 338,753</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 616</u>

Capital Projects

249 Oppidan Folkestad TIF	290 Economic Development	210 Stabilization/ Cap Projects Reserve	416 Library Building	421 Oppidan Folkestad TIF	401 Permanent Improvement Revolving	418 Fire Truck & Equipment	422 Fourth Street	Total Nonmajor Governmental Funds
\$ 2	\$ 8,000 5,227	\$ 321,413	\$ 1,093,705 2,234	\$ 433,708 562	\$ 898,166 43,079 3,420	\$	\$	\$ 3,072,982 48,592 6,216 171,008 15,862 2,045 612,955 71,818
	83 71,818	13,564			2,298 577,830			
<u>\$ 2</u>	<u>\$ 85,128</u>	<u>\$ 334,977</u>	<u>\$ 1,095,939</u>	<u>\$ 434,270</u>	<u>\$ 1,524,793</u>	<u>\$</u>	<u>\$</u>	<u>4,001,478</u>
\$	\$ 2,003 586 1,000	\$	\$ 7,649 80,172	\$ 18	\$	\$	\$ 30,679 40,672	\$ 43,090 80,172 3,043 112,490
1,000	2,589		87,821	18			71,351	238,795
					577,830 577,830			612,955 612,955
	83 82,456							2,045 303,628 82,456 179,840
(998)		334,977	1,008,118	434,252	946,963			2,724,310 (142,551)
(998)	82,539	334,977	1,008,118	434,252	946,963		(71,351) (71,351)	3,149,728
<u>\$ 2</u>	<u>\$ 85,128</u>	<u>\$ 334,977</u>	<u>\$ 1,095,939</u>	<u>\$ 434,270</u>	<u>\$ 1,524,793</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,001,478</u>

CITY OF KASSON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	Special Revenue					
	211 Library	225 EDA Financial Assistance	236 Southridge Townhomes TIF 1-9	222 Erdman/Mayo TIF 1-2	247 2004 Assisted Living TIF	248 Downtown TIF
REVENUES						
Property tax collected	\$ 239,508					
Special assessments		7,698				
Tax increments			9,803	48,136	70,488	
Fines and forfeits	3,314					
Intergovernmental	56,673					
Charges for services	1,143					
Investment income	11	6,604		2		
Contributions						
Miscellaneous	1,793					
TOTAL REVENUES	302,442	14,302	9,803	48,138	70,488	
EXPENDITURES						
Current:						
General government						
Culture and recreation	285,561					
TIF/economic development			14,999	82,102	70,488	523
Public works						
Debt service						
Interest and fiscal charges						2,229
Capital outlay						
Culture and recreation	3,127					
TIF/economic development						
Public safety						
TOTAL EXPENDITURES	288,688		14,999	82,102	70,488	2,752
Excess (deficiency) of revenues over (under) expenditures	13,754	14,302	(5,196)	(33,964)		(2,752)
OTHER FINANCING SOURCES (USES)						
Transfer in						
Transfer out						
TOTAL OTHER FINANCING SOURCES (USES)						
Net change in fund balances	13,754	14,302	(5,196)	(33,964)		(2,752)
FUND BALANCES, beginning	168,048	289,326	5,196	33,964		(67,450)
FUND BALANCES, ending	\$ 181,802	\$ 303,628	\$	\$		\$ (70,202)

