

CITY OF KENYON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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CITY OF KENYON, MINNESOTA

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CITY OF KENYON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2015

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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	12/31/2016
Fred Barsness	Council Member	12/31/2018
Doug Henke	Council Member	12/31/2018
Richard Nielsen	Council Member	12/31/2016
John Mortensen	Council Member	12/31/2016

CITY OFFICIAL - APPOINTED

Mark Vahlsing	City Administrator
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PUBLIC UTILITIES COMMISSION - APPOINTED

Richard Nielsen	Acting Chairperson	12/31/2017
David Claxton	Commissioner	12/31/2015
Jerry Hougum	Commissioner	12/31/2016

PUBLIC UTILITIES COMMISSION ADMINISTRATION - APPOINTED

Randy Eggert	Operations Superintendent
Susan Dodds	Bookkeeper

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CITY OF KENYON, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 2015, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board (GASB) Statements No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 13 and the required supplemental information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City of Kenyon, Minnesota's financial statement for the year ended December 31, 2014, from which such partial information was derived.

We have previously audited the City of Kenyon, Minnesota's 2014 financial statements and our report, dated March 2, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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.

Other Matters (continued)

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 March 14, 2016, 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 the City of Kenyon, Minnesota's internal control over financial reporting and compliance.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
March 14, 2016

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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, 2015. We encourage readers to consider the information presented here in conjunction with the entire audit report.

NEW ACCOUNTING PRONCEMENT. The City implemented Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*, for the year ended December 31, 2015. These Statements established accounting and financial reporting standards for pensions.

FINANCIAL HIGHLIGHTS

- The total net position at December 31, 2015 (assets exceeding liabilities) for the City of Kenyon was \$13,596,467. Of this amount, \$5,006,159 (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 \$1,598,440, of which 35 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 \$790,943, or 79 percent of total general fund expenditures compared to 72 percent in 2014.
- The City of Kenyon increased its existing debt principal by \$100,184 during the current fiscal year, leaving a remaining balance of \$2,914,743.

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 13 individual governmental funds, including two major funds, General and Capital Outlay. The other nine governmental funds include: Fire, Library, Economic Development Authority, Police Forfeiture, Special Purpose Donations, 2004 Tax Abatement/Tax Increment Financing Sunset Home, Fire Hall Capital, Fire Truck Capital Lease, Trondheim Road Extension, 2012 GO Improvement Bonds Debt Service, 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 nine 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 31-55 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 58-61.

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 \$13,596,467 at the close of the fiscal year, with \$5,250,893 of this net position from governmental activities and \$8,345,574 from proprietary funds.

Of the net position \$8,319,815 or 61 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,866,497	\$ 2,029,472	\$ 4,563,334	\$ 4,009,007	\$ 6,429,831	\$ 6,038,479
Capital assets	4,711,900	4,124,318	6,514,601	6,933,747	11,226,501	11,058,065
Total assets	6,578,397	6,153,790	11,077,935	10,942,754	17,656,332	17,096,544
Deferred outflows of resources	84,420		46,284		130,704	
Total assets and deferred outflows of resources	\$ 6,662,817	\$ 6,153,790	\$11,124,219	\$10,942,754	\$17,787,036	\$17,096,544
Long-term liabilities outstanding	\$ 1,230,771	\$ 551,210	\$ 2,458,883	\$ 2,253,319	\$ 3,689,654	\$ 2,804,529
Other liabilities	130,745	69,814	278,672	232,596	409,417	302,410
Total liabilities	1,361,516	621,024	2,737,555	2,485,915	4,099,071	3,106,939
Deferred inflows of resources	50,408		41,090		91,498	
Net position:						
Net investment in capital assets	3,936,252	3,573,108	4,383,563	4,680,428	8,319,815	8,253,536
Restricted	167,583	170,315	102,910	107,560	270,493	277,875
Unrestricted	1,147,058	1,789,343	3,859,101	3,668,851	5,006,159	5,458,194
Total Net Position	5,250,893	5,532,766	8,345,574	8,456,839	13,596,467	13,989,605
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 6,662,817	\$ 6,153,790	\$11,124,219	\$10,942,754	\$17,787,036	\$17,096,544

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**

In 2015, the City implemented GASB Statement 68 "Accounting and Financial Reporting for Pensions." As required by this new standard, the City recorded its proportionate share of the net pension liability of the General Employees Retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF), both statewide cost-sharing defined benefit plans administered by PERA. The restatement to record the City's share of the net pension liability resulted in a decrease in beginning net position of \$686,289.

Governmental Activities. Governmental activities account for 39 percent of the City of Kenyon's net position.

The total increase in net position for governmental activities is \$101,987 for the year ended December 31, 2015. The total revenues for governmental activities amounted to \$1,615,165 while total expenses were \$1,601,013 and transfers in were \$87,835, which is illustrated in the statement below.

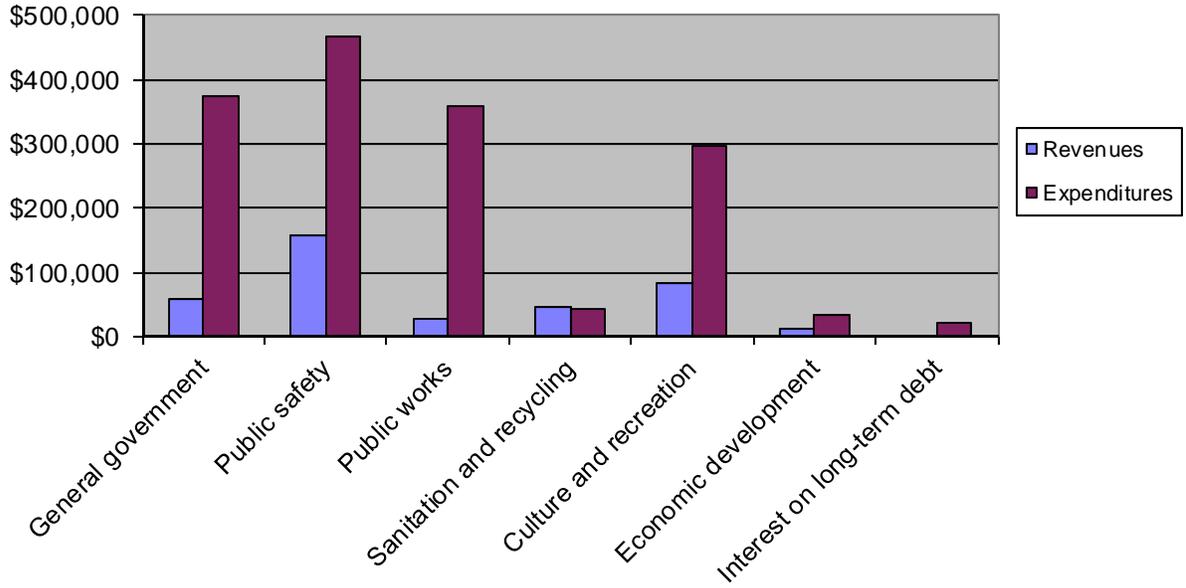
City of Kenyon's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues						
Charges for services	\$ 201,571	\$ 198,343	\$ 3,285,902	\$ 3,214,368	\$ 3,487,473	\$ 3,412,711
Operating grants & contributions	156,035	143,894			156,035	143,894
Capital grants & contributions	29,270	22,920	6,365	7,581	35,635	30,501
General revenues:						
General property taxes	661,948	637,147	103,125	92,552	765,073	729,699
Tax increments	20,096	19,594			20,096	19,594
Intergovernmental revenue	528,626	526,168	886	886	529,512	527,054
Interest earnings	6,827	8,381	21,884	17,079	28,711	25,460
Miscellaneous	10,792	22,380	50,467	47,012	61,259	69,392
Gain (loss) on sale of capital assets		1,000		(26,978)		(25,978)
Total revenues	1,615,165	1,579,827	3,468,629	3,352,500	5,083,794	4,932,327
Expenses:						
General government	375,854	352,011			375,854	352,011
Public safety	467,874	438,852			467,874	438,852
Public works	359,783	377,024			359,783	377,024
Sanitation and recycling	43,920	43,815			43,920	43,815
Culture and recreation	297,037	261,797			297,037	261,797
Economic development	33,978	36,625			33,978	36,625
Interest on long-term debt	22,567	26,727			22,567	26,727
Water			237,854	234,605	237,854	234,605
Sewer			395,856	344,616	395,856	344,616
Electric			1,794,825	1,734,650	1,794,825	1,734,650
Liquor			718,671	666,138	718,671	666,138
Storm sewer			45,924	39,869	45,924	39,869
Total expenses	1,601,013	1,536,851	3,193,130	3,019,878	4,794,143	4,556,729
Increase in net position before transfers and other items	14,152	42,976	275,499	332,622	289,651	375,598
Transfers	87,835	66,693	(87,835)	(66,693)		
Change in net position	101,987	109,669	187,664	265,929	289,651	375,598
Net Position – January 1, as originally stated	5,532,766		8,456,839		13,989,605	
Restatement	(383,860)		(302,429)		(686,289)	
Net Position – January 1	5,148,906	5,423,097	8,154,410	8,190,910	13,303,316	13,614,007
Net Position – December 31	\$ 5,250,893	\$ 5,532,766	\$ 8,342,074	\$ 8,456,839	\$ 13,592,967	\$ 13,989,605

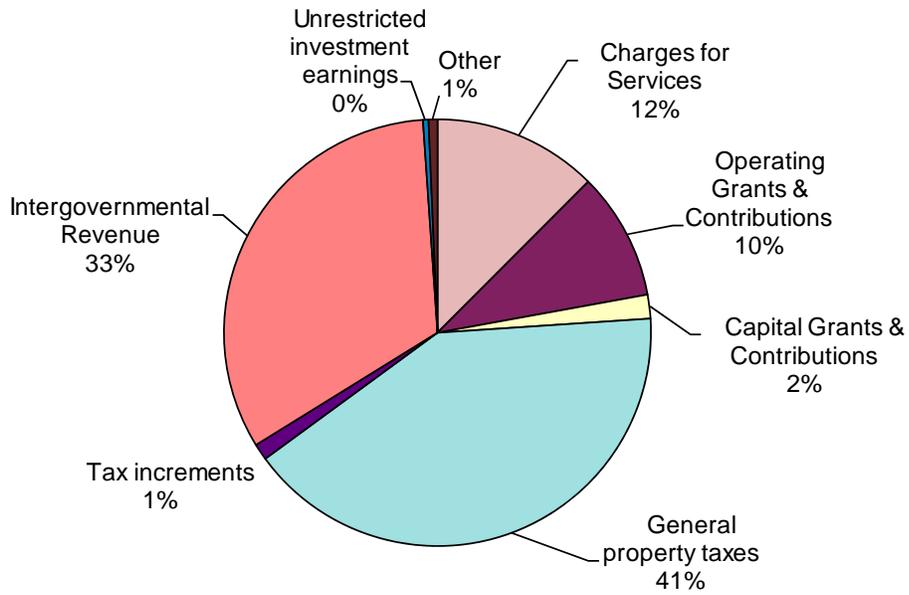
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs show 2015 expenses and program revenues for government activities.

