

CITY OF KENYON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CITY OF KENYON, MINNESOTA

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CITY OF KENYON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2013

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**CITY OF KENYON, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
CITY OFFICIALS**

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Engel	Mayor	12/31/2014
Fred Barsness	Council Member	12/31/2014
Bryan Haugen	Council Member	12/31/2014
Richard Nielsen	Council Member	12/31/2016
Russ Thurmes	Council Member	12/31/2016

CITY OFFICIAL - APPOINTED

Mark Vahlsing	City Administrator
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PUBLIC UTILITIES COMMISSION - APPOINTED

Scott Swenhaugen	Chairperson	12/31/2013
David Claxton	Commissioner	12/31/2015
Richard Nielsen	Commissioner	12/31/2014

PUBLIC UTILITIES COMMISSION ADMINISTRATION - APPOINTED

Randy Eggert	Operations Superintendent
Susan Dodds	Bookkeeper

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CITY OF KENYON, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Kenyon, 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 Kenyon, Minnesota, as of and for the year ended December 31, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 Kenyon, Minnesota as of December 31, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12 to the financial statements, in 2013, the City of Kenyon, Minnesota adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is 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 on pages 4 through 13 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 of Kenyon, Minnesota's financial statement for the year ended December 31, 2012, from which such partial information was derived.

We have previously audited the City of Kenyon, Minnesota's 2012 financial statements and our report, dated February 22, 2013, 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, 2012, 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 Kenyon, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, 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.

Honorable Mayor and Members
of the City Council
Page 3

Other Information (continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, on our consideration of the City of Kenyon, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kenyon, Minnesota's internal control over financial reporting and compliance.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
February 24, 2014

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CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kenyon, we offer readers of the City of Kenyon's financial statements this narrative overview and analysis of the financial activities of the City of Kenyon for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the entire audit report.

New Accounting Pronouncement. As described in Note 12 to the financial statements, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. This Statement established accounting and financial reporting standards that retroactively reclassify, as deferred inflows of resources, certain items previously reported as liabilities. In addition, debt issuance costs are no longer reported in the Statement of Net Position under the new Standard.

FINANCIAL HIGHLIGHTS

- The total net position at December 31, 2013 (assets exceeding liabilities) for the City of Kenyon was \$13,614,007. Of this amount, \$4,792,478 (unrestricted net position) may be used to meet the city's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City of Kenyon's governmental funds reported combined ending fund balances of \$1,623,148, of which 40 percent is available for use within the City's designations.
- At the end of the fiscal year, unassigned fund balance of the general fund was \$723,910, or 59 percent of total general fund expenditures compared to 62 percent in 2012.
- The City of Kenyon increased its existing debt principal by \$945,604 during the current fiscal year, leaving a remaining balance of \$2,349,604.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net position presents all information on all of the City of Kenyon'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 Kenyon 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 event changing the asset or liability occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. This may include uncollected taxes and other revenue or expenses that are appropriated for the current year even though cash is not received or expended until the following year.

The government-wide financial statements distinguish between functions of the City of Kenyon 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 cost through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, sanitation and recycling, culture and recreation, and economic development. The business-type activities include water, sewer, electric, liquor, and storm sewer.

CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements include the City of Kenyon itself (known as the primary government), as well as a legally separate economic development authority, which is reported as a governmental activity. The Economic Development Authority, although legally separate, functions for all practical purposes as a department of the City of Kenyon, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 14-16 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 Kenyon, 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 Kenyon can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's 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 the comparison between governmental funds and governmental activities.

The City of Kenyon maintains 10 individual governmental funds, including two major funds, General and Capital Outlay. The other eight governmental funds include: Fire, Library, Economic Development Authority, Police Forfeiture, Special Purpose Donations, 2004 Tax Abatement/Tax Increment Financing Sunset Home, Trondheim Road Extension, and 2007 GO Refunding Bonds Debt Service.

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 and Capital Outlay funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

The City of Kenyon adopts an annual appropriated budget for its general, and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with these budgets.

The basic governmental funds financial statements can be found on pages 17-18 of this report.

Proprietary Funds. The only type of proprietary fund the City of Kenyon maintains is Enterprise. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Kenyon uses enterprise funds to account for its water, sewer, electric, liquor, and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 25-30 of this report.

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

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 31-51 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented herewith. Combining and individual financial statements and schedules can be found on pages 52-57.

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a city's financial position. In the case of the City of Kenyon, assets exceeded liabilities by \$13,614,007 at the close of the fiscal year, with \$5,423,097 of this net position from governmental activities and \$8,190,910 from proprietary funds.

Of the net position \$8,659,155 or 64 percent is attributed to its investment in capital assets (e.g. land, buildings, streets, vehicles, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Kenyon uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City of Kenyon's investment in its capital assets is reported net of related debt, it should be noted that 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 Kenyon's Net Position

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,877,046	\$ 1,671,132	\$ 3,473,628	\$ 3,072,038	\$ 5,350,674	\$ 4,743,170
Capital assets	4,286,444	4,397,067	6,710,312	5,858,486	10,996,756	10,255,553
Total assets	<u>\$ 6,163,490</u>	<u>\$ 6,068,199</u>	<u>\$10,183,940</u>	<u>\$ 8,930,524</u>	<u>\$16,347,430</u>	<u>\$14,998,723</u>
Long-term liabilities outstanding	\$ 651,772	\$ 744,799	\$ 1,685,829	\$ 645,225	\$ 2,337,601	\$ 1,390,024
Other liabilities	88,621	112,680	307,201	281,336	395,822	394,016
Total liabilities	<u>740,393</u>	<u>857,479</u>	<u>1,993,030</u>	<u>926,561</u>	<u>2,733,423</u>	<u>1,784,040</u>
Net position:						
Net investment in capital assets	3,634,672	3,652,268	5,024,483	5,094,761	8,659,155	8,747,029
Restricted	110,088	138,228	52,286		162,374	138,228
Unrestricted	1,678,337	1,420,224	3,114,141	2,909,202	4,792,478	4,329,426
Total Net Position	<u>5,423,097</u>	<u>5,210,720</u>	<u>8,190,910</u>	<u>8,003,963</u>	<u>13,614,007</u>	<u>13,214,683</u>
Total Liabilities & Net Position	<u>\$ 6,163,490</u>	<u>\$ 6,068,199</u>	<u>\$10,183,940</u>	<u>\$ 8,930,524</u>	<u>\$16,347,430</u>	<u>\$14,998,723</u>

A portion of the City of Kenyon's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens.

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

Governmental Activities. Governmental activities account for 40 percent of the City of Kenyon's net position.

The total increase in net position for governmental activities is \$212,377 for the year ended December 31, 2013. The total revenues for governmental activities amounted to \$1,857,241 while total expenses were \$1,712,537 and transfers in were \$67,673, which is illustrated in the statement below.

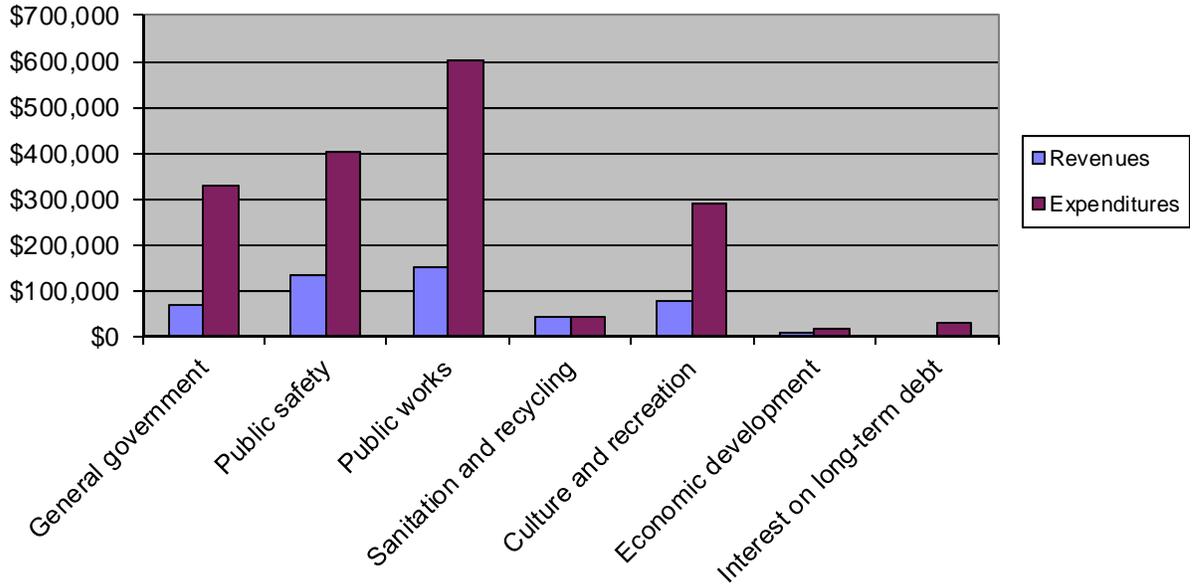
City of Kenyon's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 196,221	\$ 177,546	\$ 3,237,637	\$ 2,976,793	\$ 3,433,858	\$ 3,154,339
Operating grants & contributions	140,724	130,656			140,724	130,656
Capital grants & contributions	152,286	34,795	49,080	21,407	201,366	56,202
General revenues:						
General property taxes	736,866	661,547			736,866	661,547
Tax increments	19,650	18,284			19,650	18,284
Intergovernmental revenue	469,158	469,207	886	886	470,044	470,093
Interest earnings	16,879	23,960	19,800	22,498	36,679	46,458
Miscellaneous	9,798	5,255	26,844	48,444	36,642	53,699
Gain on sale of capital assets	115,659	14,242			115,659	14,242
Total revenues	1,857,241	1,535,492	3,334,247	3,070,028	5,191,488	4,605,520
Expenses:						
General government	329,417	308,576			329,417	308,576
Public safety	400,982	404,276			400,982	404,276
Public works	601,780	379,416			601,780	379,416
Sanitation and recycling	43,600	44,327			43,600	44,327
Culture and recreation	289,253	267,263			289,253	267,263
Economic development	17,832	35,492			17,832	35,492
Interest on long-term debt	29,673	35,549			29,673	35,549
Water			232,643	229,372	232,643	229,372
Sewer			319,795	296,964	319,795	296,964
Electric			1,833,802	1,739,213	1,833,802	1,739,213
Liquor			665,467	637,971	665,467	637,971
Storm sewer			27,920	28,082	27,920	28,082
Total expenses	1,712,537	1,474,899	3,079,627	2,931,602	4,792,164	4,406,501
Increase in net position before transfers and other items	144,704	60,593	254,620	138,426	399,324	199,019
Transfers	67,673	92,078	(67,673)	(92,078)		
Change in net position	212,377	152,671	186,947	46,348	399,324	199,019
Net Position as Restated – January	5,210,720	5,058,049	8,003,963	7,957,615	13,214,683	13,015,664
Net Position – December 31	\$ 5,423,097	\$ 5,210,720	\$ 8,190,910	\$ 8,003,963	\$ 13,614,007	\$ 13,214,683