Capital Projects

249 Oppidan Folkestad TIF	290 Economic Development	210 Stabilization/ Cap Projects Reserve	416 Library Building	421 Oppidan Folkestad TIF	401 Permanent Improvement Revolving	418 Fire Truck & Equipment	422 Fourth Street	Total Nonmajor Governmental Funds
\$	\$ 72,763	\$	\$	\$	\$ 20,715 201,963	\$	\$	\$ 332,986 209,661 128,427 3,314 59,271 1,143 112,834 89,539 29,307
	2,598							
	2,229		25,743 89,539	11,237	67,008			
		27,514						
	77,590	27,514	115,282	11,237	289,686			966,482
								285,561 242,534 4,575 2,229
	74,422			4,575				
998			559,807	7,577	261,648			562,934 270,223 54,454
						2,621	51,833	
998	74,422		559,807	12,152	261,648	2,621	51,833	1,422,510
(998)	3,168	27,514	(444,525)	(915)	28,038	(2,621)	(51,833)	(456,028)
		205,437 (85,000)	85,000			(28)		290,437 (85,028)
		120,437	85,000			(28)		205,409
(998)	3,168	147,951	(359,525)	(915)	28,038	(2,649)	(51,833)	(250,619)
	79,371	187,026	1,367,643	435,167	918,925	2,649	(19,518)	3,400,347
<u>\$ (998)</u>	<u>\$ 82,539</u>	<u>\$ 334,977</u>	<u>\$ 1,008,118</u>	<u>\$ 434,252</u>	<u>\$ 946,963</u>	<u>\$</u>	<u>\$ (71,351)</u>	<u>\$ 3,149,728</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, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 239,508	\$ 239,508	\$ 239,508	\$	\$ 194,914
Intergovernmental revenues	56,560	56,560	56,673	113	50,770
Library fines	5,000	5,000	3,314	(1,686)	3,775
Investment income	150	150	11	(139)	20
Miscellaneous	2,200	2,200	2,936	736	3,598
TOTAL REVENUES	303,418	303,418	302,442	(976)	253,077
EXPENDITURES					
Library					
Salaries	187,583	187,583	184,174	3,409	175,050
Employee benefits and retirement	28,400	28,400	27,948	452	25,473
Workers compensation	1,000	1,000	1,476	(476)	1,015
Health insurance	30,091	30,091	27,877	2,214	24,474
Operating supplies/small tools	20,500	20,500	18,732	1,768	13,147
Insurance	2,000	2,000	1,992	8	2,277
Telephone	1,200	1,200	914	286	1,017
Professional fees	14,200	14,200	12,095	2,105	11,057
Capital outlay	2,500	2,500	3,127	(627)	789
Other	15,944	15,944	10,354	5,590	12,989
TOTAL EXPENDITURES	303,418	303,418	288,689	14,729	267,288
Excess (deficiency) of revenues over (under) expenditures			13,753	13,753	(14,211)
OTHER FINANCING SOURCES (USES)					
Transfers in					50,000
Transfers out					(250,000)
Net change in fund balances			13,753	13,753	(214,211)
FUND BALANCES, beginning	168,048	168,048	168,048		382,259
FUND BALANCES, ending	\$ 168,048	\$ 168,048	\$ 181,801	\$ 13,753	\$ 168,048

CITY OF KASSON, MINNESOTA
EDA FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 70,062	\$ 70,062	\$ 72,763	\$ 2,701	\$ 64,155
Investment Income	2,000	2,000	2,229	229	2,103
Intergovernmental			2,598	2,598	317,512
TOTAL REVENUES	72,062	72,062	77,590	5,528	383,770
EXPENDITURES					
Economic development					
Personal services	48,662	48,662	55,130	(6,468)	46,390
Supplies	400	400	355	45	522
Other services and charges	18,000	18,000	18,308	(308)	235,044
Capital outlay	5,000	5,000	629	4,371	66,207
TOTAL EXPENDITURES	72,062	72,062	74,422	(2,360)	348,163
Excess (deficiency) of revenues over (under) expenditures			3,168	3,168	35,607
OTHER FINANCING SOURCES (USES)					
Transfers in					83,286
Net change in fund balances			3,168	3,168	118,893
FUND BALANCES, beginning	79,371	79,371	79,371		(39,522)
FUND BALANCES, ending	\$ 79,371	\$ 79,371	\$ 82,539	\$ 3,168	\$ 79,371

**CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
December 31, 2015**

	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	\$ 160,851	\$ 23,430	\$ 74,970	\$ 80,435	\$ 105,249
Restricted cash	199,172	256		17,457	
Interest receivable	218	16,740			196
Advances to other funds		1,240,000			
Due from other governmental units					165
Special assessments receivable	58,088			257,542	8,188
TOTAL ASSETS	\$ 418,329	\$ 1,280,426	\$ 74,970	\$ 355,434	\$ 113,798
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Deferred Inflows of Resources:					
Unavailable revenue:					
Special assessments	58,088			257,542	8,189
Total Deferred Inflows of Resources	58,088			257,542	8,189
Fund Balance					
Restricted:					
Debt service	360,241	1,280,426	74,970	97,892	105,609
Total Fund Balance	360,241	1,280,426	74,970	97,892	105,609
TOTAL LIABILITIES AND FUND BALANCE	\$ 418,329	\$ 1,280,426	\$ 74,970	\$ 355,434	\$ 113,798

Debt Service

385	386	389	391	392	Total
Aquatic Center Bonds of 2013A	Fire Truck and Equipment	Oppidan Assessment	Oppidan Folkestad TIF	G.O. Crossover Refunding Bonds of 2015A	Debt Service Funds
\$ 269,948	\$ 105,002	\$ 32,779	\$ 58,436	\$ 1,155,882	\$ 911,100
					1,372,767
					17,154
					1,240,000
					165
		408,700			732,518
<u>\$ 269,948</u>	<u>\$ 105,002</u>	<u>\$ 441,479</u>	<u>\$ 58,436</u>	<u>\$ 1,155,882</u>	<u>\$ 4,273,704</u>
		408,700			732,519
		408,700			732,519
269,948	105,002	32,779	58,436	1,155,882	3,541,185
<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>\$ 269,948</u>	<u>\$ 105,002</u>	<u>\$ 441,479</u>	<u>\$ 58,436</u>	<u>\$ 1,155,882</u>	<u>\$ 4,273,704</u>

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

For the Year Ended December 31, 2015

	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	\$ 95,000	\$	\$	\$ 10,000	\$ 123,076
Special assessments	18,160			50,078	4,661
Investment income	5,165	50,998	8	6	410
Miscellaneous					
TOTAL REVENUES	118,325	50,998	8	60,084	128,147
EXPENDITURES					
Current:					
Debt service					
Principal	112,419	115,000	63,635	28,760	165,000
Interest and fiscal charges	53,549	52,293	8,066	15,353	13,343
TOTAL EXPENDITURES	165,968	167,293	71,701	44,113	178,343
Excess (deficiency) of revenues over (under) expenditures	(47,643)	(116,295)	(71,693)	15,971	(50,196)
OTHER FINANCING SOURCES (USES)					
Transfer in					79,270
Debt issued					
Premium on bonds issued					
TOTAL OTHER FINANCING SOURCES (USES)					79,270
Net change in fund balances	(47,643)	(116,295)	(71,693)	15,971	29,074
FUND BALANCES, beginning	407,884	1,396,721	146,663	81,921	76,535
FUND BALANCES, ending	\$ 360,241	\$ 1,280,426	\$ 74,970	\$ 97,892	\$ 105,609

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	\$ 114,293	\$ 21,300 17,673	\$ 64,111	\$	\$ 648,655 90,572 56,587 16,188
			16,188		
<u>220,875</u>	<u>114,293</u>	<u>38,973</u>	<u>80,299</u>		<u>812,002</u>
170,000	91,000		1,647		747,461
46,710	32,319	14,333	89,504	15,843	341,313
<u>216,710</u>	<u>123,319</u>	<u>14,333</u>	<u>91,151</u>	<u>15,843</u>	<u>1,088,774</u>
4,165	(9,026)	24,640	(10,852)	(15,843)	(276,772)
	28				79,298
				1,133,931 37,794	1,133,931 37,794
	28			1,171,725	1,251,023
4,165	(8,998)	24,640	(10,852)	1,155,882	974,251
<u>265,783</u>	<u>114,000</u>	<u>8,139</u>	<u>69,288</u>		<u>2,566,934</u>
<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>