Expenditures and Program Revenues-Governmental Activities



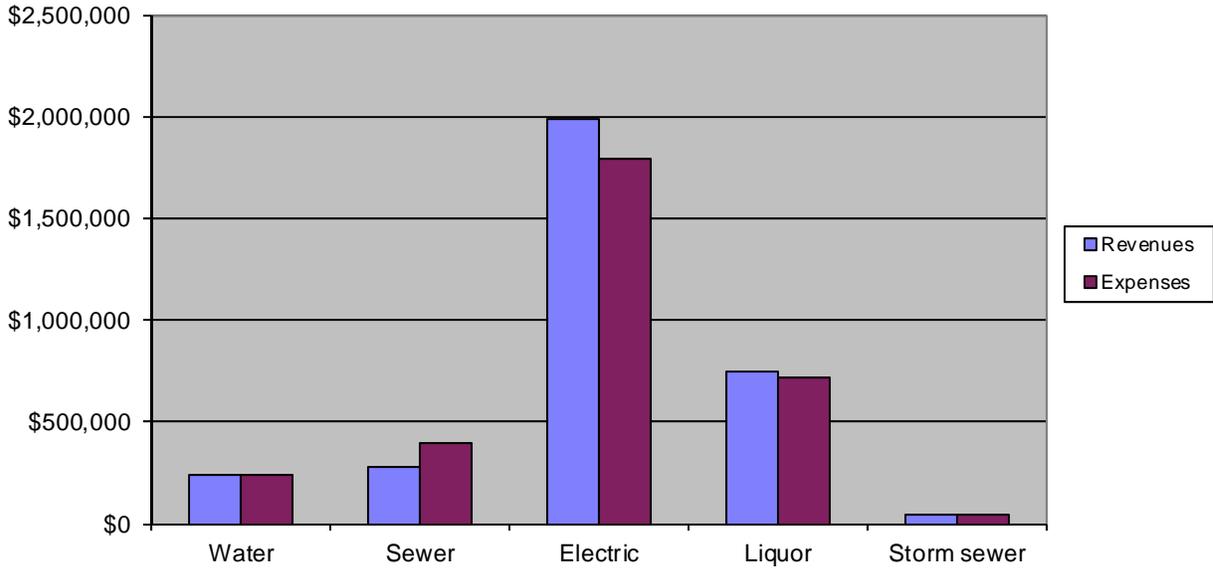
Government Activities Revenues



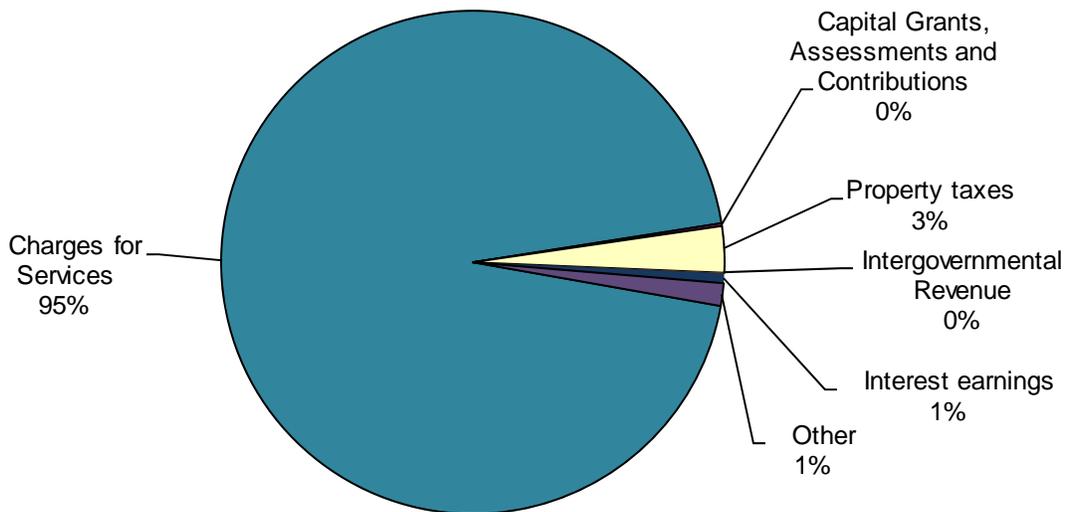
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business-type activities. Business-type activities increased the City of Kenyon net position \$191,164 for the year ended December 31, 2015. Business-type activities revenues and expenses are illustrated in the charts below.

Operating Expenses and Operating 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 \$1,598,440, which included an unassigned fund balance of the general fund of \$790,943.

The fund balance of the City of Kenyon's general fund increased by \$48,527 during the current year. Some of the key factors in this change are as follows:

- Professional service expenses, which include engineering, legal and auditing were \$18,852 less than budgeted.
- Street maintenance costs were approximately \$11,000 less than budgeted.
- Delinquent taxes received were \$12,808 less than anticipated.
- Revenues exceeding the budgeted amounts included \$8,658 for state grants and aid and \$5,505 for dividends from the League of Minnesota Cities for property/casualty insurance premiums paid for 2014-2015.

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

The 2007 G.O. Refunding Bond debt service fund has a total fund balance of \$103,760, all of which is restricted for the payment of debt service with a remaining balance of \$390,000 at December 31, 2015.

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 \$3,859,101 with a total increase in net position of \$191,164. Each of the following funds had net increases or decreases:

- Water (net increase of \$17,211) – rates were increased for these services in August 2015
- Sanitary Sewer (net decrease of \$4,608) – there has not been an increase in sanitary sewer rates since October 2011
- Electric (net increase of \$168,724)
- Liquor (net increase of \$12,866) – this includes a transfer of \$20,000 to the general fund in 2015
- Storm Sewer (net decrease of \$3,029) – employee services increased due to reallocation of salaries and benefits to better reflect actual employee hours

Capital Asset Administration. The City of Kenyon's investment in capital assets for its governmental and business type activities as of December 31, 2015 amounts to \$11,226,501 (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	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,317,957	\$ 1,216,097	\$ 57,185	\$ 57,185	\$ 1,375,142	\$ 1,273,282
Building and Improvements	1,758,167	1,726,378	6,940,972	6,926,413	8,699,139	8,652,791
Infrastructure	2,408,843	2,408,843	5,182,609	5,174,619	7,591,452	7,583,462
Machinery and Equipment	1,760,351	1,322,057	679,534	679,534	2,439,885	2,001,591
Transportation Equipment			303,969	303,969	303,969	303,969
Office Furniture and Equipment			49,632	49,632	49,632	49,632
Generators			2,395,536	2,395,536	2,395,536	2,395,536
Construction in progress	198,917	13,059			198,917	13,059
Total assets	7,444,235	6,686,434	15,609,437	15,586,888	23,053,672	22,273,322
Less: Accumulated Depreciation	(2,732,335)	(2,562,116)	(9,094,836)	(8,653,141)	(11,827,171)	(11,215,257)
Net Capital Assets	\$ 4,711,900	\$ 4,124,318	\$ 6,514,601	\$ 6,933,747	\$ 11,226,501	\$ 11,058,065

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 \$2,914,743. Of this amount, \$390,000 for the 2007A Refunding Bond and \$63,705 for the street portion of the 2012A Bond, \$330,000 for the 2015 fire truck lease, and \$1,691,000 for the 2013 Sanitary Sewer PFA loan will be payable primarily from general property taxes. The remaining \$401,295 of the 2012A bond combined with the sewer fund's PFA loan (\$1,691,000), the water fund's PFA loan (\$11,000) and the 2010 Minnesota Rural Water revenue note (\$27,743) 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	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 453,705	\$ 561,240	\$ 401,295	\$ 448,760	\$ 855,000	\$ 1,010,000
General Obligation Revenue Bonds			1,729,743	1,804,559	1,729,743	1,804,559
Capital Lease	330,000				330,000	
Total assets	\$ 783,705	\$ 561,240	\$ 2,131,038	\$ 2,253,319	\$ 2,914,743	\$ 2,814,559

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 2016 expenditure budget

- Kenyon Fire Station - The City of Kenyon is finalizing plans and expects to start construction on new 12,000 square foot Fire Department Facility. The estimated cost of the project is \$2,500,000. The building will be located on a four acre site in the southeast part of town adjacent to Minnesota Highway 56. The City has received conditional financing approval through the USDA Rural Development Community Facilities program. Construction is expected to start later this summer.
- Whitetail Ridge 2nd Addition Road Paving – This project was completed by the developer according to their agreement with the City in the fall of 2015. There was no cost to the City.
- 1st Street between Red Wing Avenue and Bullis Street is scheduled to be reconstructed in 2016. Utility work will include sanitary sewer, and storm sewer replacement. The roadway will also be replaced. The estimated project cost is \$600,000. The City will be issuing bonds in conjunction with a State of Minnesota Bonding authorization program.

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

Potential future revenue sources

- The Kenyon Economic Development Authority will continue to review sites for possible acquisition for light industrial and commercial development opportunities. They are also working to help improve the downtown area with the goal of making it more attractive to residents and visitors. The overall goals of the EDA are to increase the City's tax capacity and create and retain employment opportunities in the City.
- The City is also working on a possible down payment assistance program for new owner occupied housing. The goal is to help the community grow, as well as increase the tax-base.
- 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.