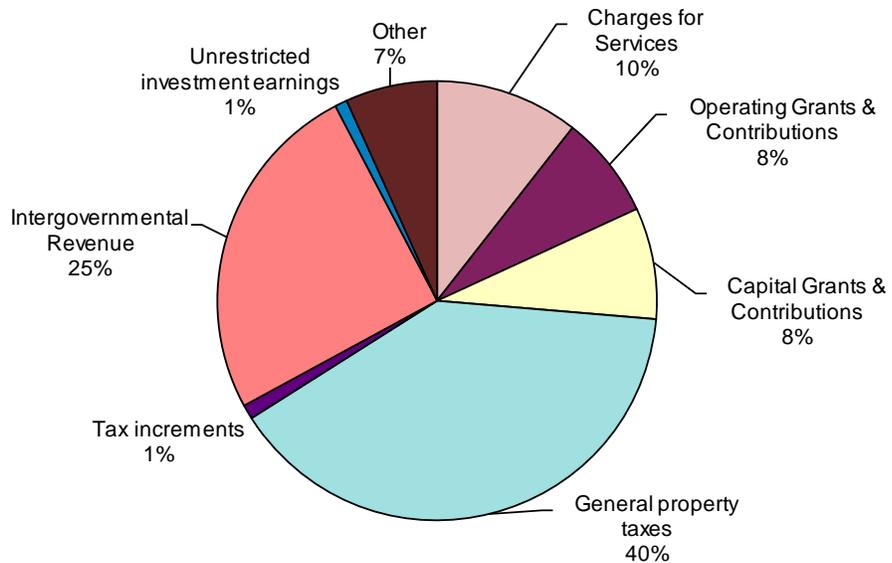
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs show 2013 expenses and program revenues government activities.

Expenditures and Program Revenues-Governmental Activities



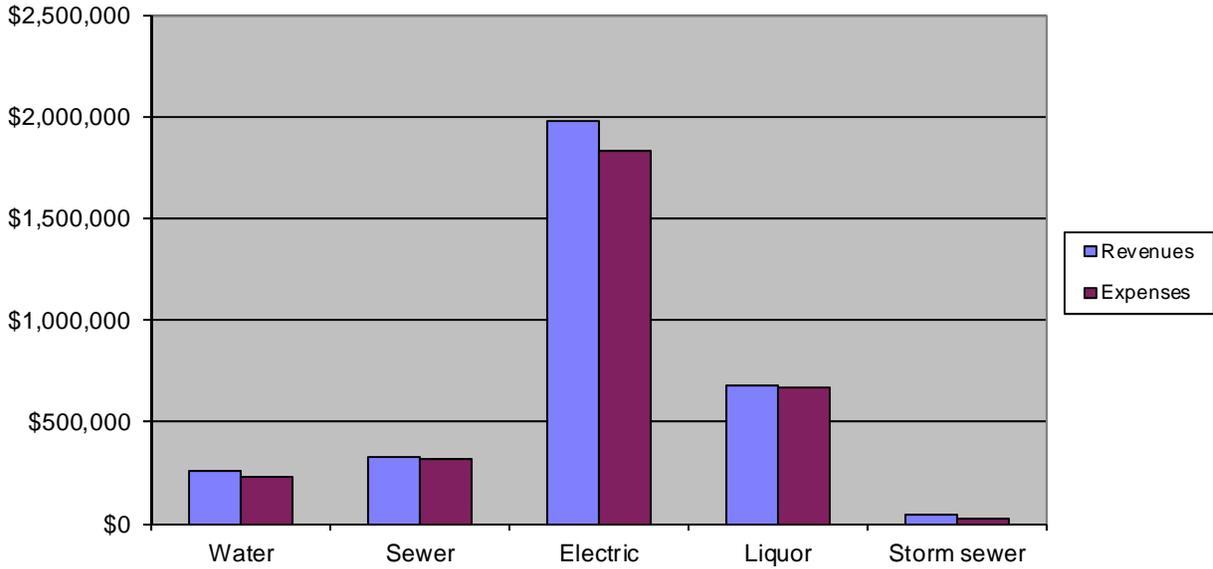
Government Activities Revenues



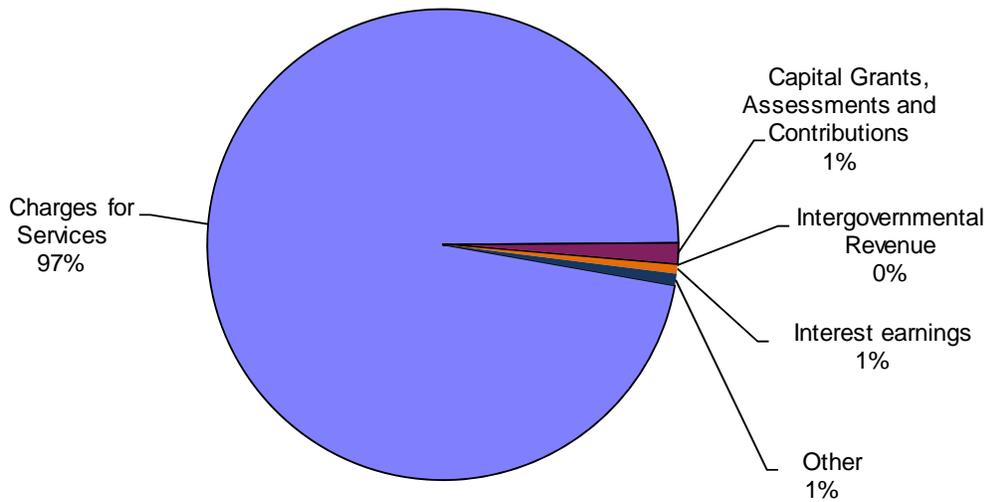
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business-type activities. Business-type activities increased the City of Kenyon net position \$186,947 for the year ended December 31, 2013. Business-type activities revenues and expenses are illustrated in the charts below.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Revenue



CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Kenyon's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kenyon'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.

GASB (Governmental Accounting Standards Board) Statement 54 requires fund balances to be classified as follows:

Nonspendable – Amounts that are not in spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. The City's special purpose donation fund is considered restricted.

Committed – These amounts are constrained for specific purposes. Formal council action (resolution) is required to classify amounts into the Committed category. These amounts may not be used for any other purpose unless the city council removes or changes this classification by taking the same type of action it used to previously commit those amounts.

Assigned – Amounts *intended* to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. Most special revenue fund balances including Fire, Library, EDA, and Ambulance are reported in this category. A resolution was passed which allows the City Administrator to assign fund balance amounts without the formal action of the city council.

Unassigned – This includes any funds with negative balance and general fund balances that do not meet the criteria for the other categories

Other information. Additional information regarding the committed fund balances can be found in Note 7 to Financial Statements.

At the end of the current fiscal year, the City of Kenyon's governmental funds reported combined ending fund balances of \$1,623,148, which included an unassigned fund balance of the general fund of \$723,910.

The fund balance of the City of Kenyon's general fund increased by \$134,695 during the current year. Some of the key factors in this change are as follows:

- The City budgeted \$196,000 for the old high school project expenses in 2013. This included aid that the City was anticipating from Goodhue County. In addition to lower than expected project costs and County aid of \$150,000, the City also benefited from the sale of the land. The City's portion of the cost of the project was less than \$46,000.
- Personnel expenses were over budget due to staff changes in administration and the police department.
- Other areas which were higher than anticipated included utilities, repairs and cost of fuel for vehicles.
- Miscellaneous revenue was approximately \$19,000 over budget due primarily to dividends received from the League of Minnesota Cities for worker's compensation and liability insurance premiums and donation toward school project.

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

The 2007 G.O. Refunding Bond debt service fund has a total fund balance of \$103,183, all of which is assigned for the payment of debt service with a remaining balance of \$585,000 at December 31, 2013.

Proprietary Funds. The City of Kenyon's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at year-end amounted to \$3,114,141 with a total increase in net position of \$186,947. Each of the following funds had net increases:

- Water (net increase of \$34,422) – rates were increased for these services in October 2011
- Sanitary Sewer (net increase of \$13,001) – sanitary sewer rates were also increased in October 2011
- Electric (net increase of \$105,767) - electric rates were increased in February 2013 to help recover losses incurred by rising electric costs.
- Liquor (net increase of \$19,103) – no transfer was made to the general fund for 2013. The council approved an additional \$10,000 principal payment to KMU in 2014 on the loan from the electric fund.
- Storm Sewer (net increase of \$14,654) - rates for storm sewer were increased in January 2012

Capital Asset Administration. The City of Kenyon's investment in capital assets for its governmental and business type activities as of December 31, 2013 amounts to \$10,996,756 (capital assets less accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, and infrastructure.

City of Kenyon's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,216,097	\$ 1,216,097	\$ 57,185	\$ 57,185	\$ 1,273,282	\$ 1,273,282
Building and Improvements	1,726,378	1,708,091	5,435,611	5,243,865	7,161,989	6,951,956
Infrastructure	1,312,182	1,314,135	5,460,758	5,204,802	6,772,940	6,518,937
Machinery and Equipment	2,408,843	2,397,912	615,324	561,452	3,024,167	2,959,364
Transportation Equipment			340,672	344,468	340,672	344,468
Office Furniture and Equipment			44,890	77,117	44,890	77,117
Generators			2,395,536	2,395,536	2,395,536	2,395,536
Construction in progress	13,059	7,514	886,893	149,243	899,952	156,757
Total assets	6,676,559	6,643,749	15,236,869	14,033,668	21,913,428	20,677,417
Less: Accumulated Depreciation	(2,390,115)	(2,246,682)	(8,526,557)	(8,175,182)	(10,916,672)	(10,421,864)
Net Capital Assets	\$ 4,286,444	\$ 4,397,067	\$ 6,710,312	\$ 5,858,486	\$ 10,996,756	\$ 10,255,553

More detailed information on the City of Kenyon's capital assets is presented in the Notes to the Financial Statements on page 41-42.