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

For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 1,560,047	\$ 1,560,047	\$ 1,623,784	\$ 63,737	\$ 1,499,933
Franchise taxes	65,000	65,000	63,470	(1,530)	65,750
Special Assessments			518	518	455
Licenses and Permits					
Business	13,500	13,500	13,245	(255)	13,255
Nonbusiness	21,300	21,300	71,321	50,021	44,790
Total Licenses and Permits	34,800	34,800	84,566	49,766	58,045
Intergovernmental					
Local government aid	1,008,140	1,008,140	1,008,140		982,348
Fire relief aid	37,200	37,200	40,144	2,944	38,284
Police aid	60,000	60,000	63,805	3,805	60,928
Highway aid	8,640	8,640	8,580	(60)	8,640
Other aid	11,937	11,937	32,060	20,123	12,117
Total State Aid	1,125,917	1,125,917	1,152,729	26,812	1,102,317
School					
Other School aid	42,000	42,000	50,492	8,492	43,441
Total County	42,000	42,000	50,492	8,492	43,441
Total Intergovernmental	1,167,917	1,167,917	1,203,221	35,304	1,145,758
Charges for Service					
General government	17,300	17,300	35,580	18,280	28,422
Public safety	50,600	50,600	53,763	3,163	57,350
Culture and recreation	219,500	219,500	258,204	38,704	253,773
Total Charges for Service	287,400	287,400	347,547	60,147	339,545
Fines and Forfeits	15,500	15,500	19,952	4,452	13,373
Investment Earnings	10,500	10,500	15,339	4,839	13,200
Miscellaneous					
Rents and leases	2,000	2,000	2,862	862	3,693
Refunds and reimbursements	14,000	14,000	18,478	4,478	92,643
Contributions and donations			9,002	9,002	7,781
Total Miscellaneous	16,000	16,000	30,342	14,342	104,117
TOTAL REVENUES	\$ 3,157,164	\$ 3,157,164	\$ 3,388,739	\$ 231,575	\$ 3,240,176

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

For the Year Ended December 31, 2015

With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Personal services	\$ 42,935	\$ 42,935	\$ 44,268	\$ (1,333)	\$ 34,862
Other services and charges	38,000	38,000	26,445	11,555	22,714
Total Mayor and Council	<u>80,935</u>	<u>80,935</u>	<u>70,713</u>	<u>10,222</u>	<u>57,576</u>
Ordinances and Proceedings					
Other services and charges	<u>2,000</u>	<u>2,000</u>	<u>6,187</u>	<u>(4,187)</u>	<u>1,345</u>
City Clerk					
Personal services	155,121	155,121	165,208	(10,087)	145,788
Supplies	8,820	8,820	5,875	2,945	12,302
Other services and charges	<u>26,530</u>	<u>26,530</u>	<u>20,481</u>	<u>6,049</u>	<u>25,645</u>
Total City Clerk's	<u>190,471</u>	<u>190,471</u>	<u>191,564</u>	<u>(1,093)</u>	<u>183,735</u>
Elections and Voter Registration					
Personal services	4,090	4,090	4,278	(188)	14,642
Other services and charges	<u>1,175</u>	<u>1,175</u>	<u>1,175</u>	<u>1,175</u>	<u>2,109</u>
Total Elections and Voter Registration	<u>5,265</u>	<u>5,265</u>	<u>4,278</u>	<u>987</u>	<u>16,751</u>
Assessor					
Other services and charges	<u>28,300</u>	<u>28,300</u>	<u>27,619</u>	<u>681</u>	<u>26,792</u>
Accounting					
Other services and charges	<u>6,400</u>	<u>6,400</u>	<u>4,994</u>	<u>1,406</u>	<u>7,487</u>
Legal					
Other services and charges	<u>63,000</u>	<u>63,000</u>	<u>86,118</u>	<u>(23,118)</u>	<u>53,073</u>
Planning and Zoning					
Personal services	45,538	45,538	45,416	122	44,074
Supplies	750	750	419	331	989
Other services and charges	<u>15,600</u>	<u>15,600</u>	<u>14,427</u>	<u>1,173</u>	<u>19,523</u>
Total Planning and Zoning	<u>61,888</u>	<u>61,888</u>	<u>60,262</u>	<u>1,626</u>	<u>64,586</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, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	2014 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Data Processing					
Other services and charges	\$ 6,950	\$ 6,950	\$ 2,913	\$ 4,037	\$ 2,983
General Government Buildings					
Personal services	11,697	11,697	8,453	3,244	9,838
Supplies	1,525	1,525	136	1,389	92
Other services and charges	26,700	26,700	12,531	14,169	9,757
Total General Governmental Buildings	39,922	39,922	21,120	18,802	19,687
Total General Government	485,131	485,131	475,768	9,363	434,015
Public Safety					
Police					
Personal services	820,947	820,947	858,899	(37,952)	811,361
Supplies	34,500	34,500	23,231	11,269	46,272
Other services and charges	76,977	76,977	71,837	5,140	75,851
Total Police	932,424	932,424	953,967	(21,543)	933,484
Fire					
Personal services	68,900	68,900	59,507	9,393	55,480
Supplies	30,400	30,400	51,087	(20,687)	15,115
Other services and charges	85,800	85,800	77,919	7,881	99,815
Total Fire	185,100	185,100	188,513	(3,413)	170,410
Building inspection					
Other services and charges	30,900	30,900	51,522	(20,622)	40,831