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, 2015

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

	Governmental	Business-Type	Totals	
	Activities	Activities	2015	2014
Assets and Deferred Outflows of Resources				
Assets				
Cash and investments	\$ 1,594,983	\$ 3,878,134	\$ 5,473,117	\$ 4,966,795
Receivables	190,486	470,187	660,673	772,529
Internal balances	46,616	(46,616)		
Inventory		212,250	212,250	203,867
Prepaid expenses	34,412	49,379	83,791	95,288
Capital assets:				
Nondepreciable	1,516,874	57,185	1,574,059	1,286,341
Depreciable, net	3,195,026	6,457,416	9,652,442	9,771,724
Total Assets	6,578,397	11,077,935	17,656,332	17,096,544
Deferred Outflows of Resources				
Deferred outflows from pension activity	84,420	46,284	130,704	
Total Assets and Deferred Outflows of Resources	\$ 6,662,817	\$ 11,124,219	\$ 17,787,036	\$ 17,096,544
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Accounts payable	\$ 92,461	\$ 232,138	\$ 324,599	\$ 223,852
Deposits payable	800	15,384	16,184	16,828
Compensated absences	20,694	15,205	35,899	31,327
Accrued liabilities	8,031	6,315	14,346	10,335
Accrued interest payable	7,259	9,630	16,889	18,568
Unearned revenue	1,500		1,500	1,500
Noncurrent liabilities:				
Due within one year	125,705	155,065	280,770	274,000
Due in more than one year	649,943	1,975,973	2,625,916	2,530,529
Net pension liability	455,123	327,845	782,968	
Total Liabilities	1,361,516	2,737,555	4,099,071	3,106,939
Deferred Inflows of Resources				
Deferred inflows from pension activity	50,408	41,090	91,498	
Net Position				
Net investment in capital assets	3,936,252	4,383,563	8,319,815	8,253,536
Restricted for:				
Special purpose contribution	29,319		29,319	31,844
Tax increment districts				139
Public safety	1,269		1,269	790
Debt service	136,995	102,910	239,905	245,102
Unrestricted	1,147,058	3,859,101	5,006,159	5,458,194
Total Net Position	5,250,893	8,345,574	13,596,467	13,989,605
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 6,662,817	\$ 11,124,219	\$ 17,787,036	\$ 17,096,544

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
With Comparative Totals for December 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 375,854	\$ 18,752	\$ 39,000	\$
Public safety	467,874	98,771	60,309	
Public works	359,783			29,270
Sanitation and recycling	43,920	45,538		
Culture and recreation	297,037	27,500	56,726	
Economic development	33,978	11,010		
Interest on long-term debt	22,567			
Total governmental activities	1,601,013	201,571	156,035	29,270
Business-Type activities:				
Water	237,854	241,345		888
Sewer	395,856	273,340		4,934
Electric	1,794,825	1,984,731		543
Liquor	718,671	746,493	3,500	
Storm sewer	45,924	39,993		
Total business-type activities	3,193,130	3,285,902	3,500	6,365
Total	\$ 4,794,143	\$ 3,487,473	\$ 159,535	\$ 35,635

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

Change in net position

Net position - Beginning , as originally stated

Restatement due to change in accounting standards (Note 12)

Net position - Beginning , as restated

Net position - Ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2015	2014
\$ (318,102)	\$	\$ (318,102)	\$ (284,304)
(308,794)		(308,794)	(306,373)
(330,513)		(330,513)	(354,104)
1,618		1,618	826
(212,811)		(212,811)	(178,635)
(22,968)		(22,968)	(22,377)
(22,567)		(22,567)	(26,727)
<u>(1,214,137)</u>		<u>(1,214,137)</u>	<u>(1,171,694)</u>
	4,379	4,379	10,308
	(117,582)	(117,582)	(62,240)
	190,449	190,449	234,144
	31,322	31,322	19,542
	(5,931)	(5,931)	317
	<u>102,637</u>	<u>102,637</u>	<u>202,071</u>
<u>(1,214,137)</u>	<u>102,637</u>	<u>(1,111,500)</u>	<u>(969,623)</u>
661,948	103,125	765,073	729,699
20,096		20,096	19,594
528,626	886	529,512	527,054
6,827	21,884	28,711	25,460
10,792	50,467	61,259	69,392
			(25,978)
<u>87,835</u>	<u>(87,835)</u>		
<u>1,316,124</u>	<u>88,527</u>	<u>1,404,651</u>	<u>1,345,221</u>
<u>101,987</u>	<u>191,164</u>	<u>293,151</u>	<u>375,598</u>
5,532,766	8,456,839	13,989,605	
<u>(383,860)</u>	<u>(302,429)</u>	<u>(686,289)</u>	
<u>5,148,906</u>	<u>8,154,410</u>	<u>13,303,316</u>	<u>13,614,007</u>
<u>\$ 5,250,893</u>	<u>\$ 8,345,574</u>	<u>\$ 13,596,467</u>	<u>\$ 13,989,605</u>

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CITY OF KENYON, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

	101 General	202 Capital Outlay	Other Governmental Funds	Total Governmental Funds	
				2015	2014
ASSETS					
Cash and investments	\$ 726,531	\$ 436,819	\$ 431,633	\$ 1,594,983	\$ 1,757,339
Accounts receivable	3,212		4,825	8,037	31,320
Developer receivable - deferred	7,644			7,644	17,644
Taxes receivable - delinquent	32,349			32,349	25,732
Special assessments receivable					
Delinquent	8,566		1,445	10,011	28
Deferred	14,997		100,264	115,261	127,699
Accrued interest receivable	648	620	247	1,515	377
Due from other funds	72,411	164,715		237,126	71,126
Due from other governments	15,669			15,669	17,558
Prepaid items	28,921		5,491	34,412	31,292
TOTAL ASSETS	\$ 910,948	\$ 602,154	\$ 543,905	\$ 2,057,007	\$ 2,080,115
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 20,568	\$ 575	\$ 71,318	\$ 92,461	\$ 32,393
Accrued liabilities	6,960		1,071	8,031	6,505
Customer deposits			800	800	800
Due to other funds			164,715	164,715	
Advances from other funds			25,795	25,795	50,643
Unearned revenue			1,500	1,500	1,500
Total Liabilities	27,528	575	265,199	293,302	91,841
Deferred Inflows of Resources					
Unavailable revenue:					
Property taxes	32,349			32,349	25,732
Special assessments	23,563		101,709	125,272	127,727
Loans receivable	7,644			7,644	17,644
Total Deferred Inflows of Resources	63,556		101,709	165,265	171,103
Fund Balance					
Nonspendable:					
Prepaid items	28,921		5,491	34,412	31,292
Restricted:					
Special purpose contributions			29,319	29,319	31,844
Tax increment districts					139
Public safety			1,269	1,269	790
Creditors			136,995	136,995	137,542
Committed		601,579		601,579	703,231
Assigned			230,723	230,723	213,148
Unassigned	790,943		(226,800)	564,143	699,185
Total Fund Balance	819,864	601,579	176,997	1,598,440	1,817,171
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 910,948	\$ 602,154	\$ 543,905	\$ 2,057,007	\$ 2,080,115

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

	101 General	202 Capital Outlay	Other Governmental Funds	Total Governmental Funds	
				2015	2014
REVENUES					
General property taxes	\$ 344,432	\$	\$ 310,899	\$ 655,331	\$ 672,523
Tax increment			20,096	20,096	19,594
Licenses and permits	6,490			6,490	11,223
Special assessments	2,796		1,900	4,696	3,119
Intergovernmental revenues	551,983	27,029	73,843	652,855	616,649
Charges for services	81,598		87,901	169,499	156,540
Fines and forfeitures	7,094		1,497	8,591	6,233
Investment income	1,715	3,747	1,365	6,827	8,381
Donations			17,895	17,895	20,611
Miscellaneous revenues	63,329		13,954	77,283	89,499
Total Revenues	1,059,437	30,776	529,350	1,619,563	1,604,372
EXPENDITURES					
General government	321,632			321,632	307,136
Public safety	322,882		93,563	416,445	397,125
Public works	217,039			217,039	285,042
Sanitation and recycling	43,920			43,920	43,815
Culture and recreation	101,031		166,528	267,559	236,710
Economic development			33,978	33,978	36,595
Capital outlay		238,285	587,454	825,739	42,725
Debt service:					
Principal			107,535	107,535	102,535
Interest and other			22,282	22,282	26,359
Total Expenditures	1,006,504	238,285	1,011,340	2,256,129	1,478,042
Excess (deficiency) of revenues over (under) expenditures	52,933	(207,509)	(481,990)	(636,566)	126,330
OTHER FINANCING SOURCES (USES)					
Sale of capital assets					1,000
Capital lease proceeds			330,000	330,000	
Transfers in	87,974	160,691	54,834	303,499	180,197
Transfers out	(92,380)	(54,834)	(68,450)	(215,664)	(113,504)
Total Other Financing Sources (Uses)	(4,406)	105,857	316,384	417,835	67,693
Net change in fund balances	48,527	(101,652)	(165,606)	(218,731)	194,023
Fund Balance - Beginning	771,337	703,231	342,603	1,817,171	1,623,148
Fund Balance - Ending	\$ 819,864	\$ 601,579	\$ 176,997	\$ 1,598,440	\$ 1,817,171

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, 2015

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

Total governmental fund balances (page 17)	\$	1,598,440
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	7,444,235
Less: Accumulated depreciation		<u>(2,732,335)</u>
		4,711,900
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Developer receivable	\$	7,644
Delinquent property taxes		32,349
Deferred and delinquent special assessments		<u>125,272</u>
		165,265
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	\$	(453,705)
Capital lease payable		(330,000)
Compensated absences		(20,694)
Net pension liability		(421,111)
Unamortized bond discount		8,057
Accrued interest		<u>(7,259)</u>
		<u>(1,224,712)</u>
Net position of governmental activities (page 14)	\$	<u><u>5,250,893</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, 2015