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

Long-Term Debt. At the end of the fiscal year, the City of Kenyon had long-term debt of \$2,349,604. Of this amount, \$585,000 for the 2007A Refunding Bond and \$78,775 for the street portion and \$112,125 for the sanitary sewer portion of the 2012A Bond will be payable primarily from general property taxes. The remaining \$384,100 of the 2012A bond combined with the sewer fund's PFA loan (\$1,069,604), the water fund's PFA loan (\$35,000) and the 2010 Minnesota Rural Water revenue note (\$85,000) are payable primarily from user fees and special assessments. In addition, those outstanding debt obligations with specific revenue sources pledged towards debt repayment are deducted from the debt limitation.

City of Kenyon's Outstanding Debt

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 663,775	\$ 758,775	\$ 496,225	\$ 496,225	\$ 1,160,000	\$ 1,255,000
General Obligation Revenue			1,189,604	149,000	1,189,604	149,000
Revenue Bonds						
Total assets	\$ 663,775	\$ 758,775	\$ 1,685,829	\$ 645,225	\$ 2,349,604	\$ 1,404,000

Additional information on the City of Kenyon's long-term debt can be found in the Notes to the Financial Statements on pages 43-45.

Factors on the City of Kenyon's Future

Potential adjustments to the 2014 expenditure budget

- Wastewater Treatment System - The City of Kenyon's wastewater treatment system upgrade project will be completed in 2014. The project should stay within the \$1,700,000 budget. Repayment will begin in 2014 of the Minnesota DEED Public Facilities Program loan.
- Kenyon Fire Station - The City of Kenyon will be reviewing options for a new or expanded Fire Department facility. Options being reviewed will include a renovation and expansion project at the current site or new construction at a different site. This project will require long-term financing, but further expenditures may be needed in 2014 to secure a site and develop final plans for this project.
- Whitetail Ridge 2nd Addition Road Paving – The City will need to address uncompleted improvements to portions of Skogen Drive, and Whitetail Drive. They will need to pursue completion of the improvements through the original developer and/or assess the cost back to the abutting properties. The cost to complete the improvements will be in the range of \$80,000-\$100,000. Smaller connection projects may be considered for 2014. Funding will need to come from fund balance reserves or capital accounts.
- Infrastructure Improvements – Though no area wide projects are planned for 2014, the City and Kenyon Municipal Utilities will continue to prioritize connection of private sewer and water mains to the City system. Smaller connection projects may be considered for 2014. Funding will need to come from fund balance reserves, capital accounts or assessments benefiting property owners.

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

Potential future revenue sources

- Institute Cable and/or Gas Franchise Fee – a franchise fee is paid to a local authority for the privilege of using the public rights-of-way and to compensate for the costs of regulation. The City of Kenyon received a Cable Franchise Fee until 1999 when an agreement was reached to provide free services to all government offices was reached. These franchise fees are typically passed on to the end users.
- Staff continues to work on several major redevelopment projects including the Hanke Ready Mix Plant and downtown building upgrades, in an effort to help increase the taxable value of each parcel and add to the City of Kenyon's tax capacity.
- Future Development of additional land for light industrial business.

Requests for Information

This financial report is designed to provide a general overview of the City of Kenyon's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Administrator, City of Kenyon, 709 Second Street, Kenyon, Minnesota 55946.

CITY OF KENYON, MINNESOTA
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013

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CITY OF KENYON, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2013

With Comparative Totals for December 31, 2012

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
Assets				
Cash and investments	\$ 1,633,646	\$ 2,660,998	\$ 4,294,644	\$ 3,679,310
Receivables	218,852	536,407	755,259	761,982
Internal balances	(2,652)	2,652		
Inventory		198,566	198,566	205,258
Prepaid expenses	27,200	75,005	102,205	96,620
Capital assets:				
Nondepreciable	1,229,156	944,077	2,173,233	1,430,039
Depreciable, net	3,057,288	5,766,235	8,823,523	8,825,514
Total Assets	\$ 6,163,490	\$ 10,183,940	\$ 16,347,430	\$ 14,998,723
Liabilities and Net Position				
Liabilities				
Accounts payable	\$ 52,812	\$ 273,693	\$ 326,505	\$ 296,861
Deposits payable	800	11,760	12,560	11,277
Compensated absences	20,849	12,221	33,070	35,400
Accrued liabilities	3,608	2,797	6,405	31,107
Accrued interest payable	10,552	6,730	17,282	19,286
Unearned revenue				85
Noncurrent liabilities:				
Due within one year	102,535	129,751	232,286	124,000
Due in more than one year	549,237	1,556,078	2,105,315	1,266,024
Total Liabilities	740,393	1,993,030	2,733,423	1,784,040
Net Position				
Net investment in capital assets	3,634,672	5,024,483	8,659,155	8,747,029
Restricted for:				
Special purpose contribution	24,650		24,650	20,167
Tax increment districts	598		598	598
Public safety	790		790	790
Debt service	84,050	52,286	136,336	116,673
Unrestricted	1,678,337	3,114,141	4,792,478	4,329,426
Total Net Position	5,423,097	8,190,910	13,614,007	13,214,683
Total Liabilities and Net Position	\$ 6,163,490	\$ 10,183,940	\$ 16,347,430	\$ 14,998,723

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013
With Comparative Totals for December 31, 2012

<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	\$ 329,417	\$ 22,944	\$ 45,100	\$
Public safety	400,982	93,860	42,036	
Public works	601,780			152,286
Sanitation and recycling	43,600	44,707		
Culture and recreation	289,253	23,845	53,588	
Economic development	17,832	10,865		
Interest on long-term debt	29,673			
Total governmental activities	<u>1,712,537</u>	<u>196,221</u>	<u>140,724</u>	<u>152,286</u>
Business-Type activities:				
Water	232,643	253,119		9,540
Sewer	319,795	287,329		37,342
Electric	1,833,802	1,974,661		2,198
Liquor	665,467	682,573		
Storm sewer	27,920	39,955		
Total business-type activities	<u>3,079,627</u>	<u>3,237,637</u>		<u>49,080</u>
Total	<u>\$ 4,792,164</u>	<u>\$ 3,433,858</u>	<u>\$ 140,724</u>	<u>\$ 201,366</u>

General revenues:
General property taxes
Tax increments
Grants and contributions not restricted to specific programs
Interest earnings
Miscellaneous
Gain on sale of capital assets
Transfers, net
Total general revenues and transfers

Change in net position

Net position as restated - beginning (Note 12)

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2013	2012
\$ (261,373)	\$	\$ (261,373)	\$ (312,179)
(265,086)		(265,086)	(283,289)
(449,494)		(449,494)	(288,213)
1,107		1,107	761
(211,820)		(211,820)	(188,769)
(6,967)		(6,967)	(24,664)
(29,673)		(29,673)	(35,549)
<u>(1,223,306)</u>		<u>(1,223,306)</u>	<u>(1,131,902)</u>
	30,016	30,016	31,484
	4,876	4,876	(162)
	143,057	143,057	5,470
	17,106	17,106	34,090
	12,035	12,035	11,454
	<u>207,090</u>	<u>207,090</u>	<u>82,336</u>
<u>(1,223,306)</u>	<u>207,090</u>	<u>(1,016,216)</u>	<u>(1,049,566)</u>
736,866		736,866	661,547
19,650		19,650	18,284
469,158	886	470,044	470,093
16,879	19,800	36,679	46,458
9,798	26,844	36,642	37,961
115,659		115,659	14,242
67,673	(67,673)		
<u>1,435,683</u>	<u>(20,143)</u>	<u>1,415,540</u>	<u>1,248,585</u>
212,377	186,947	399,324	199,019
<u>5,210,720</u>	<u>8,003,963</u>	<u>13,214,683</u>	<u>13,015,664</u>
<u>\$ 5,423,097</u>	<u>\$ 8,190,910</u>	<u>\$ 13,614,007</u>	<u>\$ 13,214,683</u>

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CITY OF KENYON, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2013

CITY OF KENYON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013
With Comparative Totals for December 31, 2012

	101	202	Other	Total Governmental Funds	
	General	Capital Outlay	Governmental Funds	2013	2012
ASSETS					
Cash and investments	\$ 667,443	\$ 633,118	\$ 333,085	\$ 1,633,646	\$ 1,393,976
Accounts receivable	3,293		3,100	6,393	47,115
Developer receivable - deferred	27,644			27,644	42,018
Taxes receivable - delinquent	61,108			61,108	61,589
Special assessments receivable					
Delinquent			389	389	389
Deferred	2,068		105,469	107,537	110,139
Accrued interest receivable	79	69	24	172	334
Due from other funds	71,926			71,926	72,436
Due from other governments	15,609			15,609	14,773
Prepaid items	21,065		6,135	27,200	25,996
TOTAL ASSETS	\$ 870,235	\$ 633,187	\$ 448,202	\$ 1,951,624	\$ 1,768,765
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 31,318	\$	\$ 21,494	\$ 52,812	\$ 64,328
Accrued liabilities	3,122		486	3,608	16,232
Customer deposits			800	800	800
Advances from other funds			74,578	74,578	97,633
Unearned revenue					85
Total Liabilities	34,440		97,358	131,798	179,078
Deferred Inflows of Resources					
Unavailable revenue:					
Property taxes	61,108			61,108	61,589
Special assessments	2,068		105,858	107,926	110,528
Loans receivable	27,644			27,644	42,018
Total Deferred Inflows of Resources	90,820		105,858	196,678	214,135
Fund Balance					
Nonspendable:					
Prepaid items	21,065		6,135	27,200	25,996
Restricted:					
Special purpose contributions			24,650	24,650	20,167
Tax increment districts			598	598	598
Public safety			790	790	790
Creditors			103,183	103,183	103,184
Committed		633,187		633,187	551,508
Assigned			181,049	181,049	177,264
Unassigned	723,910		(71,419)	652,491	496,045
Total Fund Balance	744,975	633,187	244,986	1,623,148	1,375,552
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 870,235	\$ 633,187	\$ 448,202	\$ 1,951,624	\$ 1,768,765