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Animal Control					
Other services and charges	\$ 3,000	\$ 3,000	\$ 2,278	\$ 722	\$ 1,801
Total Animal Control	3,000	3,000	2,278	722	1,801
Total Public Safety	1,151,424	1,151,424	1,196,280	(44,856)	1,146,526
Public Works					
Street and Alleys					
Personal services	182,020	182,020	182,157	(137)	148,041
Supplies	32,000	32,000	30,415	1,585	35,358
Other services and charges	114,760	114,760	34,934	79,826	34,551
Total Streets and Alleys	328,780	328,780	247,506	81,274	217,950
Engineer					
Other services and charges	13,000	13,000	14,329	(1,329)	7,976
Snow and Ice Removal					
Personal services	16,568	16,568	17,520	(952)	27,537
Supplies	25,500	25,500	22,197	3,303	26,266
Other services and charges	14,050	14,050	6,119	7,931	13,658
Total Snow and Ice Removal	56,118	56,118	45,836	10,282	67,461
Street Lighting					
Other services and charges	19,000	19,000	19,845	(845)	18,580
Sidewalks					
Other services and charges	50,000	50,000	39,450	10,550	48,546
Sanitation					
Waste collection and disposal					
Other services and charges	9,000	9,000	9,262	(262)	9,766
Total Public Works	475,898	475,898	376,228	99,670	370,279

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

For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Health and Welfare					
Supplies	\$ 2,000	\$ 2,000	\$ 100	\$ 1,900	\$
Other services and charges	17,960	17,960	14,258	3,702	10,156
Total Health and Welfare	19,960	19,960	14,358	5,602	10,156
Culture and Recreation					
Parks and Recreation					
Personal services	100	100	3,897	(3,797)	6,099
Supplies	500	500	147	353	252
Other services and charges	8,124	8,124	6,696	1,428	8,575
Total Parks and Recreation	8,724	8,724	10,740	(2,016)	14,926
Playgrounds					
Supplies	5,700	5,700	4,616	1,084	7,454
Swimming Pool					
Personal services	171,142	171,142	155,409	15,733	171,468
Supplies	56,000	56,000	55,778	222	56,596
Other services and charges	66,360	66,360	39,363	26,997	56,937
Total Swimming Pool	293,502	293,502	250,550	42,952	285,001
Municipal Parks					
Personal services	251,364	251,364	233,404	17,960	180,305
Supplies	25,000	25,000	26,870	(1,870)	24,594
Other services and charges	36,550	36,550	22,794	13,756	37,972
Total Municipal Parks	312,914	312,914	283,068	29,846	242,871
Water Tower					
Other services and charges	1,500	1,500	3,586	(2,086)	937
Dodge County Arena					
Other services and charges	21,256	21,256	7,464	13,792	21,282
Other Recreational Facilities					
Personal services	1,200	1,200	3,304	(2,104)	3,711
Supplies	10,350	10,350	13,239	(2,889)	9,388
Other services and charges	43,175	43,175	25,948	17,227	29,212
Total Recreational Facilities	54,725	54,725	42,491	12,234	42,311
Forestry and Nursery					
Supplies	4,250	4,250	362	3,888	477
Other services and charges	9,125	9,125	9,340	(215)	9,084
Total Forestry and Nursery	13,375	13,375	9,702	3,673	9,561
Total Culture and Recreation	711,696	711,696	612,217	99,479	624,343