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

Net change in fund balances - total governmental funds (page 18)	\$	(218,731)
<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	\$ 757,801	
Depreciation expense	<u>(170,219)</u>	587,582
<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, 2015	\$ 165,265	
Deferred inflows of resources, December 31, 2014	<u>(171,103)</u>	(5,838)
<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, 2015	\$ (20,694)	
Compensated absences, December 31, 2014	<u>19,669</u>	(1,025)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 107,535	
Amortization of bond discount	(1,973)	
Issuance of capital lease	(330,000)	
Change in net pension liability	(37,251)	
Change in accrued interest	<u>1,688</u>	<u>(260,001)</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>101,987</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, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 369,735	\$ 369,735	\$ 344,432	\$ (25,303)	\$ 374,712
Special Assessments			2,796	2,796	
Licenses and Permits	11,700	11,700	6,490	(5,210)	11,223
Intergovernmental Revenues					
Local government aid	525,605	525,605	525,604	(1)	516,686
Market value credit			1,303	1,303	850
Police state aid	15,000	15,000	18,610	3,610	15,232
Other state aid	2,720	2,720	6,466	3,746	11,599
Total Intergovernmental	543,325	543,325	551,983	8,658	544,367
Charges for Services					
General government	14,460	14,460	10,082	(4,378)	18,298
Recycling	43,860	43,860	45,538	1,678	44,641
Culture and recreation	24,500	24,500	25,978	1,478	22,043
Total Charges for Services	82,820	82,820	81,598	(1,222)	84,982
Fines and Forfeits	5,900	5,900	7,094	1,194	5,117
Investment Income	1,335	1,335	1,715	380	4,619
Miscellaneous Revenues					
Refunds and reimbursements	10,000	10,000	12,950	2,950	15,760
Dividends	2,300	2,300	7,805	5,505	5,731
Rents	2,755	2,755	2,757	2	
Shared facility charge	39,000	39,000	39,000		39,000
Other	600	600	817	217	1,573
Total Miscellaneous Revenues	54,655	54,655	63,329	8,674	62,064
TOTAL REVENUES	\$ 1,069,470	\$ 1,069,470	\$ 1,059,437	\$ (10,033)	\$ 1,087,084

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

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 12,380	\$ 12,380	\$ 12,749	\$ (369)	\$ 12,337
Other services and charges	950	950	1,313	(363)	685
Total Mayor and Council	<u>13,330</u>	<u>13,330</u>	<u>14,062</u>	<u>(732)</u>	<u>13,022</u>
City Administration					
Employee services	201,700	201,700	200,147	1,553	185,083
Travel and conferences	4,000	4,000	6,308	(2,308)	4,348
SHIP grant					2,392
Other services and charges	2,460	2,460	2,431	29	2,044
Total City Administration	<u>208,160</u>	<u>208,160</u>	<u>208,886</u>	<u>(726)</u>	<u>193,867</u>
Elections	<u>780</u>	<u>780</u>	<u>399</u>	<u>381</u>	<u>2,965</u>
General Government Services					
Employee services	3,385	3,385	4,546	(1,161)	4,277
Supplies	7,000	7,000	11,710	(4,710)	11,553
Telephone	4,275	4,275	4,477	(202)	4,785
Insurance	6,840	6,840	6,841	(1)	6,460
Utilities	7,770	7,770	6,822	948	7,528
Other services and charges	20,000	20,000	19,656	344	22,471
Total General Government Services	<u>49,270</u>	<u>49,270</u>	<u>54,052</u>	<u>(4,782)</u>	<u>57,074</u>
Professional Services					
Auditing and accounting	18,085	18,085	14,435	3,650	13,500
Legal	25,000	25,000	23,801	1,199	19,068
Engineering	20,000	20,000	5,997	14,003	7,640
Total Professional Services	<u>63,085</u>	<u>63,085</u>	<u>44,233</u>	<u>18,852</u>	<u>40,208</u>
Total General Government	<u>\$ 334,625</u>	<u>\$ 334,625</u>	<u>\$ 321,632</u>	<u>\$ 12,993</u>	<u>\$ 307,136</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, 2015

With Comparative Totals for the Year Ended December 31, 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Public Safety					
Police Protection					
Employee services	\$ 254,380	\$ 254,380	\$ 259,438	\$ (5,058)	\$ 248,781
Supplies	17,250	17,250	20,047	(2,797)	20,590
Legal	12,500	12,500	11,809	691	12,565
Telephone	3,775	3,775	3,107	668	3,953
Insurance	8,435	8,435	8,436	(1)	8,331
Other services and charges	19,695	19,695	20,045	(350)	18,348
Total Police Protection	316,035	316,035	322,882	(6,847)	312,568
Total Public Safety	316,035	316,035	322,882	(6,847)	312,568
Public Works					
Streets					
Employee services	149,445	149,445	139,899	9,546	137,709
Supplies	35,950	35,950	25,345	10,605	94,802
Insurance	5,125	5,125	5,123	2	5,081
Utilities	8,795	8,795	6,411	2,384	8,407
Other services and charges	8,230	8,230	10,366	(2,136)	8,533
Total Streets	207,545	207,545	187,144	20,401	254,532
Street Lighting	31,200	31,200	29,895	1,305	30,510
Total Public Works	238,745	238,745	217,039	21,706	285,042
Sanitation and Recycling					
Recycling	43,860	43,860	43,920	(60)	43,815
Culture and Recreation					
Gunderson House					
Insurance	3,600	3,600	3,599	1	3,566
Management fees	2,500	2,500	2,500		2,500
Other services and charges	1,000	1,000		1,000	716
Total Gunderson House	\$ 7,100	\$ 7,100	\$ 6,099	\$ 1,001	\$ 6,782

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

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Culture and Recreation (Continued)					
Park and Recreation and Community Garden					
Employee services	\$ 22,985	\$ 22,985	\$ 23,193	\$ (208)	\$ 14,231
Supplies	2,000	2,000	5,431	(3,431)	2,287
Insurance	4,435	4,435	4,434	1	4,272
Utilities	1,590	1,590	1,709	(119)	1,847
Other services and charges	750	750	589	161	651
Total Park and Recreation	<u>31,760</u>	<u>31,760</u>	<u>35,356</u>	<u>(3,596)</u>	<u>23,288</u>
Swimming Pool					
Employee services	29,095	29,095	28,624	471	27,504
Supplies	5,800	5,800	9,628	(3,828)	4,563
Insurance	3,065	3,065	3,063	2	3,033
Utilities	11,815	11,815	11,788	27	11,727
Other services and charges	6,190	6,190	6,473	(283)	2,733
Total Swimming Pool	<u>55,965</u>	<u>55,965</u>	<u>59,576</u>	<u>(3,611)</u>	<u>49,560</u>
Total Culture and Recreation	<u>94,825</u>	<u>94,825</u>	<u>101,031</u>	<u>(6,206)</u>	<u>79,630</u>
Capital Outlay	<u>4,000</u>	<u>4,000</u>		<u>4,000</u>	<u>15,720</u>
TOTAL EXPENDITURES	<u>1,032,090</u>	<u>1,032,090</u>	<u>1,006,504</u>	<u>25,586</u>	<u>1,043,911</u>
Excess of revenues over expenditures	<u>37,380</u>	<u>37,380</u>	<u>52,933</u>	<u>15,553</u>	<u>43,173</u>
Other Financing Sources (Uses)					
Transfers in	88,000	88,000	87,974	(26)	66,693
Transfers out	<u>(92,380)</u>	<u>(92,380)</u>	<u>(92,380)</u>		<u>(83,504)</u>
Total Other Financing Sources (Uses)	<u>(4,380)</u>	<u>(4,380)</u>	<u>(4,406)</u>	<u>(26)</u>	<u>(16,811)</u>
Net change in fund balance	33,000	33,000	48,527	15,527	26,362
FUND BALANCE - Beginning	<u>771,337</u>	<u>771,337</u>	<u>771,337</u>		<u>744,975</u>
FUND BALANCE - Ending	<u>\$ 804,337</u>	<u>\$ 804,337</u>	<u>\$ 819,864</u>	<u>\$ 15,527</u>	<u>\$ 771,337</u>

See Notes to Financial Statements

**CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Net Position

December 31, 2015

With Comparative Totals for December 31, 2014

	Business-Type Activities - Enterprise Funds		
	601	602	603
	Water Fund Fund	Sewer Fund Fund	Electric Fund Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 450,752	\$ 1,029,409	\$ 1,812,726
Accounts receivable	32,256	13,345	311,862
Accrued interest receivable	388	835	1,026
Due from other funds	1,504	25,037	7,403
Due from other governments			
Inventory	15,998		144,981
Prepaid items	2,419	3,350	38,962
Total Current Assets	503,317	1,071,976	2,316,960
Other Assets:			
Special assessments	6,713	100,693	2,355
Advances to other funds			101,093
Total Other Assets	6,713	100,693	103,448
Capital assets:			
Nondepreciable			14,372
Depreciable	2,076,225	7,215,439	5,221,691
Less: Accumulated depreciation	(1,096,554)	(4,193,989)	(3,330,970)
Net capital assets	979,671	3,021,450	1,905,093
Total Assets	1,489,701	4,194,119	4,325,501
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pension activity	8,030	6,361	20,036
LIABILITIES			
Current Liabilities:			
Accounts payable	1,471	45,885	147,478
Accrued liabilities	1,012	1,014	2,525
Accrued interest payable	1,671	6,971	219
Customer deposits	3,725		11,309
Due to other funds		8,907	101,086
Accrued compensated absences	3,142	1,710	7,839
Current maturities of bonds payable	33,385	107,325	3,190
Total Current Liabilities	44,406	171,812	273,646
Noncurrent Liabilities:			
Advances from other funds			
Net pension liability	56,337	45,843	140,598
Bonds payable, net of current maturities and discount	166,870	1,702,093	23,780
Total Liabilities	267,613	1,919,748	438,024
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pension activity	8,887	3,510	22,181
NET POSITION			
Net investment in capital assets	779,416	1,212,032	1,953,421
Restricted for debt service		102,910	
Unrestricted	441,815	962,280	1,931,911
Total Net Position	\$ 1,221,231	\$ 2,277,222	\$ 3,885,332