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	101 General	202 Capital Outlay	Other Governmental Funds	Total Governmental Funds	
				2013	2012
REVENUES					
General property taxes	\$ 464,115	\$	\$ 273,232	\$ 737,347	\$ 661,898
Tax increment			19,650	19,650	18,284
Licenses and permits	8,118			8,118	6,163
Special assessments	1,792		3,096	4,888	39,433
Intergovernmental revenues	634,538		63,474	698,012	543,870
Charges for services	83,924		73,443	157,367	148,418
Fines and forfeitures	5,836		1,353	7,189	8,823
Investment income	2,722	2,780	1,016	6,518	7,846
Donations		100	24,650	24,750	20,001
Miscellaneous revenues	195,489	8,031	12,118	215,638	84,035
Total Revenues	1,396,534	10,911	472,032	1,879,477	1,538,771
EXPENDITURES					
General government	312,586			312,586	275,405
Public safety	278,304		85,124	363,428	348,697
Public works	509,646			509,646	284,541
Sanitation and recycling	43,600			43,600	44,327
Culture and recreation	89,808		151,399	241,207	243,060
Economic development			41,664	41,664	35,432
Capital outlay	568	60,510		61,078	84,016
Debt service:					
Principal			95,000	95,000	90,000
Interest and other		1,722	29,623	31,345	35,066
Total Expenditures	1,234,512	62,232	402,810	1,699,554	1,440,544
Excess (deficiency) of revenues over (under) expenditures	162,022	(51,321)	69,222	179,923	98,227
OTHER FINANCING SOURCES (USES)					
Sale of capital assets					12,356
Bond proceeds					78,775
Transfers in	67,673	133,000		200,673	162,743
Transfers out	(95,000)		(38,000)	(133,000)	(70,665)
Total Other Financing Sources (Uses)	(27,327)	133,000	(38,000)	67,673	183,209
Net change in fund balances	134,695	81,679	31,222	247,596	281,436
Fund Balance - Beginning	610,280	551,508	213,764	1,375,552	1,094,116
Fund Balance - Ending	\$ 744,975	\$ 633,187	\$ 244,986	\$ 1,623,148	\$ 1,375,552

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2013

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

Total governmental fund balances (page 17)	\$	1,623,148
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	6,676,559
Less: Accumulated depreciation		<u>(2,390,115)</u>
		4,286,444
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Developer receivable	\$	27,644
Delinquent property taxes		61,108
Deferred and delinquent special assessments		<u>107,926</u>
		196,678
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$	(663,775)
Compensated absences		(20,849)
Unamortized bond discount		12,003
Accrued interest		<u>(10,552)</u>
		<u>(683,173)</u>
Net position of governmental activities (page 14)	\$	<u><u>5,423,097</u></u>

CITY OF KENYON, 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, 2013

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

Net change in fund balances - total governmental funds (page 18)	\$	247,596
<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	\$	70,066
Loss on disposal of property		(4,779)
Depreciation expense		<u>(175,910)</u>
		(110,623)
<p>Certain revenues in the statement of activities do not provide current financial resources and are not reported as revenues in the funds.</p>		
Deferred inflows of resources, December 31, 2013	\$	196,678
Deferred inflows of resources, December 31, 2012		<u>(214,135)</u>
		(17,457)
<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>		
Compensated absences, December 31, 2013	\$	(20,849)
Compensated absences, December 31, 2012		<u>18,760</u>
		(2,089)
<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	\$	95,000
Amortization of bond discount		(1,973)
Change in accrued interest		<u>1,923</u>
		<u>94,950</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>212,377</u></u>

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 463,277	\$ 463,277	\$ 464,115	\$ 838	\$ 367,017
Special assessments			1,792	1,792	
Licenses and Permits	5,800	5,800	8,118	2,318	6,163
Intergovernmental Revenues					
Local government aid	466,643	466,643	466,643		466,643
Market value credit			796	796	845
Police state aid	15,000	15,000	14,477	(523)	14,024
Other state aid	2,740	2,740	2,622	(118)	4,423
County grant			150,000	150,000	
Total Intergovernmental	484,383	484,383	634,538	150,155	485,935
Charges for Services					
General government	10,050	10,050	16,725	6,675	8,586
Recycling	45,200	45,200	44,707	(493)	45,088
Culture and recreation	23,500	23,500	22,492	(1,008)	25,224
Total Charges for Services	78,750	78,750	83,924	5,174	78,898
Fines and Forfeits	9,000	9,000	5,836	(3,164)	7,414
Investment Income	5,900	5,900	2,722	(3,178)	4,559
Miscellaneous Revenues					
Refunds and reimbursements	500	500	15,309	14,809	10,706
Insurance dividends	1,000	1,000	7,643	6,643	11,914
Rents	1,365	1,365	4,785	3,420	1,365
Shared facility charge	39,000	39,000	39,000		39,000
Sale of land			120,438	120,438	
Other	1,500	1,500	8,314	6,814	3,604
Total Miscellaneous Revenues	43,365	43,365	195,489	152,124	66,589
TOTAL REVENUES	\$ 1,090,475	\$ 1,090,475	\$ 1,396,534	\$ 306,059	\$ 1,016,575

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 13,284	\$ 13,284	\$ 14,213	\$ (929)	\$ 15,707
Other services and charges	950	950	801	149	375
Total Mayor and Council	<u>14,234</u>	<u>14,234</u>	<u>15,014</u>	<u>(780)</u>	<u>16,082</u>
City Administration					
Employee services	172,619	172,619	176,778	(4,159)	132,230
Travel and conferences	3,000	3,000	4,153	(1,153)	1,468
SHIP grant			575	(575)	2,121
Other services and charges	2,350	2,350	3,180	(830)	3,566
Total City Administration	<u>177,969</u>	<u>177,969</u>	<u>184,686</u>	<u>(6,717)</u>	<u>139,385</u>
Elections	<u>780</u>	<u>780</u>	<u>218</u>	<u>562</u>	<u>1,964</u>
General Government					
Employee services	2,645	2,645	3,694	(1,049)	3,003
Supplies	5,800	5,800	10,010	(4,210)	10,375
Telephone	9,000	9,000	8,294	706	8,897
Insurance	3,500	3,500	5,115	(1,615)	3,820
Utilities	5,700	5,700	7,205	(1,505)	6,255
Other services and charges	15,000	15,000	20,680	(5,680)	20,529
Total Government Buildings	<u>41,645</u>	<u>41,645</u>	<u>54,998</u>	<u>(13,353)</u>	<u>52,879</u>
Professional Services					
Auditing and accounting	13,580	13,580	13,580		13,150
Legal	15,000	15,000	30,031	(15,031)	26,210
Engineering	20,000	20,000	14,059	5,941	25,735
Total Professional Services	<u>48,580</u>	<u>48,580</u>	<u>57,670</u>	<u>(9,090)</u>	<u>65,095</u>
Total General Government	<u>\$ 283,208</u>	<u>\$ 283,208</u>	<u>\$ 312,586</u>	<u>\$ (29,378)</u>	<u>\$ 275,405</u>

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Public Safety					
Police Protection					
Employee services	\$ 209,784	\$ 209,784	\$ 221,469	\$ (11,685)	\$ 219,738
Supplies	20,250	20,250	20,161	89	18,571
Legal	10,000	10,000	11,851	(1,851)	10,991
Telephone	2,750	2,750	3,007	(257)	2,536
Insurance	2,950	2,950	4,606	(1,656)	2,430
Other services and charges	11,650	11,650	17,210	(5,560)	13,973
Total Police Protection	<u>257,384</u>	<u>257,384</u>	<u>278,304</u>	<u>(20,920)</u>	<u>268,239</u>
Total Public Safety	<u>257,384</u>	<u>257,384</u>	<u>278,304</u>	<u>(20,920)</u>	<u>268,239</u>
Public Works					
Streets					
Employee services	119,744	119,744	122,937	(3,193)	123,459
Supplies	35,200	35,200	40,091	(4,891)	21,673
Contracts	5,000	5,000	780	4,220	61,246
Insurance	6,000	6,000	5,421	579	5,987
Utilities	6,850	6,850	9,147	(2,297)	7,324
Other services and charges	4,050	4,050	5,222	(1,172)	4,240
Total Streets	<u>176,844</u>	<u>176,844</u>	<u>183,598</u>	<u>(6,754)</u>	<u>223,929</u>
Street Lighting	<u>28,500</u>	<u>28,500</u>	<u>32,166</u>	<u>(3,666)</u>	<u>32,408</u>
Old Highschool Project					
Engineering	30,000	30,000	11,865	18,135	23,323
Other services and charges	165,847	165,847	282,017	(116,170)	4,881
Total Old Highschool Project	<u>195,847</u>	<u>195,847</u>	<u>293,882</u>	<u>(98,035)</u>	<u>28,204</u>
Total Public Works	<u>401,191</u>	<u>401,191</u>	<u>509,646</u>	<u>(108,455)</u>	<u>284,541</u>
Sanitation and Recycling					
Recycling	<u>43,500</u>	<u>43,500</u>	<u>43,600</u>	<u>(100)</u>	<u>44,327</u>
Culture and Recreation					
Gunderson House					
Insurance	3,500	3,500	3,543	(43)	3,457
Management fees	2,500	2,500	2,500		2,500
Other services and charges	1,000	1,000	72	928	165
Total Gunderson House	<u>7,000</u>	<u>7,000</u>	<u>6,115</u>	<u>885</u>	<u>6,122</u>

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Culture and Recreation (Continued)					
Park and Recreation					
Employee services	\$ 15,835	\$ 15,835	\$ 16,363	\$ (528)	\$ 15,537
Supplies	2,000	2,000	2,338	(338)	2,601
Insurance	4,000	4,000	4,115	(115)	4,031
Utilities	1,900	1,900	1,878	22	1,476
Other services and charges	700	700	1,312	(612)	94
Total Park and Recreation	<u>\$ 24,435</u>	<u>\$ 24,435</u>	<u>\$ 26,006</u>	<u>\$ (1,571)</u>	<u>\$ 23,739</u>
Swimming Pool					
Employee services	24,747	24,747	27,090	(2,343)	28,765
Supplies	5,700	5,700	7,473	(1,773)	6,748
Insurance	3,600	3,600	3,681	(81)	3,738
Utilities	9,500	9,500	11,273	(1,773)	10,518
Other services and charges	5,150	5,150	8,170	(3,020)	3,923
Total Swimming Pool	<u>48,697</u>	<u>48,697</u>	<u>57,687</u>	<u>(8,990)</u>	<u>53,692</u>
Total Culture and Recreation	<u>80,132</u>	<u>80,132</u>	<u>89,808</u>	<u>(9,676)</u>	<u>83,553</u>
Capital Outlay	<u>1,000</u>	<u>1,000</u>	<u>568</u>	<u>432</u>	
TOTAL EXPENDITURES	<u>1,066,415</u>	<u>1,066,415</u>	<u>1,234,512</u>	<u>(168,097)</u>	<u>956,065</u>
Excess of revenues over expenditures	<u>24,060</u>	<u>24,060</u>	<u>162,022</u>	<u>137,962</u>	<u>60,510</u>
Other Financing Sources (Uses)					
Transfers in	85,140	85,140	67,673	(17,467)	93,743
Transfers out	<u>(95,000)</u>	<u>(95,000)</u>	<u>(95,000)</u>		<u>(39,000)</u>
Total Other Financing Sources (Uses)	<u>(9,860)</u>	<u>(9,860)</u>	<u>(27,327)</u>	<u>(17,467)</u>	<u>54,743</u>
Net change in fund balance	14,200	14,200	134,695	120,495	115,253
FUND BALANCE - Beginning	<u>610,280</u>	<u>610,280</u>	<u>610,280</u>		<u>495,027</u>
FUND BALANCE - Ending	<u>\$ 624,480</u>	<u>\$ 624,480</u>	<u>\$ 744,975</u>	<u>\$ 120,495</u>	<u>\$ 610,280</u>