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Miscellaneous					
Other services and charges	\$ 119,255	\$ 119,255	\$ 69,284	\$ 49,971	\$ 34,894
Total Current Expenditures	<u>2,963,364</u>	<u>2,963,364</u>	<u>2,744,135</u>	<u>219,229</u>	<u>2,620,213</u>
Capital Outlay					
General government	27,000	27,000	11,920	15,080	16,286
Public safety					38,468
Public works	70,500	70,500	52,601	17,899	71,549
Culture and recreation	58,500	58,500	22,998	35,502	262,714
Total Capital Outlay	<u>156,000</u>	<u>156,000</u>	<u>87,519</u>	<u>68,481</u>	<u>389,017</u>
TOTAL EXPENDITURES	<u>3,119,364</u>	<u>3,119,364</u>	<u>2,831,654</u>	<u>287,710</u>	<u>3,009,230</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>37,800</u>	<u>37,800</u>	<u>557,085</u>	<u>519,285</u>	<u>230,946</u>
OTHER FINANCING SOURCES (USES)					
Sale of assets			354	354	245,109
Transfers in	39,000	39,000	39,000		52,382
Transfers out	(52,650)	(52,650)	(258,087)	(205,437)	(320,597)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(13,650)</u>	<u>(13,650)</u>	<u>(218,733)</u>	<u>(205,083)</u>	<u>(23,106)</u>
NET CHANGE IN FUND BALANCES	24,150	24,150	338,352	314,202	207,840
FUND BALANCES, JANUARY 1	<u>1,073,754</u>	<u>1,073,754</u>	<u>1,073,754</u>		<u>865,914</u>
FUND BALANCES, DECEMBER 31	<u>\$ 1,097,904</u>	<u>\$ 1,097,904</u>	<u>\$ 1,412,106</u>	<u>\$ 314,202</u>	<u>\$ 1,073,754</u>

CITY OF KASSON, MINNESOTA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
December 31, 2015

FESTIVAL IN PARK (877)

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
ASSETS				
Cash and investments	\$ 7,138	\$ 52,096	\$ 56,191	\$ 3,043
LIABILITIES				
Accounts payable	\$ 7,138	\$ 52,096	\$ 56,191	\$ 3,043

ARENA (606)

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
ASSETS				
Cash and investments	\$ (29,891)	\$ 277,012	\$ 264,644	\$ (17,523)
Accounts receivable	26,945	29,413	26,945	29,413
Due from other governmental units	21,084	1,236	21,084	1,236
Inventory	555	518	555	518
Prepaid items	1,047	1,103	1,045	1,105
TOTAL ASSETS	\$ 19,740	\$ 309,282	\$ 314,273	\$ 14,749
LIABILITIES				
Accounts payable	\$ 7,566	\$ 7,338	\$ 7,566	\$ 7,338
Accrued wages payable	11,421	6,962	11,421	6,962
Due to other governments	753	449	753	449
TOTAL LIABILITIES	\$ 19,740	\$ 14,749	\$ 19,740	\$ 14,749

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2016.

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.

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

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, Schaffer and Associates, Ltd.

Rochester, Minnesota
April 4, 2016