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund Fund	605 Storm Sewer Fund	TOTALS	
		2015	2014
\$ 92,029	\$ 493,218	\$ 3,878,134	\$ 3,209,456
99		357,562	389,179
77	439	2,765	744
	3,638	37,582	39,656
			4,488
51,271		212,250	203,867
3,906	742	49,379	63,996
<u>147,382</u>	<u>498,037</u>	<u>4,537,672</u>	<u>3,911,386</u>
	99	109,860	157,760
		101,093	166,841
	<u>99</u>	<u>210,953</u>	<u>324,601</u>
42,813		57,185	57,185
350,746	688,151	15,552,252	15,529,703
(215,571)	(257,752)	(9,094,836)	(8,653,141)
<u>177,988</u>	<u>430,399</u>	<u>6,514,601</u>	<u>6,933,747</u>
<u>325,370</u>	<u>928,535</u>	<u>11,263,226</u>	<u>11,169,734</u>
10,837	1,020	46,284	
37,304		232,138	191,459
1,764		6,315	3,830
	769	9,630	9,621
350		15,384	16,028
		109,993	110,782
2,514		15,205	11,658
	11,165	155,065	166,465
<u>41,932</u>	<u>11,934</u>	<u>543,730</u>	<u>509,843</u>
75,298		75,298	116,198
77,749	7,318	327,845	
	83,230	1,975,973	2,086,854
<u>194,979</u>	<u>102,482</u>	<u>2,922,846</u>	<u>2,712,895</u>
5,952	560	41,090	
102,690	336,004	4,383,563	4,680,428
		102,910	107,560
<u>32,586</u>	<u>490,509</u>	<u>3,859,101</u>	<u>3,668,851</u>
<u>\$ 135,276</u>	<u>\$ 826,513</u>	<u>\$ 8,345,574</u>	<u>\$ 8,456,839</u>

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

For the Year Ended December 31, 2015

With Comparative Totals for the Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Operating Revenues			
Sales and charges for services	\$ 241,345	\$ 273,340	\$ 1,984,731
Operating Expenses			
Cost of sales			
Power costs			1,131,811
Conservation improvement program			10,957
Employee services	107,038	87,387	264,516
Supplies	3,667	7,519	2,240
Professional services	1,125	15,356	4,490
Insurance	2,942	9,325	54,723
Utilities	13,204	48,479	27,032
Repairs and maintenance	29,428	13,690	14,593
Depreciation	57,256	185,142	149,362
Dues and subscriptions	809		33,585
Other services	561	104	829
Safety	631		9,379
Generator expense			45,334
Shared facility charge	7,800		31,200
Other operating expense	8,291	6,313	13,489
Total Operating Expenses	<u>232,752</u>	<u>373,315</u>	<u>1,793,540</u>
Operating Income (Loss)	<u>8,593</u>	<u>(99,975)</u>	<u>191,191</u>
Nonoperating Revenues (Expenses)			
Miscellaneous revenue	8,137	806	3,025
CapX 2020 transmission revenue			8,905
Dividend	1,172	1,641	21,620
Connection fees	1,688	1,688	500
Intergovernmental	173		713
Property taxes		103,125	
Special assessments	888	4,934	543
Investment income	1,662	5,714	11,347
Loss on disposal of capital assets			
Miscellaneous expense	(1)		(750)
Interest expense	(5,101)	(22,541)	(535)
Total Nonoperating Revenues (Expenses)	<u>8,618</u>	<u>95,367</u>	<u>45,368</u>
Income Before Transfers	17,211	(4,608)	236,559
Transfers out			(67,835)
Change in net position	17,211	(4,608)	168,724
Net Position - Beginning, as restated	1,258,401	2,321,167	3,852,326
Restatement (Note 12)	(54,381)	(39,337)	(135,718)
Net Position - Beginning	<u>1,204,020</u>	<u>2,281,830</u>	<u>3,716,608</u>
Net Position - End of Year	<u>\$ 1,221,231</u>	<u>\$ 2,277,222</u>	<u>\$ 3,885,332</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund	605 Storm Sewer Fund	TOTALS	
		2015	2014
\$ 719,681	\$ 39,993	\$ 3,259,090	\$ 3,203,510
467,272		467,272	444,431
		1,131,811	1,112,647
		10,957	22,776
137,497	13,817	610,255	543,575
4,450		17,876	21,183
		20,971	18,824
11,267		78,257	76,379
16,211		104,926	109,697
7,465	1,455	66,631	54,259
21,145	28,792	441,697	411,776
1,250		35,644	37,067
27,408		28,902	23,964
		10,010	9,616
		45,334	22,467
		39,000	39,000
23,081		51,174	41,674
<u>717,046</u>	<u>44,064</u>	<u>3,160,717</u>	<u>2,989,335</u>
<u>2,635</u>	<u>(4,071)</u>	<u>98,373</u>	<u>214,175</u>
30,312		42,280	22,436
		8,905	13,341
1,106	179	25,718	11,060
		3,876	11,033
		886	886
		103,125	92,552
		6,365	7,581
438	2,723	21,884	17,079
			(26,978)
		(751)	(503)
<u>(1,625)</u>	<u>(1,860)</u>	<u>(31,662)</u>	<u>(30,040)</u>
<u>30,231</u>	<u>1,042</u>	<u>180,626</u>	<u>118,447</u>
32,866	(3,029)	278,999	332,622
<u>(20,000)</u>		<u>(87,835)</u>	<u>(66,693)</u>
12,866	(3,029)	191,164	265,929
189,124	835,821	8,456,839	
<u>(66,714)</u>	<u>(6,279)</u>	<u>(302,429)</u>	
<u>122,410</u>	<u>829,542</u>	<u>8,154,410</u>	<u>8,190,910</u>
<u>\$ 135,276</u>	<u>\$ 826,513</u>	<u>\$ 8,345,574</u>	<u>\$ 8,456,839</u>

CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 238,961	\$ 273,340	\$ 2,018,831
Cash payments to suppliers	(67,544)	(107,849)	(1,340,499)
Cash payments to employees	(103,825)	(81,030)	(251,706)
Other cash receipts (payments)	68		(1,062)
Net Cash Provided By Operating Activities	<u>67,660</u>	<u>84,461</u>	<u>425,564</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(414)	(3,010)	(7,578)
Refunds from over payment of capital assets			
Proceeds for sale of capital assets			
Bond proceeds		61,785	
Principal payments on bonds	(34,385)	(135,326)	(3,190)
Interest paid on bonds	(5,320)	(22,262)	(547)
Connection fees received	1,688	1,688	500
Property taxes received		104,935	
Special assessments received	3,393	51,146	2,389
Net Cash Used In Capital and Related Financing Activities	<u>(35,038)</u>	<u>58,956</u>	<u>(8,426)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers to other funds			(67,835)
Increase (decrease) in advances to other funds	(29,091)	29,091	36,657
Increase (decrease) in due to other funds	(512)	(2,652)	4,523
Other income (expense)	9,481	2,447	33,513
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(20,122)</u>	<u>28,886</u>	<u>6,858</u>
Cash Flows From Investing Activities			
Investment earnings received	<u>1,274</u>	<u>5,073</u>	<u>10,749</u>
Net Increase in Cash and Cash Equivalents	13,774	177,376	434,745
Cash and Cash Equivalents, Beginning of Year	<u>436,978</u>	<u>852,033</u>	<u>1,377,981</u>
Cash and Cash Equivalents, End of Year	<u>\$ 450,752</u>	<u>\$ 1,029,409</u>	<u>\$ 1,812,726</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 8,593	\$ (99,975)	\$ 191,191
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	57,256	185,142	149,362
Change in net pension liability	2,813	3,655	7,024
(Increase) Decrease In:			
Accounts receivable	(2,384)		34,100
Inventory	(424)		(2,280)
Prepaid items	244	1,147	12,881
Increase (Decrease) In:			
Accounts payable	1,094	(8,210)	32,904
Accrued liabilities	400	2,702	1,444
Customer deposits	68		(1,062)
Net Cash Provided By Operating Activities	<u>\$ 67,660</u>	<u>\$ 84,461</u>	<u>\$ 425,564</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609		605		TOTALS	
Liquor Fund	Storm Sewer	2015	2014		
\$ 719,582	\$ 39,993	\$ 3,290,707	\$ 3,174,859		
(548,376)	(1,926)	(2,066,194)	(2,117,976)		
(129,860)	(13,238)	(579,659)	(535,639)		
350		(644)	4,268		
<u>41,696</u>	<u>24,829</u>	<u>644,210</u>	<u>525,512</u>		
(11,549)		(22,551)	(739,146)		
			66,957		
			10,000		
		61,785	697,241		
	(11,165)	(184,066)	(129,751)		
(1,625)	(1,899)	(31,653)	(27,149)		
		3,876	11,033		
		104,935	90,742		
	15	56,943	22,298		
<u>(13,174)</u>	<u>(13,049)</u>	<u>(10,731)</u>	<u>2,225</u>		
(20,000)		(87,835)	(66,693)		
(11,809)		24,848	23,935		
	(74)	1,285	(800)		
31,418	179	77,038	47,220		
<u>(391)</u>	<u>105</u>	<u>15,336</u>	<u>3,662</u>		
374	2,393	19,863	17,059		
28,505	14,278	668,678	548,458		
63,524	478,940	3,209,456	2,660,998		
<u>\$ 92,029</u>	<u>\$ 493,218</u>	<u>\$ 3,878,134</u>	<u>\$ 3,209,456</u>		
\$ 2,635	\$ (4,071)	\$ 98,373	\$ 214,175		
21,145	28,792	441,697	411,776		
6,151	579	20,222			
(99)		31,617	(28,651)		
(5,679)		(8,383)	(5,301)		
716	(371)	14,617	11,009		
14,991	(100)	40,679	(82,234)		
1,486		6,032	470		
350		(644)	4,268		
<u>\$ 41,696</u>	<u>\$ 24,829</u>	<u>\$ 644,210</u>	<u>\$ 525,512</u>		

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CITY OF KENYON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 2015. 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.

	<u>Useful Life in Years</u>
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

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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

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)

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.

Pensions

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

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."

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)

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.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action (Resolution) 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 2014 financial statements have been reclassified to conform to the 2015 presentation.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

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

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash	None	N/A	\$ 1,251,687
Money Market Mutual Funds	None	N/A	1,125,063
Non-Negotiable CD's	January 2016 - August 2017	Unrated	<u>3,096,367</u>
Total			<u>\$ 5,473,117</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.