See Notes to Financial Statements

**CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Net Position

December 31, 2013

With Comparative Totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601	602	603
	Water Fund Fund	Sewer Fund Fund	Electric Fund Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 369,229	\$ 707,276	\$ 1,022,491
Accounts receivable	29,794	13,345	316,875
Accrued interest receivable		250	363
Due from other funds	992	24,861	10,315
Inventory	16,267		143,829
Prepaid items	2,469	3,726	64,175
Total Current Assets	<u>418,751</u>	<u>749,458</u>	<u>1,558,048</u>
Other Assets:			
Special assessments	8,880	164,077	2,198
Advances to other funds		36,905	182,515
Total Other Assets	<u>8,880</u>	<u>200,982</u>	<u>184,713</u>
Capital assets:			
Nondepreciable		886,892	14,372
Depreciable	2,197,437	5,782,813	5,320,498
Less: Accumulated depreciation	(1,064,672)	(3,923,778)	(3,154,372)
Net capital assets	<u>1,132,765</u>	<u>2,745,927</u>	<u>2,180,498</u>
Total Assets	<u>1,560,396</u>	<u>3,696,367</u>	<u>3,923,259</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	180	115,389	126,565
Accrued liabilities	535	141	1,291
Accrued interest payable	2,108	3,531	243
Customer deposits	3,055		8,705
Due to other funds		11,307	100,200
Accrued compensated absences	3,275	440	7,908
Current maturities of bonds payable	34,385	81,011	3,190
Total Current Liabilities	<u>43,538</u>	<u>211,819</u>	<u>248,102</u>
Noncurrent Liabilities:			
Advances from other funds	36,905		
Bonds payable, net of current maturities and discount	<u>234,640</u>	<u>1,185,718</u>	<u>30,160</u>
Total Liabilities	<u>315,083</u>	<u>1,397,537</u>	<u>278,262</u>
NET POSITION			
Net investment in capital assets	863,740	1,479,198	2,255,085
Restricted for debt service		52,286	
Unrestricted	<u>381,573</u>	<u>767,346</u>	<u>1,389,912</u>
Total Net Position	<u>\$ 1,245,313</u>	<u>\$ 2,298,830</u>	<u>\$ 3,644,997</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund Fund	605 Storm Sewer Fund	TOTALS	
		2013	2012
\$ 56,913	\$ 505,089	\$ 2,660,998	\$ 2,285,334
514		360,528	341,368
19	92	724	980
	3,413	39,581	40,116
38,470		198,566	205,258
4,286	349	75,005	70,624
<u>100,202</u>	<u>508,943</u>	<u>3,335,402</u>	<u>2,943,680</u>
		175,155	143,277
		219,420	261,146
		<u>394,575</u>	<u>404,423</u>
42,813		944,077	206,428
346,145	645,901	14,292,794	13,827,242
(179,640)	(204,097)	(8,526,559)	(8,175,184)
<u>209,318</u>	<u>441,804</u>	<u>6,710,312</u>	<u>5,858,486</u>
<u>309,520</u>	<u>950,747</u>	<u>10,440,289</u>	<u>9,206,589</u>
31,559		273,693	232,533
830		2,797	14,875
	848	6,730	6,811
		11,760	10,477
		111,507	112,552
598		12,221	16,640
	11,165	129,751	29,000
<u>32,987</u>	<u>12,013</u>	<u>548,459</u>	<u>422,888</u>
107,937		144,842	163,513
	105,560	1,556,078	616,225
<u>140,924</u>	<u>117,573</u>	<u>2,249,379</u>	<u>1,202,626</u>
101,381	325,079	5,024,483	5,094,761
		52,286	
67,215	508,095	3,114,141	2,909,202
<u>\$ 168,596</u>	<u>\$ 833,174</u>	<u>\$ 8,190,910</u>	<u>\$ 8,003,963</u>

CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses and
Changes in Net Position

For the Year Ended December 31, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Operating Revenues			
Sales and charges for services	\$ 253,119	\$ 287,329	\$ 1,974,661
Operating Expenses			
Cost of sales			
Power costs			1,185,128
Conservation improvement program			15,403
Salaries and wages	95,312	55,859	233,746
Supplies	4,667	11,123	5,738
Professional services	1,016	15,422	4,264
Insurance	3,227	5,371	54,514
Utilities	15,008	58,664	26,992
Repairs and maintenance	14,341	18,957	25,230
Depreciation	68,970	140,071	152,890
Dues and subscriptions	744	3,930	33,497
Other services	3,715	414	444
Safety	14		13,445
Generator expense			41,009
Shared facility charge	7,850		31,150
Other operating expense	11,028	2,523	8,968
Total Operating Expenses	<u>225,892</u>	<u>312,334</u>	<u>1,832,418</u>
Operating Income (Loss)	<u>27,227</u>	<u>(25,005)</u>	<u>142,243</u>
Nonoperating Revenues (Expenses)			
Miscellaneous revenue	315	1,268	8,827
Insurance dividend	597	993	8,765
Connection fees	1,688	1,688	750
Intergovernmental	173		713
Special assessments	9,540	37,342	2,198
Investment income	1,633	4,176	11,328
Amortization of deferred charges			
Miscellaneous expense			(750)
Interest expense	(6,751)	(7,461)	(634)
Total Nonoperating Revenues (Expenses)	<u>7,195</u>	<u>38,006</u>	<u>31,197</u>
Income Before Transfers	34,422	13,001	173,440
Transfers out			(67,673)
Change in net position	34,422	13,001	105,767
Net Position as Restated - Beginning (Note 12)	<u>1,210,891</u>	<u>2,285,829</u>	<u>3,539,230</u>
Net Position - End of Year	<u>\$ 1,245,313</u>	<u>\$ 2,298,830</u>	<u>\$ 3,644,997</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund	605 Storm Sewer Fund	TOTALS	
		2013	2012
\$ 664,247	\$ 39,955	\$ 3,219,311	\$ 2,976,793
448,876		448,876	435,193
		1,185,128	1,081,844
		15,403	18,463
104,107		489,024	486,915
4,864		26,392	21,410
		20,702	12,831
13,871		76,983	73,005
14,630		115,294	100,820
12,189	2,282	72,999	92,829
22,411	23,596	407,938	387,211
1,048		39,219	36,165
24,809		29,382	20,669
		13,459	12,345
		41,009	44,849
		39,000	39,000
15,792		38,311	41,564
<u>662,597</u>	<u>25,878</u>	<u>3,059,119</u>	<u>2,905,113</u>
<u>1,650</u>	<u>14,077</u>	<u>160,192</u>	<u>71,680</u>
18,326		28,736	28,250
1,808	145	12,308	20,194
		4,126	
		886	886
		49,080	21,407
189	2,474	19,800	22,498
			(5,708)
		(750)	(871)
(2,870)	(2,042)	(19,758)	(19,910)
<u>17,453</u>	<u>577</u>	<u>94,428</u>	<u>66,746</u>
19,103	14,654	254,620	138,426
		(67,673)	(92,078)
19,103	14,654	186,947	46,348
149,493	818,520	8,003,963	7,957,615
<u>\$ 168,596</u>	<u>\$ 833,174</u>	<u>\$ 8,190,910</u>	<u>\$ 8,003,963</u>

**CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows**

For the Year Ended December 31, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 260,817	\$ 292,517	\$ 1,939,734
Cash payments to suppliers	(61,000)	(30,296)	(1,456,521)
Cash payments to employees	(97,798)	(57,460)	(230,243)
Other cash receipts (payments)	590		618
Net Cash Provided By Operating Activities	<u>102,609</u>	<u>204,761</u>	<u>253,588</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(74,619)	(1,103,371)	(66,526)
Bond proceeds		1,069,604	
Principal payments on bonds	(11,000)	(18,000)	
Interest paid on bonds	(7,904)	(5,733)	(779)
Connection fees received	1,688	1,688	750
Special assessments received	660	16,542	
Net Cash Used In Capital and Related Financing Activities	<u>(91,175)</u>	<u>(39,270)</u>	<u>(66,555)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in from (out to) other funds			(67,673)
Increase (decrease) in advances to other funds	(8,108)	8,108	33,618
Increase (decrease) in due to other funds		1,563	(1,045)
Other cash payments			
Other income (expense)	1,085	2,261	17,555
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(7,023)</u>	<u>11,932</u>	<u>(17,545)</u>
Cash Flows From Investing Activities			
Investment earnings received	1,688	4,057	11,628
Net Increase (Decrease) in Cash and Cash Equivalents	6,099	181,480	181,116
Cash and Cash Equivalents, Beginning of Year	<u>363,130</u>	<u>525,796</u>	<u>841,375</u>
Cash and Cash Equivalents, End of Year	<u>\$ 369,229</u>	<u>\$ 707,276</u>	<u>\$ 1,022,491</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ 27,227	\$ (25,005)	\$ 142,243
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	68,970	140,071	152,890
(Increase) Decrease In:			
Accounts receivable	7,698	5,188	(34,927)
Inventory	1,924		10,617
Prepaid items	277	(754)	(4,614)
Increase (Decrease) In:			
Accounts payable	(1,591)	86,862	(7,320)
Accrued liabilities	(2,486)	(1,601)	(5,919)
Customer deposits	590		618
Net Cash Provided By Operating Activities	<u>\$ 102,609</u>	<u>\$ 204,761</u>	<u>\$ 253,588</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609		605		TOTALS	
Liquor Fund	Storm Sewer	2013	2012		
\$ 663,733	\$ 43,350	\$ 3,200,151	\$ 2,973,395		
(577,591)	(2,700)	(2,128,108)	(1,984,723)		
(110,598)		(496,099)	(472,089)		
75		1,283	1,899		
<u>(24,381)</u>	<u>40,650</u>	<u>577,227</u>	<u>518,482</u>		
(12,611)	(2,636)	(1,259,763)	(763,780)		
		1,069,604	496,225		
		(29,000)	(247,000)		
(2,870)	(2,553)	(19,839)	(17,446)		
		4,126			
		17,202	18,449		
<u>(15,481)</u>	<u>(5,189)</u>	<u>(217,670)</u>	<u>(513,552)</u>		
		(67,673)	(92,078)		
(10,563)		23,055	5,555		
	(1,028)	(510)	2,924		
			(44,910)		
20,134	144	41,179	48,826		
<u>9,571</u>	<u>(884)</u>	<u>(3,949)</u>	<u>(79,683)</u>		
188	2,495	20,056	22,525		
(30,103)	37,072	375,664	(52,228)		
87,016	468,017	2,285,334	2,337,562		
<u>\$ 56,913</u>	<u>\$ 505,089</u>	<u>\$ 2,660,998</u>	<u>\$ 2,285,334</u>		
\$ 1,650	\$ 14,077	\$ 160,192	\$ 71,680		
22,411	23,596	407,938	384,270		
(514)	3,395	(19,160)	(3,398)		
(5,849)		6,692	11,444		
674	36	(4,381)	5,896		
(36,337)	(454)	41,160	42,811		
(6,491)		(16,497)	3,880		
75		1,283	1,899		
<u>\$ (24,381)</u>	<u>\$ 40,650</u>	<u>\$ 577,227</u>	<u>\$ 518,482</u>		

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CITY OF KENYON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Kenyon, Minnesota was first incorporated in 1856. The City operates under the “optional Plan A” form of government as defined by Minnesota State Statutes which prescribes a Mayor-Council form of government. Four Council members are each elected to four year terms and the Mayor is elected to a two year term.