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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

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, 2015 are as follows:

<u>Fund</u>	<u>Goodhue County</u>
General	<u>\$ 15,669</u>
Total	<u><u>\$ 15,669</u></u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,216,097	\$ 101,860	\$	\$ 1,317,957
Construction in progress	13,059	191,403	5,545	198,917
Total capital assets, not being depreciated	<u>1,229,156</u>	<u>293,263</u>	<u>5,545</u>	<u>1,516,874</u>
Capital assets, being depreciated:				
Buildings/improvements	1,726,378	31,789		1,758,167
Vehicles, machinery, and equipment	1,322,057	438,294		1,760,351
Infrastructure	2,408,843			2,408,843
Total capital assets, being depreciated	<u>5,457,278</u>	<u>470,083</u>		<u>5,927,361</u>
Less accumulated depreciation for:				
Buildings/improvements	788,473	44,327		832,800
Vehicles, machinery, and equipment	934,284	57,998		992,282
Infrastructure	839,359	67,894		907,253
Total accumulated depreciation	<u>2,562,116</u>	<u>170,219</u>		<u>2,732,335</u>
Total capital assets, being depreciated, net	<u>2,895,162</u>	<u>299,864</u>		<u>3,195,026</u>
Governmental activities capital assets, net	<u>\$ 4,124,318</u>	<u>\$ 593,127</u>	<u>\$ 5,545</u>	<u>\$ 4,711,900</u>

Governmental Activities:

General government	\$ 15,345
Public safety	44,705
Streets and highways	90,764
Culture and recreation	<u>19,405</u>
Total depreciation expense - governmental activities	<u>\$ 170,219</u>

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
Total capital assets, not being depreciated	57,185			57,185
Capital assets, being depreciated:				
Buildings and structures	6,926,413	14,559		6,940,972
Infrastructure	5,174,619	7,990		5,182,609
Machinery and other equipment	679,534			679,534
Transportation equipment	303,969			303,969
Office furniture and equipment	49,632			49,632
Generators	2,395,536			2,395,536
Total capital assets, being depreciated	15,529,703	22,549		15,552,252
Less accumulated depreciation for:				
Buildings and structures	4,223,265	176,992		4,400,257
Infrastructure	2,509,059	133,736		2,642,795
Machinery and other equipment	331,051	33,215		364,266
Transportation equipment	190,347	17,782		208,129
Office furniture and equipment	40,299	1,485		41,784
Generators	1,359,120	78,485		1,437,605
Total accumulated depreciation	8,653,141	441,695		9,094,836
Total capital assets, being depreciated, net	6,876,562	(419,146)		6,457,416
Business-type activities capital assets, net	\$ 6,933,747	\$ (419,146)	\$	\$ 6,514,601

Business-Type Activities:

Water	\$ 57,256
Sewer	185,142
Electric	149,362
Storm Water	28,792
Liquor	21,145
Total depreciation expense - business-type activities	\$ 441,697

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, 2015 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2015
General Obligation Improvement Bonds			
Series 2007A Refunding	3.75 - 4.20%	2020	\$ 390,000
Series 2012A	0.85 - 2.75%	2023	465,000
General Obligation Revenue Bonds			
Series 2003 Water (PFA)	3.24%	2016	11,000
Series 2010 Utility	2.90%	2018	27,743
Series 2013 Sewer (PFA)	1.0%	2033	1,691,000
Other Liabilities			
2015 Fire Truck Capital Lease	2.88%	2022	<u>330,000</u>
Total			<u>\$ 2,914,743</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, 2015 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Improvement Bonds:					
Series 2007A Refunding	\$ 490,000	\$	\$ 100,000	\$ 390,000	\$ 75,000
Series 2012A	71,240		7,535	63,705	7,535
Other Liabilities					
2015 Fire Truck Capital Lease		330,000		330,000	43,170
Unamortized Discount	(10,030)		(1,973)	(8,057)	
Net pension liability	430,082	25,041		455,123	
Compensated Absences	19,669	1,025		20,694	20,694
Governmental Activities Long-term Liabilities	<u>1,000,961</u>	<u>356,066</u>	<u>105,562</u>	<u>1,251,465</u>	<u>146,399</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
Series 2003 Water (PFA)	23,000		12,000	11,000	11,000
Series 2010 Utility	67,000		39,257	27,743	10,600
Series 2013 Sewer (PFA)	1,714,559	61,785	85,344	1,691,000	86,000
General Obligation Improvement Bonds:					
Series 2012A	448,760		47,465	401,295	47,465
Net pension liability	329,912		2,067	327,845	
Compensated Absences	11,658	3,547		15,205	15,205
Business-type Activities Long-term Liabilities	<u>2,594,889</u>	<u>65,332</u>	<u>186,133</u>	<u>2,474,088</u>	<u>170,270</u>
Total	<u>\$ 3,595,850</u>	<u>\$ 421,398</u>	<u>\$ 291,695</u>	<u>\$ 3,725,553</u>	<u>\$ 316,669</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, 2015 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2016	\$ 82,535	\$ 15,894			\$ 43,170	\$ 9,260
2017	82,535	12,726			44,431	7,999
2018	82,535	9,502			45,729	6,701
2019	87,535	6,119			47,065	5,365
2020	92,535	2,515			48,440	3,990
2021-2023	26,030	1,062			101,165	3,694
Totals	<u>\$ 453,705</u>	<u>\$ 47,818</u>			<u>\$ 330,000</u>	<u>\$ 37,009</u>
<u>Business-Type Activities</u>						
2016	\$ 47,465	\$ 7,574	\$ 107,600	\$ 18,101		
2017	47,465	6,981	98,600	16,463		
2018	47,465	6,281	93,543	15,260		
2019	47,465	5,474	89,000	14,300		
2020	47,465	4,595	90,000	13,410		
2021-2025	163,970	6,687	463,000	53,360		
2026-2030			485,000	29,800		
2031-2033			303,000	6,080		
Totals	<u>\$ 401,295</u>	<u>\$ 37,592</u>	<u>\$ 1,729,743</u>	<u>\$ 166,774</u>	<u>\$</u>	<u>\$</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, 2015 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, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 87,974	\$ 92,380
Special Revenue Funds:		
Fire		68,311
2004 Tax Abatement/Sun Home		139
Capital Project Funds:		
Capital Outlay	160,691	54,834
Fire Truck Capital	54,834	
Enterprise Funds:		
Electric		67,835
Liquor		20,000
Total Transfers	<u>\$ 303,499</u>	<u>\$ 303,499</u>

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

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 72,411	\$
Capital Project Funds:		
Capital Outlay	164,715	
Fire Hall Capital		164,715
Enterprise Funds:		
Water	1,504	
Sewer	25,037	8,907
Electric	7,403	101,086
Storm Water	3,638	
	<u>\$ 274,708</u>	<u>\$ 274,708</u>

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
Capital Project Funds:		
Trondheim Road Extension	\$	\$ 25,795
Enterprise Funds:		
Electric	101,093	
Liquor		75,298
	<u>\$ 101,093</u>	<u>\$ 101,093</u>

The following funds had deficit fund balances as of December 31, 2015.

Fire Hall Capital	\$ 202,620
Trondheim Road Extension	24,180

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Individual Fund Disclosures (Continued)

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

Fire Fund	\$	3,982
Library		2,643

All excess expenditures were the result of planned processes.

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, 2015 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
Restricted Fund Balance				
Special Purpose Donation Fund:				
Public safety	\$ 15,235	\$	\$	\$
Culture and recreation	14,084			
Police Forfeiture Fund:				
Public safety				1,269
Debt Service Funds:				
Debt service requirements			136,995	
Total Restricted Fund Balance	<u>\$ 29,319</u>	<u>\$</u>	<u>\$ 136,995</u>	<u>\$ 1,269</u>
Restricted Net Position				
Public safety	\$ 15,235	\$	\$	\$
Culture and recreation	14,084			
Public safety				1,269
Debt service requirements			136,145	
Total Restricted Net Position	<u>\$ 29,319</u>	<u>\$</u>	<u>\$ 136,145</u>	<u>\$ 1,269</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, 2015 is as follows:

Specific Purpose	Fire	Library	Economic Development Authority	Special Purpose Donations
Assigned Fund Balance				
Public safety	\$ 33,892	\$	\$	\$
Culture and recreation		49,375		12,369
Economic development			135,087	
Total Assigned Fund Balance	<u>\$ 33,892</u>	<u>\$ 49,375</u>	<u>\$ 135,087</u>	<u>\$ 12,369</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

	<u>Capital Outlay Fund</u>
Committed Fund Balance:	
General government	\$ 68,965
Industrial park	15,230
Gunderson house	9,308
Police department	38,198
Fire department	275,627
First responders	15,042
Street department	167,852
Library	8,567
Parks	2,790
Total Committed Fund Balance	<u>\$ 601,579</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

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

1. General Employees Retirement Fund (GERF)

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

1. GERF Benefits

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

2. PEPFF Benefits

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$50,223. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$23,482. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$601,172 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0116% at the end of the measurement period and 0.0125% at the beginning of the period.

For the year ended December 31, 2015, the City recognized pension expense of \$69,836 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 30,309
Difference between projected and actual investment earnings	56,910	
Changes in proportion		31,708
Contributions paid to PERA subsequent to the measurement date	27,463	
Total	<u>\$ 84,373</u>	<u>\$ 62,017</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Included in deferred outflows of resources related to pensions is \$27,463 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2016	\$ (6,444)
2017	(6,444)
2018	(6,445)
2019	14,226

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$181,797 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.016% at the end of the measurement period and 0.016% at the beginning of the period.

For the year ended December 31, 2015, the City recognized pension expense of \$31,328 for its proportionate share of the PEPFF's pension expense. The City also recognized \$1,440 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 29,482
Difference between projected and actual investment earnings	31,675	
Contributions paid to PERA subsequent to the measurement date	14,656	
Total	<u>\$ 46,331</u>	<u>\$ 29,482</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Included in deferred outflows of resources related to pensions is \$14,656 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2016	\$ 2,023
2017	2,023
2018	2,023
2019	2,022
2020	(5,898)
Thereafter	

Actuarial Assumptions

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

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

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

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

There were no changes in actuarial assumptions in 2015.