The City has considered all potential 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.

The Kenyon Public Utilities Commission (the Commission) is considered to be part of the City. The Commission was established and statutory authority is provided in accordance with chapter 412.321 of the Minnesota statutes. The Commission has three council approved members who serve overlapping three year terms. Minnesota statutes provide the Council all the discretionary authority necessary to operate the utilities except as its powers have been delegated to the Commission. The Utility funds are blended and included with the proprietary funds in this report.

Reporting Entity

In accordance with GASB Statement No. 14 the City’s financial statements include the primary government and the component units of the City of Kenyon, defined as follows:

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Kenyon.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Kenyon are financially accountable or for which the nature or significance of their relationship with the City of Kenyon would cause the general purpose financial statements to be misleading or incomplete. Because its sole purpose is to encourage future development within the City, the Kenyon Economic Development Authority (EDA), has been reported as a blended component unit in the financial statements of the City of Kenyon.

The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the Council. The EDA board consists of two council members and three representatives from local business. The EDA activities are blended and reported in a separate special revenue fund.

The Council has designated the South Eastern Multi-County Housing & Redevelopment Authority (SEMMCHRA) as the City’s Housing and Redevelopment Authority (HRA). The activity flowing through the City is accounted for as a special revenue fund.

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 units have a December 31 year end.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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. For the most part, the effect of interfund activity has been removed from these statements. *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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 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, 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. 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 KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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, entitlement 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 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 specified 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 can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

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

The *Capital Outlay fund* accounts for activities of its related capital projects.

The City reports the following major proprietary funds:

The *Water fund* accounts for the provisions of water services to the residents of the City.

The *Sewer fund* accounts for the provisions of sewer services to the residents of the City.

The *Electric fund* accounts for the provisions of electric services to the residents of the City.

The *Liquor fund* accounts for the activities of the liquor store.

The *Storm Sewer fund* accounts for the provisions of storm water services to the residents of the City.

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 enterprise funds 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. 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.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary accounting is employed as a management control for funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and may be amended by formal council action. All budget appropriations lapse at the end of the fiscal year.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Investments

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments which is under the management of the City. Temporary cash investments are stated at cost, which approximates market.

The City has designated cash and cash equivalents as demand deposits and all investments with an original maturity of twelve months or less.

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 2013. The enterprise fund accounts receivable are reported net of an allowance for uncollectible accounts.

Property Taxes

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Property Taxes (continued)

The County spreads all levies over taxable property. Such taxes become a lien on January 1, following, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectable, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of July and December.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. The cost of inventories are recorded as expense when consumed rather than when purchased.

Prepaid Items

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.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Interfund loans are classified as "advances from other funds" or "advances to other funds".

Special Assessments

Assessments are levied at various times by City resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to ten years with interest charges of 2.0% to 6.4%. Revenue from these assessments is recognized when the City certifies the assessment in the government wide financial statements and as the annual installments become collectible in the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Tax Increment Districts

Property tax revenues received on tax increment districts are recorded in the related TIF debt service fund.

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 government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

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 in Years
Land improvements	5 - 30
Buildings and structures	7 - 40
Infrastructure	25 - 50
Equipment and machinery	5 - 40
Transportation equipment	3 - 50
Roads and highways	20 - 50

Infrastructure assets include roads, streets, water, sewer and electric lines, etc. These infrastructure assets are likely to be the largest asset class of the City. Historical cost, accumulated depreciation and depreciation expense related to infrastructure assets constructed prior to January 1, 2004 are not included in the City's financial statements as allowed by GASB Statement No. 34.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused paid time off which is paid to the employees upon separation. PTO is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement. The General fund is typically used to liquidate governmental compensated absences payable.

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 statements of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Long-term Obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts receivable. Credit risk associated with cash and investments are discussed in Note 2.

The City's accounts receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Kenyon.

Net Position / Fund Balance

In the government-wide and proprietary financial statements, net position is 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.”

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Net Position / Fund Balance (continued)

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 assigned fund balances to be used for specific purposes when appropriate. The council also delegates the power to assign fund balances to the following: city administrator.

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.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2013, the City's cash and investments consisted of the following items, all of which are held in an internal cash and investment pool:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash	None	N/A	\$ 642,997
Money Market Mutual Funds	None	N/A	1,565,970
Municipal Bonds	February 2015	AAA	51,072
Non-Negotiable CD's	January 2014 - August 2017	Unrated	<u>2,034,605</u>
Total			<u>\$ 4,294,644</u>

Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or its municipalities.
- d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer in to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

Collateralization of Cash Deposits

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

The City has no investment policy that would limit its investment choices.

Concentration of Credit Risk

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

3. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2013 are as follows:

<u>Fund</u>	<u>Goodhue County</u>
General	\$ 15,609
Sewer	76
Total	<u>\$ 15,685</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,216,097	\$	\$	\$ 1,216,097
Construction in progress	7,514	5,545		13,059
Total capital assets, not being depreciated	1,223,611	5,545		1,229,156
Capital assets, being depreciated:				
Buildings/improvements	1,708,091	18,287		1,726,378
Vehicles, machinery, and equipment	1,314,135	35,303	37,256	1,312,182
Infrastructure	2,397,912	10,931		2,408,843
Total capital assets, being depreciated	5,420,138	64,521	37,256	5,447,403
Less accumulated depreciation for:				
Buildings/improvements	694,247	47,929		742,176
Machinery and equipment	848,508	60,444	32,477	876,475
Infrastructure	703,927	67,537		771,464
Total accumulated depreciation	2,246,682	175,910	32,477	2,390,115
Total capital assets, being depreciated, net	3,173,456	(111,389)	4,779	3,057,288
Governmental activities capital assets, net	\$ 4,397,067	\$ (105,844)	\$ 4,779	\$ 4,286,444
 Governmental Activities:				
General government			\$ 15,805	
Public safety			44,432	
Streets and highways			91,862	
Culture and recreation			23,811	
Total depreciation expense - governmental activities			\$ 175,910	

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 57,185	\$	\$	\$ 57,185
Construction in progress	149,243	821,710	84,060	886,893
Total capital assets, not being depreciated	206,428	821,710	84,060	944,078
Capital assets, being depreciated:				
Buildings and structures	5,243,865	191,746		5,435,611
Infrastructure	5,204,802	275,807	19,851	5,460,758
Machinery and other equipment	561,452	53,872		615,324
Transportation equipment	344,468	689	4,485	340,672
Office furniture and equipment	77,117		32,227	44,890
Generators	2,395,536			2,395,536
Total capital assets, being depreciated	13,827,240	522,114	56,563	14,292,791
Less accumulated depreciation for:				
Buildings and structures	3,887,883	123,109		4,010,992
Infrastructure	2,449,961	156,400	19,851	2,586,510
Machinery and other equipment	368,862	31,365		400,227
Transportation equipment	195,982	17,771	4,485	209,268
Office furniture and equipment	70,345	808	32,227	38,926
Generators	1,202,149	78,485		1,280,634
Total accumulated depreciation	8,175,182	407,938	56,563	8,526,557
Total capital assets, being depreciated, net	5,652,058	114,176		5,766,234
Business-type activities capital assets, net	<u>\$ 5,858,486</u>	<u>\$ 935,886</u>	<u>\$ 84,060</u>	<u>\$ 6,710,312</u>

Business-Type Activities:

Water	\$ 68,970
Sewer	140,071
Electric	152,890
Storm Water	23,596
Liquor	22,411
Total depreciation expense - business-type activities	<u>\$ 407,938</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the schedule of bonds payable and compensated absences.

General Obligation Improvement Bonds:

The 2007A G.O. Refunding bonds were issued to refund the 1999 G.O. Improvement and 2000 Public Project Revenue Bonds and to finance construction of various improvements. The 2012A Bonds were issued to finance the Highway 56 project. These bonds are payable primarily from ad valorem tax levies, user fees, and are backed by the full faith and credit of the City.

General Obligation Revenue Bonds:

The 2003 G.O. Water (PFA) Revenue Bonds were issued to finance improvements to the water treatment plant and distribution system. The 2010 G.O. Utility Revenue Bonds were issued to finance improvements to the water and sewer system. These bonds are payable primarily from user fees and special assessments and are backed by the full faith and credit of the City. The 2013 G.O. Sewer (PFA) Revenue Bonds were issued to finance the 2013 Sanitary Sewer Project and the Waste Water Treatment Plant Project.