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERF net pension liability	\$ 945,256	\$ 601,172	\$ 317,012
City's proportionate share of the PEPFF net pension liability	354,325	181,797	39,260
Total	<u>\$ 1,299,581</u>	<u>\$ 782,969</u>	<u>\$ 356,272</u>

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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 2015.

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 2015. 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. Defined Contribution Pension Plan - Fire 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 \$27,220 were received by the Fire Relief from the State (through the City), in accordance with Minnesota statute requirements for the year ended December 31, 2015.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Change in Accounting Standards

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

Following is a reconciliation of the previously reported December 31, 2014 balances with the amounts

Activities/Fund	Net Position December 31, 2014, as Previously Reported	Restatement for Net Pension Liability	Net Position December 31, 2014, as Restated
Governmental Activities	\$ 5,532,766	\$ (383,860)	\$ 5,148,906
Business-Type Activities	\$ 8,456,839	\$ (302,429)	\$ 8,154,410
Proprietary Funds:			
Water Fund	\$ 1,258,401	\$ (54,381)	\$ 1,204,020
Sewer Fund	2,321,167	(39,337)	2,281,830
Electric Fund	3,852,326	(135,718)	3,716,608
Liquor Fund	189,124	(66,714)	122,410
Storm Sewer Fund	835,821	(6,279)	829,542
Total Proprietary Funds	\$ 8,456,839	\$ (302,429)	\$ 8,154,410

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

**CITY OF KENYON, MINNESOTA
Schedules of City Contributions
December 31, 2015**

**Schedule of City Contributions
PERA General Employees Retirement Fund**

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 47,633	\$ 47,633	\$	\$ 662,407	7.2%
2015	50,223	50,223	\$	694,281	7.2%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 21,152	\$ 21,152	\$	\$ 137,426	15.4%
2015	23,482	23,482	\$	154,001	15.2%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll(a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0125%	\$ 587,187	\$ 667,061	88.0%	78.7%
2015	0.0116%	601,172	678,345	88.6%	78.2%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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

Fiscal Year Ended June	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll(a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.016%	\$ 172,807	\$ 117,687	147%	87.1%
2015	0.016%	181,797	145,714	125%	86.6%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

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CITY OF KENYON, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2015

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

	Special Revenue				
	203 Fire	204 Library	205 Economic Development Authority	210 Police Forfeiture	230 Special Purpose Donations
ASSETS					
Cash and investments	\$ 46,633	\$ 51,854	\$ 140,062	\$ 1,269	\$ 43,462
Accounts receivable	4,725				
Special assessments receivable					
Delinquent					
Deferred					
Accrued interest receivable	37	46	125		39
Prepaid items	3,879	1,171	441		
TOTAL ASSETS	\$ 55,274	\$ 53,071	\$ 140,628	\$ 1,269	\$ 43,501
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 16,003	\$ 1,454	\$ 4,300		\$ 1,813
Accrued liabilities		1,071			
Customer deposits			800		
Unearned revenue	1,500				
Due to other funds					
Advances from other funds					
Total Liabilities	17,503	2,525	5,100		1,813
Deferred Inflows of Resources					
Unavailable revenue:					
Special assessments					
Fund Balance:					
Nonspendable:					
Prepaid items	3,879	1,171	441		
Restricted:					
Special purpose contributions					29,319
Public safety				1,269	
Creditors					
Assigned	33,892	49,375	135,087		12,369
Unassigned					
Total Fund Balance	37,771	50,546	135,528	1,269	41,688
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 55,274	\$ 53,071	\$ 140,628	\$ 1,269	\$ 43,501

Special Revenue <u>402/403</u> 2004 Tax Abatement TIF/ Sun Home	Capital Project		Debt Service			Total Nonmajor Governmental Funds <u>2015</u>
	<u>208</u> Fire Hall Capital	<u>209</u> Fire Truck Capital	<u>409</u> Trondheim Road Extension	<u>301</u> 2012 G.O. Improvement Bond	<u>307</u> 2007 G.O. Refunding Bonds	
\$ 8,943 100	\$	\$	\$ 1,615	\$ 34,035	\$ 103,760	\$ 431,633 4,825
			1,445 100,264			1,445 100,264 247 5,491
<u>\$ 9,043</u>	<u>\$</u>	<u>\$</u>	<u>\$ 103,324</u>	<u>\$ 34,035</u>	<u>\$ 103,760</u>	<u>\$ 543,905</u>
\$ 9,043	\$ 37,905	\$	\$	\$ 800	\$	\$ 71,318 1,071 800 1,500 164,715 25,795
	164,715		25,795			
<u>9,043</u>	<u>202,620</u>		<u>25,795</u>	<u>800</u>		<u>265,199</u>
			101,709			101,709
						5,491
						29,319 1,269 136,995 230,723 (226,800)
	(202,620)		(24,180)	33,235	103,760	
	(202,620)		(24,180)	33,235	103,760	176,997
<u>\$ 9,043</u>	<u>\$</u>	<u>\$</u>	<u>\$ 103,324</u>	<u>\$ 34,035</u>	<u>\$ 103,760</u>	<u>\$ 543,905</u>

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

	Special Revenue				
	203	204	205	210	230
	Fire	Library	Economic Development Authority	Police Forfeiture	Special Purpose Donations
REVENUES					
General property taxes	\$ 36,180	\$ 111,350	\$ 12,610	\$	\$
Tax increment					
Special assessments					
Intergovernmental revenues	32,151	41,692			
Charges for services	87,901				
Fines and forfeitures		1,018		479	
Investment income	247	131	744		228
Donations					17,895
Miscellaneous revenues	2,625	2,003	9,326		
TOTAL REVENUES	159,104	156,194	22,680	479	18,123
EXPENDITURES					
Public safety	90,462				3,101
Culture and recreation		157,103			9,425
Economic development			13,882		
Capital outlay					
Principal					
Interest and other					
TOTAL EXPENDITURES	90,462	157,103	13,882		12,526
Excess (deficiency) of revenues over (under) expenditures	68,642	(909)	8,798	479	5,597
OTHER FINANCING SOURCES (USES)					
Capital lease proceeds					
Transfer in					
Transfers out					(68,311)
Total other financing sources (uses)					(68,311)
Net change in fund balances	331	(909)	8,798	479	5,597
Fund Balance - Beginning	37,440	51,455	126,730	790	36,091
Fund Balance - Ending	\$ 37,771	\$ 50,546	\$ 135,528	\$ 1,269	\$ 41,688

Special Revenue 402/403 2004 Tax Abatement TIF/ Sun Home	Capital Projects		Debt Service			Total Nonmajor Governmental Funds 2015
	208 Fire Hall Capital	209 Fire Truck Capital	409 Trondheim Road Extension	301 2012 G.O. Improvement Bond	307 2007 G.O. Refunding Bonds	
\$ 20,096	\$	\$	\$ 22,979	\$ 9,050	\$ 118,730	\$ 310,899
			1,900			20,096
				15		1,900
						73,843
						87,901
						1,497
						1,365
						17,895
						13,954
<u>20,096</u>			<u>24,879</u>	<u>9,065</u>	<u>118,730</u>	<u>529,350</u>
						93,563
						166,528
20,096						33,978
	202,620	384,834				587,454
				7,535	100,000	107,535
			1,475	2,082	18,725	22,282
<u>20,096</u>	<u>202,620</u>	<u>384,834</u>	<u>1,475</u>	<u>9,617</u>	<u>118,725</u>	<u>1,011,340</u>
	(202,620)	(384,834)	23,404	(552)	5	(481,990)
		330,000				330,000
		54,834				54,834
<u>(139)</u>						<u>(68,450)</u>
<u>(139)</u>		<u>384,834</u>				<u>316,384</u>
(139)	(202,620)		23,404	(552)	5	(165,606)
<u>139</u>			<u>(47,584)</u>	<u>33,787</u>	<u>103,755</u>	<u>342,603</u>
<u>\$</u>	<u>\$ (202,620)</u>	<u>\$</u>	<u>\$ (24,180)</u>	<u>\$ 33,235</u>	<u>\$ 103,760</u>	<u>\$ 176,997</u>

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, 2015 and 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 36,180	\$ 36,180	\$ 36,180	\$	\$ 23,240
Intergovernmental Revenues					
Fire state aid	17,000	17,000	27,220	10,220	26,328
Other state aid	3,000	3,000	4,931	1,931	3,000
Total Intergovernmental	20,000	20,000	32,151	12,151	29,328
Charges for Services					
Fire contracts	85,430	85,430	87,901	2,471	71,558
Investment Income					
	70	70	247	177	161
Miscellaneous Revenues					
Dividends	500	500	945	445	678
Other			1,680	1,680	
Total Miscellaneous Revenues	500	500	2,625	2,125	678
TOTAL REVENUES	142,180	142,180	159,104	16,924	124,965
EXPENDITURES					
Employee services	6,785	6,785	5,619	1,166	5,422
Supplies	14,870	14,870	17,416	(2,546)	10,024
Repairs and maintenance	11,250	11,250	10,843	407	8,338
Professional services	3,000	3,000	3,076	(76)	3,000
Training	11,650	11,650	5,583	6,067	6,469
Insurance	3,930	3,930	3,930		3,991
Utilities	7,720	7,720	5,610	2,110	7,344
Fire state aid	17,000	17,000	30,220	(13,220)	29,328
Capital outlay	2,000	2,000		2,000	
Other services and charges	8,275	8,275	8,165	110	8,438
TOTAL EXPENDITURES	86,480	86,480	90,462	(3,982)	82,354
Excess of revenues over expenditures	55,700	55,700	68,642	12,942	42,611
OTHER FINANCING USES					
Transfers out	(55,700)	(55,700)	(68,311)	(12,611)	(30,000)
Net Change in Fund Balance			331	331	12,611
FUND BALANCE - Beginning	37,440	37,440	37,440		24,829
FUND BALANCE - Ending	\$ 37,440	\$ 37,440	\$ 37,771	\$ 331	\$ 37,440