A summary of interest rates, maturities and December 31, 2013 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2013
General Obligation Improvement Bonds			
Series 2007A Refunding	3.75 - 4.20%	2020	\$ 585,000
Series 2012A	0.85 - 2.75%	2023	575,000
General Obligation Revenue Bonds			
Series 2003 Water (PFA)	3.24%	2016	35,000
Series 2010 Utility	2.90%	2018	85,000
Series 2013 Sewer (PFA)	1.0%	2033	<u>1,069,604</u>
Total			<u>\$ 2,349,604</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt (Continued)

The changes in the Long-Term Debt of the City during the year ended December 31, 2013 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Improvement Bonds:					
Series 2007A Refunding	\$ 680,000	\$	\$ 95,000	\$ 585,000	\$ 95,000
Series 2012A	78,775			78,775	7,535
Unamortized Discount	(13,976)		(1,973)	(12,003)	
Compensated Absences	18,760	2,089		20,849	20,849
Governmental Activities Long-term Liabilities	<u>763,559</u>	<u>2,089</u>	<u>93,027</u>	<u>672,621</u>	<u>123,384</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
Series 2003 Water (PFA)	46,000		11,000	35,000	12,000
Series 2010 Utility	103,000		18,000	85,000	18,000
Series 2013 Sewer (PFA)		1,069,604		1,069,604	52,040
General Obligation Improvement Bonds:					
Series 2012A	496,225			496,225	47,465
Compensated Absences	16,640		4,419	12,221	12,221
Business-type Activities Long-term Liabilities	<u>661,865</u>	<u>1,069,604</u>	<u>33,419</u>	<u>1,698,050</u>	<u>141,726</u>
Total	<u>\$ 1,425,424</u>	<u>\$ 1,071,693</u>	<u>\$ 126,446</u>	<u>\$ 2,370,671</u>	<u>\$ 265,110</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2013 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes	
	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>				
2014	\$ 102,535	\$ 23,475		
2015	107,535	19,511		
2016	82,535	15,894		
2017	82,535	12,726		
2018	82,535	9,502		
2019-2023	206,100	9,695		
Totals	<u>\$ 663,775</u>	<u>\$ 90,805</u>		
<u>Business-Type Activities</u>				
2014	\$ 47,465	\$ 8,476	\$ 78,523	\$ 14,218
2015	47,465	8,073	79,010	12,820
2016	47,465	7,574	79,476	11,442
2017	47,465	6,981	70,000	9,997
2018	47,465	6,281	60,503	8,915
2019-2023	258,900	16,757	260,209	36,155
2024-2028			273,545	22,817
2029-2033			288,338	8,769
Totals	<u>\$ 496,225</u>	<u>\$ 54,140</u>	<u>\$ 1,189,604</u>	<u>\$ 125,133</u>

The City is subject to a statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes, net of debt service cash and investments available to pay these bonds. The limitation is two percent of the City's estimated market valuation. At December 31, 2013 the City did not exceed the statutory limitation.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Individual Fund Disclosures

Transfers during the year ended December 31, 2013 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 67,673	\$ 95,000
Special Revenue Funds:		
Fire		38,000
Capital Project Funds:		
Capital Outlay	133,000	
Enterprise Funds:		
Electric		67,673
Total Transfers	<u>\$ 200,673</u>	<u>\$ 200,673</u>

The amounts due to and from and advanced to and from other funds at December 31, 2013, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 71,926	\$
Enterprise Funds:		
Water	992	
Sewer	24,861	11,307
Electric	10,315	100,200
Storm Water	3,413	
	<u>\$ 111,507</u>	<u>\$ 111,507</u>

	Advances From Other Funds	Advances To Other Funds
Capital Project Funds:		
Trondheim Road Extension	\$	\$ 74,578
Enterprise Funds:		
Water	36,905	
Sewer		36,905
Electric	182,515	
Liquor		107,937
	<u>\$ 219,420</u>	<u>\$ 219,420</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity

The City has restricted portions of fund balance in the fund financial statements and fund equity in the government-wide financial statements. The restricted fund balance / equity represents the portion not available for expenditure or legally segregated for specific use. A summary of the restricted portion of the fund balance / equity at December 31, 2013 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
Restricted Fund Balance				
Special Purpose Donation Fund:				
Public safety	\$ 7,980	\$	\$	\$
Culture and recreation	16,670			
2004 Tax Abatement TIF / Sun Home Fund:				
Tax increment financing plan				598
Police Forfeiture Fund:				
Public safety				790
Debt Service Funds:				
Debt service requirements			103,183	
Total Restricted Fund Balance	<u>\$ 24,650</u>	<u>\$</u>	<u>\$ 103,183</u>	<u>\$ 1,388</u>
Restricted Net Position				
Public safety	\$ 7,980	\$	\$	\$
Culture and recreation	16,670			
Tax increment financing plan				598
Public safety				790
Debt service requirements			84,050	
Total Restricted Net Position	<u>\$ 24,650</u>	<u>\$</u>	<u>\$ 84,050</u>	<u>\$ 1,388</u>

The City has committed and assigned portions of the fund equity in the governmental funds. A summary of the committed and assigned portion of the fund equity at December 31, 2013 is as follows:

Specific Purpose	Fire	Library	Economic Development Authority	Special Purpose Donations
Assigned Fund Balance				
Public safety	\$ 20,456	\$	\$	\$
Culture and recreation		49,323		4,089
Economic development			107,181	
Total Assigned Fund Balance	<u>\$ 20,456</u>	<u>\$ 49,323</u>	<u>\$ 107,181</u>	<u>\$ 4,089</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

	Capital Outlay Fund
Committed Fund Balance:	
General government	\$ 64,998
Industrial park	15,172
Hwy 56 project	23,062
Gunderson house	2,000
Police department	19,386
Fire department	252,552
First responders	5,023
Street department	225,124
Library	9,817
Pool	16,053
Total Committed Fund Balance	<u><u>\$ 633,187</u></u>

8. Commitments and Contingencies

The City participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general purpose financial statements taken as a whole.

9. Defined Benefit Pension Plans - Statewide

Plan Description

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

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. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement is the age for unreduced Social Security benefits capped at 66 for Coordinated Members hired on or after July 1, 1989. A reduced retirement benefit is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at 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.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF Members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$67,508, \$60,309, and \$66,798, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for employee health, liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2013.

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, total contributions, plus compounded earnings on those contributions will be sufficient to satisfy claims liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,000,000 per claim for plan year 2013. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

11. Fireman's Relief Association

All members of the Kenyon Fire Department (the Department) are covered by a defined contribution plan administered by the Kenyon Firemen's Relief Association (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 424A. Each fully vested member is eligible for a lump sum payment, upon retirement, to the member's account based on the share of plan assets credited to the members account.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Fire Department's membership.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Kenyon Firemen's Relief Association, 709 Second Street, Kenyon, Minnesota 55946

Contributions totaling \$24,656 were received by the Fire Relief from the State (through the City), in accordance with Minnesota statute requirements for the year ended December 31, 2013.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Change in Accounting Principles

During the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65 "Items Previously Reported as Assets and Liabilities". This standard required retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2013 financial statements.

The following Schedule reconciles the previously reported December 31, 2012 balances to the amounts reported in the December 31, 2013 financial statements:

<u>Activities/Fund</u>	<u>Net Position December 31, 2011 as Previously Reported</u>	<u>Restatement for Write-off of Unamortized Bond Issuance Costs</u>	<u>Net Position December 31, 2011 as Restated</u>
Governmental Activities	\$ 5,066,349	\$ (8,300)	\$ 5,058,049
Business-Type Activities	7,965,703	(8,088)	7,957,615
Proprietary Funds: Electric Fund	3,569,431	(8,088)	3,561,343

<u>Activities/Fund</u>	<u>Net Position December 31, 2012 as Previously Reported</u>	<u>Restatement for Write-off of Unamortized Bond Issuance Costs</u>	<u>Net Position December 31, 2012 as Restated</u>
Governmental Activities	\$ 5,217,997	\$ (7,277)	\$ 5,210,720
Business-Type Activities	8,003,963		8,003,963
Proprietary Funds: Electric Fund	3,539,230		3,539,230

13. Accounting Standards Issued But Not Yet Adopted

GASB 68, *Accounting and Financial Reporting for Pensions* will be effective for the City beginning with its year ending December 31, 2015. This Statement requires the reporting of unfunded pension liabilities in the government-wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

CITY OF KENYON, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2013

**CITY OF KENYON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2013

	Special Revenue			
	203 Fire	204 Library	205 Economic Development Authority	210 Police Forfeiture
ASSETS				
Cash and investments	\$ 34,601	\$ 51,335	\$ 109,222	\$ 790
Accounts receivable	3,100			
Special assessments receivable				
Delinquent				
Deferred				
Accrued interest receivable	4	5	12	
Prepaid items	4,373	1,305	457	
TOTAL ASSETS	\$ 42,078	\$ 52,645	\$ 109,691	\$ 790
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 17,249	\$ 1,531	\$ 1,253	\$
Accrued liabilities		486		
Customer deposits			800	
Advances from other funds				
Total Liabilities	17,249	2,017	2,053	
Deferred Inflows of Resources				
Unavailable revenue:				
Special assessments				
Total Deferred Inflows of Resources				
Fund Balance:				
Nonspendable:				
Prepaid items	4,373	1,305	457	
Restricted:				
Special purpose contributions				
Tax increment districts				
Public safety				790
Creditors				
Assigned	20,456	49,323	107,181	
Unassigned				
Total Fund Balance	24,829	50,628	107,638	790
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 42,078	\$ 52,645	\$ 109,691	\$ 790

Special Revenue		Debt Service		Total Nonmajor Governmental Funds 2013
230 Special Purpose Donations	402/403 2004 Tax Abatement TIF/ Sun Home	409 Trondheim Road Extension	307 2007 G.O. Refunding Bonds	
\$ 30,197	\$ 598	\$ 3,159	\$ 103,183	\$ 333,085 3,100
			389	389
		105,469		105,469
3				24
				6,135
<u>\$ 30,200</u>	<u>\$ 598</u>	<u>\$ 108,628</u>	<u>\$ 103,572</u>	<u>\$ 448,202</u>
\$ 1,461	\$	\$	\$	\$ 21,494 486 800
		74,578		74,578
<u>1,461</u>		<u>74,578</u>		<u>97,358</u>
		105,469	389	105,858
		105,469	389	105,858
				6,135
24,650				24,650
	598			598
			103,183	790
4,089				103,183
		(71,419)		181,049
				(71,419)
<u>28,739</u>	<u>598</u>	<u>(71,419)</u>	<u>103,183</u>	<u>244,986</u>
<u>\$ 30,200</u>	<u>\$ 598</u>	<u>\$ 108,628</u>	<u>\$ 103,572</u>	<u>\$ 448,202</u>

CITY OF KENYON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	Special Revenue			
	203 Fire	204 Library	205 Economic Development Authority	210 Police Forfeiture
REVENUES				
General property taxes	\$ 19,036	\$ 100,799	\$	\$
Tax increment				
Special assessments				
Intergovernmental revenues	26,656	36,818		
Charges for services	73,443			
Fines and forfeitures		1,353		
Investment income	161	148	567	
Donations				
Miscellaneous revenues	1,985	973	9,160	
TOTAL REVENUES	121,281	140,091	9,727	
EXPENDITURES				
Public safety	83,269			
Culture and recreation		134,966		
Economic development			13,695	
Principal				
Interest and other				
TOTAL EXPENDITURES	83,269	134,966	13,695	
Excess (deficiency) of revenues over (under) expenditures	38,012	5,125	(3,968)	
OTHER FINANCING SOURCES (USES)				
Transfers out	(38,000)			
Total other financing sources (uses)	(38,000)			
Net change in fund balances	12	5,125	(3,968)	
Fund Balance - Beginning	24,817	45,503	111,606	790
Fund Balance - Ending	\$ 24,829	\$ 50,628	\$ 107,638	\$ 790