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, 2015 and 2014

	Budgeted Amounts		2015 Actual Amounts	Variance with Final Budget - Positive (Negative)	2014 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 111,350	\$ 111,350	\$ 111,350	\$	\$ 101,770
Intergovernmental Revenues					
County aid	41,690	41,690	41,692	2	42,954
Fines and Foreitures	1,000	1,000	1,018	18	1,116
Investment Income	70	70	131	61	87
Miscellaneous Revenues					
Dividends	100	100	555	455	377
Other	250	250	1,448	1,198	389
Total Miscellaneous Revenues	350	350	2,003	1,653	766
TOTAL REVENUES	154,460	154,460	156,194	1,734	146,693
EXPENDITURES					
Employee services	113,075	113,075	116,340	(3,265)	103,711
Books and other materials	23,300	23,300	23,047	253	25,684
Repairs and maintenance	250	250	444	(194)	
Training	650	650	316	334	332
Insurance	2,310	2,310	2,309	1	2,281
Utilities	6,275	6,275	5,339	936	6,204
Automation	6,500	6,500	6,438	62	5,891
Capital outlay	1,200	1,200	1,166	34	945
Other services and charges	900	900	1,704	(804)	818
TOTAL EXPENDITURES	154,460	154,460	157,103	(2,643)	145,866
Net Change in Fund Balance			(909)	(909)	827
FUND BALANCE - Beginning	51,455	51,455	51,455		50,628
FUND BALANCE - Ending	\$ 51,455	\$ 51,455	\$ 50,546	\$ (909)	\$ 51,455

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CITY OF KENYON, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2015

CITY OF KENYON, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Charges for services	\$ 241,345	\$ 244,575
Operating Expenses		
Employee services	107,038	111,483
Supplies	3,667	5,274
Professional services	1,125	1,288
Insurance	2,942	2,946
Utilities	13,204	14,296
Repairs and maintenance	29,428	7,904
Depreciation	57,256	65,627
Dues and subscriptions	809	921
Other services	561	3,894
Safety	631	161
Shared facility charge	7,800	7,800
Other operating expense	8,291	7,085
Total Operating Expenses	<u>232,752</u>	<u>228,679</u>
Operating Income	<u>8,593</u>	<u>15,896</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	8,137	457
Dividends	1,172	463
Connection fees	1,688	5,064
Intergovernmental	173	173
Special assessments	888	338
Investment income	1,662	1,756
Loss on disposal of capital assets		(5,133)
Interest expense	(5,101)	(5,926)
Total Nonoperating Revenues (Expenses)	<u>8,618</u>	<u>(2,808)</u>
Change in net position	17,211	13,088
Net Position - Beginning of Year, as originally stated	1,258,401	
Restatement (Note 12)	<u>(54,381)</u>	
Net Position - Beginning of Year, as restated	<u>1,204,020</u>	<u>1,245,313</u>
Net Position - End of Year	<u>\$ 1,221,231</u>	<u>\$ 1,258,401</u>

CITY OF KENYON, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Charges for services	\$ 273,340	\$ 277,250
Operating Expenses		
Employee services	87,387	68,970
Supplies	7,519	8,000
Professional services	15,356	12,711
Insurance	9,325	6,438
Utilities	48,479	50,907
Repairs and maintenance	13,690	24,695
Depreciation	185,142	150,870
Dues and subscriptions		1,450
Other services	104	455
Other operating expense	6,313	1,125
Total Operating Expenses	373,315	325,621
Operating Income (Loss)	(99,975)	(48,371)
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	806	4,262
Dividends	1,641	1,001
Connection fees	1,688	4,220
Property taxes	103,125	92,552
Special assessments	4,934	5,126
Investment income	5,714	4,387
Loss on disposal of capital assets		(21,845)
Interest expense	(22,541)	(18,995)
Total Nonoperating Revenues (Expenses)	95,367	70,708
Change in net position	(4,608)	22,337
Net Position - Beginning of Year, as originally stated	2,321,167	
Restatement (Note 12)	(39,337)	
Net Position - Beginning of Year	2,281,830	2,298,830
Net Position - End of Year	\$ 2,277,222	\$ 2,321,167

CITY OF KENYON, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Charges for services	\$ 1,984,731	\$ 1,966,791
Operating Expenses		
Power costs	1,131,811	1,112,647
Conservation improvement program	10,957	22,776
Employee services	264,516	235,645
Supplies	2,240	4,299
Professional services	4,490	4,825
Insurance	54,723	55,980
Utilities	27,032	28,581
Repairs and maintenance	14,593	10,763
Depreciation	149,362	148,683
Dues and subscriptions	33,585	33,608
Other services	829	826
Safety	9,379	9,455
Generator expense	45,334	22,467
Shared facility charge	31,200	31,200
Other operating expense	13,489	11,830
Total Operating Expenses	<u>1,793,540</u>	<u>1,733,585</u>
Operating Income	<u>191,191</u>	<u>233,206</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	3,025	6,859
CapX 2020 transmission revenue	8,905	13,341
Dividends	21,620	8,720
Connection fees	500	1,749
Special assessments	543	2,003
Intergovernmental	713	713
Investment income	11,347	8,496
Miscellaneous expense	(750)	(503)
Interest expense	(535)	(562)
Total Nonoperating Revenues (Expenses)	<u>45,368</u>	<u>40,816</u>
INCOME BEFORE TRANSFERS	236,559	274,022
Transfers out	<u>(67,835)</u>	<u>(66,693)</u>
Change in net position	168,724	207,329
Net Position - Beginning of Year, as originally stated	3,852,326	
Restatement (Note 12)	<u>(135,718)</u>	
Net Position - Beginning of Year	<u>3,716,608</u>	<u>3,644,997</u>
Net Position - End of Year	<u>\$ 3,885,332</u>	<u>\$ 3,852,326</u>

CITY OF KENYON, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Sales	\$ 719,681	\$ 674,822
Cost of sales	467,272	444,431
Gross Profit	252,409	230,391
Operating Expenses		
Employee services	137,497	119,807
Supplies	4,450	3,610
Insurance	11,267	11,015
Utilities	16,211	15,913
Repairs and maintenance	7,465	5,615
Depreciation	21,145	21,733
Dues and subscriptions	1,250	1,088
Other services	27,408	18,789
Other operating expense	23,081	21,534
Total Operating Expenses	249,774	219,104
Operating Income	2,635	11,287
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	30,312	10,858
Dividend	1,106	759
Investment income	438	227
Interest expense	(1,625)	(2,603)
Total Nonoperating Revenues (Expenses)	30,231	9,241
INCOME BEFORE TRANSFERS	32,866	20,528
Transfers out	(20,000)	
Change in net position	12,866	20,528
Net Position - Beginning of Year, as originally stated	189,124	
Restatement (Note 12)	(66,714)	
Net Position - Beginning of Year	122,410	168,596
Net Position - End of Year	\$ 135,276	\$ 189,124

CITY OF KENYON, MINNESOTA
STORM SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Charges for services	\$ 39,993	\$ 40,072
Operating Expenses		
Employee services	13,817	7,670
Repairs and maintenance	1,455	5,282
Depreciation	28,792	24,863
Other operating expense		100
Total Operating Expenses	<u>44,064</u>	<u>37,915</u>
Operating Income	<u>(4,071)</u>	<u>2,157</u>
Nonoperating Revenues (Expenses)		
Dividend	179	117
Special assessments		114
Investment income	2,723	2,213
Interest expense	<u>(1,860)</u>	<u>(1,954)</u>
Total Nonoperating Revenues (Expenses)	<u>1,042</u>	<u>490</u>
Change in net position	(3,029)	2,647
Net Position - Beginning of Year, as originally stated	835,821	
Restatement (Note 12)	<u>(6,279)</u>	
Net Position - Beginning of Year	<u>829,542</u>	<u>833,174</u>
Net Position - End of Year	<u>\$ 826,513</u>	<u>\$ 835,821</u>

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, 2015 and 2014

	2015	2014
Revenues	\$ 98,069	\$ 107,560
Expenditures		
Principal	85,344	52,286
Interest	17,375	
Total Expenses	102,719	52,286
Excess (Deficit) Revenues	(4,650)	55,274
Fund Balance - Beginning of Year	107,560	52,286
Fund Balance - End of Year	\$ 102,910	\$ 107,560

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

To the City Council
City of Kenyon, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2015, and the related notes to the financial statements, which collectively comprise the City of Kenyon, Minnesota's basic financial statements, and have issued our report thereon dated March 14, 2016.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, finding 2015-001 described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

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

To the City Council
City of Kenyon, Minnesota

City of Kenyon, Minnesota's Response to Findings

City of Kenyon, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Kenyon, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
March 14, 2016

**CITY OF KENYON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2015-001 Limited Segregation of Duties

Condition: A limited number of personnel are primarily responsible for the accounting and financial duties relating to the revenue and receipt cycle and the purchase and disbursement cycle.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. An important element of internal accounting controls is an adequate segregation of duties that minimizes the opportunities for any one individual to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business.

Effect: Because of the limited size of the City's administrative staff, there is not an adequate segregation of duties.

Cause: There is a limited number of administrative staff.

Recommendation: We recommend that the City continue to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with the Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Findings:

Our City employs a limited number of individuals to provide the accounting services for the City. The City will continue to segregate duties as best it can within the limits of what it considers to be cost beneficial.

Official Responsible for Ensuring CAP:

City Administrator Mark Vahlsing is the official responsible for ensuring correction action of the deficiency.

Planned Completion Date of CAP:

The City will continue to segregate duties the best it can within the limits of what it considers to be cost beneficial.

Plan to Monitor Completion of CAP:

Mayor and Members of the City Council will monitor this process.

**CITY OF KENYON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2013-001

2014-001

Limited Segregation of Duties

Condition: A limited number of personnel are primarily responsible for the accounting and financial duties relating to the revenue and receipt cycle and the purchase and disbursement cycle.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. An important element of internal accounting controls is an adequate segregation of duties that minimizes the opportunities for any one individual to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business.

Effect: Because of the limited size of the City's administrative staff, there is not an adequate segregation of duties.

Cause: There is a limited number of administrative staff.

Recommendation: We recommend that the City continue to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Kenyon, Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2016.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Schaffer and Associates, Ltd.

Rochester, Minnesota
March 14, 2016