Special Revenue		Debt Service		Total Nonmajor Governmental Funds
230 Special Purpose Donations	402/403 2004 Tax Abatement TIF/ Sun Home	409 Trondheim Road Extension	307 2007 G.O. Refunding Bonds	
\$	\$ 8,319 19,650	\$ 23,723	\$ 121,355	\$ 273,232 19,650 3,096 63,474 73,443 1,353 1,016 24,650 12,118
140 24,650		3,096		
24,790	27,969	26,819	121,355	472,032
1,855 16,433	27,969	3,267	95,000 26,356	85,124 151,399 41,664 95,000 29,623
18,288	27,969	3,267	121,356	402,810
6,502		23,552	(1)	69,222
				(38,000)
				(38,000)
6,502		23,552	(1)	31,222
22,237	598	(94,971)	103,184	213,764
\$ 28,739	\$ 598	\$ (71,419)	\$ 103,183	\$ 244,986

CITY OF KENYON, MINNESOTA
FIRE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
With Comparative Totals for the Years Ended December 31, 2013 and 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 19,036	\$ 19,036	\$ 19,036	\$	\$ 28,177
Intergovernmental Revenues					
Fire state aid	17,000	17,000	24,656	7,656	22,522
Other state aid	1,000	1,000	2,000	1,000	545
Total Intergovernmental	18,000	18,000	26,656	8,656	23,067
Charges for Services					
Fire contracts	80,255	80,255	73,443	(6,812)	69,520
Investment Income					
			161	161	150
Miscellaneous Revenues					
Insurance dividend			1,985	1,985	2,929
Other					400
Total Miscellaneous Revenues			1,985	1,985	3,329
TOTAL REVENUES	117,291	117,291	121,281	3,990	124,243
EXPENDITURES					
Employee services	3,970	3,970	4,467	(497)	3,867
Supplies	12,841	12,841	12,219	622	11,360
Repairs and maintenance	14,280	14,280	3,453	10,827	8,452
Professional services	3,000	3,000	3,000		3,560
Training	15,500	15,500	6,858	8,642	12,868
Insurance	5,800	5,800	4,902	898	5,764
Utilities	4,900	4,900	6,480	(1,580)	5,221
Fire state aid	17,000	17,000	24,656	(7,656)	22,522
Capital outlay	2,000	2,000	9,670	(7,670)	342
Other services and charges	8,000	8,000	7,564	436	4,837
TOTAL EXPENDITURES	87,291	87,291	83,269	4,022	78,793
Excess of revenues over expenditures	30,000	30,000	38,012	8,012	45,450
OTHER FINANCING USES					
Transfers out	(30,000)	(30,000)	(38,000)	(8,000)	(30,000)
Net Change in Fund Balance			12	12	15,450
FUND BALANCE - Beginning	24,817	24,817	24,817		9,367
FUND BALANCE - Ending	\$ 24,817	\$ 24,817	\$ 24,829	\$ 12	\$ 24,817

CITY OF KENYON, MINNESOTA
LIBRARY FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
With Comparative Totals for the Years Ended December 31, 2013 and 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 100,799	\$ 100,799	\$ 100,799	\$	\$ 114,108
Intergovernmental Revenues					
County aid	34,868	34,868	36,818	1,950	34,868
Fines and Foreitures	1,000	1,000	1,353	353	1,409
Investment Income	65	65	148	83	48
Miscellaneous Revenues					
Insurance dividend			573	573	1,008
Other	250	250	400	150	172
Total Miscellaneous Revenues	250	250	973	723	1,180
TOTAL REVENUES	136,982	136,982	140,091	3,109	151,613
EXPENDITURES					
Employee services	100,132	100,132	99,273	859	109,457
Books and other materials	20,500	20,500	20,491	9	20,578
Repairs and maintenance	250	250		250	1,073
Training	700	700	271	429	343
Insurance	2,600	2,600	2,282	318	2,445
Utilities	5,650	5,650	5,337	313	5,047
Automation	5,300	5,300	5,418	(118)	5,114
Capital outlay	1,250	1,250	1,240	10	773
Other services and charges	600	600	654	(54)	522
TOTAL EXPENDITURES	136,982	136,982	134,966	2,016	145,352
Net Change in Fund Balance			5,125	5,125	6,261
FUND BALANCE - Beginning	45,503	45,503	45,503		39,242
FUND BALANCE - Ending	\$ 45,503	\$ 45,503	\$ 50,628	\$ 5,125	\$ 45,503

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CITY OF KENYON, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2013

CITY OF KENYON, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Charges for services	\$ 253,119	\$ 251,396
Operating Expenses		
Salaries and wages	95,312	96,898
Supplies	4,667	5,554
Professional services	1,016	1,035
Insurance	3,227	3,349
Utilities	15,008	11,698
Repairs and maintenance	14,341	20,510
Depreciation	68,970	64,895
Dues and subscriptions	744	594
Other services	3,715	145
Safety	14	12
Shared facility charge	7,850	7,800
Other operating expense	11,028	8,203
Total Operating Expenses	225,892	220,693
Operating Income	27,227	30,703
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	315	727
Insurance dividends	597	339
Connection fees	1,688	
Intergovernmental	173	173
Special assessments	9,540	9,460
Investment income	1,633	4,058
Amortization of deferred charges		(2,574)
Miscellaneous expense		(4)
Interest expense	(6,751)	(6,101)
Total Nonoperating Revenues (Expenses)	7,195	6,078
Change in net position	34,422	36,781
Net Position - Beginning of Year	1,210,891	1,174,110
Net Position - End of Year	\$ 1,245,313	\$ 1,210,891

**CITY OF KENYON, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position**
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Charges for services	\$ 287,329	\$ 284,855
Operating Expenses		
Salaries and wages	55,859	51,539
Supplies	11,123	6,614
Professional services	15,422	7,430
Insurance	5,371	4,537
Utilities	58,664	50,611
Repairs and maintenance	18,957	37,217
Depreciation	140,071	128,659
Dues and subscriptions	3,930	1,473
Other services	414	316
Other operating expense	2,523	2,644
Total Operating Expenses	312,334	291,040
Operating Income (Loss)	(25,005)	(6,185)
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	1,268	219
Insurance dividends	993	1,700
Connection fees	1,688	
Special assessments	37,342	11,947
Investment income	4,176	4,462
Interest expense	(7,461)	(5,924)
Total Nonoperating Revenues (Expenses)	38,006	12,404
Change in net position	13,001	6,219
Net Position - Beginning of Year	2,285,829	2,279,610
Net Position - End of Year	\$ 2,298,830	\$ 2,285,829

CITY OF KENYON, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Charges for services	\$ 1,974,661	\$ 1,744,683
Operating Expenses		
Power costs	1,185,128	1,081,844
Conservation improvement program	15,403	18,463
Salaries and wages	233,746	227,209
Supplies	5,738	3,742
Professional services	4,264	4,366
Insurance	54,514	54,117
Utilities	26,992	25,322
Repairs and maintenance	25,230	20,056
Depreciation	152,890	155,538
Dues and subscriptions	33,497	33,565
Other services	444	326
Safety	13,445	12,333
Generator expense	41,009	44,849
Shared facility charge	31,150	31,200
Other operating expense	8,968	17,457
Total Operating Expenses	<u>1,832,418</u>	<u>1,730,387</u>
Operating Income	<u>142,243</u>	<u>14,296</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	8,827	11,566
Insurance dividends	8,765	15,885
Connection fees	750	
Special assessments	2,198	
Intergovernmental	713	713
Investment income	11,328	11,331
Amortization of bond discount		(3,134)
Miscellaneous expense	(750)	(867)
Interest expense	(634)	(4,825)
Total Nonoperating Revenues (Expenses)	<u>31,197</u>	<u>30,669</u>
INCOME BEFORE TRANSFERS	173,440	44,965
Transfers out	<u>(67,673)</u>	<u>(67,078)</u>
Change in net position	105,767	(22,113)
Net Position as Restated - Beginning (Note 12)	<u>3,539,230</u>	<u>3,561,343</u>
Net Position - End of Year	<u>\$ 3,644,997</u>	<u>\$ 3,539,230</u>

CITY OF KENYON, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Sales	\$ 664,247	\$ 656,323
Cost of sales	448,876	435,193
Gross Profit	215,371	221,130
Operating Expenses		
Salaries and wages	104,107	111,269
Supplies	4,864	5,500
Insurance	13,871	11,002
Utilities	14,630	13,189
Repairs and maintenance	12,189	11,720
Depreciation	22,411	17,171
Dues and subscriptions	1,048	533
Other services	24,809	19,882
Other operating expense	15,792	12,283
Total Operating Expenses	213,721	202,549
Operating Income	1,650	18,581
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	18,326	15,738
Insurance dividend	1,808	2,045
Investment income	189	333
Interest expense	(2,870)	(229)
Total Nonoperating Revenues (Expenses)	17,453	17,887
INCOME BEFORE TRANSFERS	19,103	36,468
Transfers out		(25,000)
Change in net position	19,103	11,468
Net Position - Beginning of Year	149,493	138,025
Net Position - End of Year	\$ 168,596	\$ 149,493

CITY OF KENYON, MINNESOTA
STORM SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Charges for services	\$ 39,955	\$ 39,536
Operating Expenses		
Repairs and maintenance	2,282	3,326
Depreciation	23,596	20,948
Other operating expense	977	977
Total Operating Expenses	25,878	25,251
Operating Income	14,077	14,285
Nonoperating Revenues (Expenses)		
Insurance dividend	145	225
Investment income	2,474	2,314
Interest expense	(2,042)	(2,831)
Total Nonoperating Revenues (Expenses)	577	(292)
Change in net position	14,654	13,993
Net Position - Beginning of Year	818,520	804,527
Net Position - End of Year	\$ 833,174	\$ 818,520

CITY OF KENYON, MINNESOTA
PFA SEWER LOAN OF 2013
LOAN RETIREMENT DEBT SERVICE FUND
Supplemental Schedule of Revenues, Expenditures and Changes in Fund Balance
 For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenues	\$ 52,286	\$
Expenditures		
Principal		
Interest		
Total Expenses		
Excess Revenues	52,286	
Fund Balance - Beginning of Year		
Fund Balance - End of Year	\$ 52,286	\$

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AUDITOR'S REPORT ON COMPLIANCE

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

We have audited the general purpose financial statements of the City of Kenyon, Minnesota as of and for the year ended December 31, 2013, and have issued our report thereon dated February 24, 2014.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Governments* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the categories that applied to the City.

The results of our tests indicate that for the items tested, the City of Kenyon complied with the material terms and conditions of applicable legal provisions.

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

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
February 24, 2014