

CITY OF KENYON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2011

CITY OF KENYON, MINNESOTA

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CITY OF KENYON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2011

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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>
Diane Barrett	Mayor	12/31/2012
Fred Barsness	Council Member	12/31/2014
Bryan Haugen	Council Member	12/31/2014
Richard Nielsen	Council Member	12/31/2012
Brian Paulson	Council Member	12/31/2012

CITY OFFICIAL - APPOINTED

Chris Heineman	City Administrator
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PUBLIC UTILITIES COMMISSION - APPOINTED

Scott Swenhaugen	Chairperson	12/31/2013
Michael Engel	Commissioner	12/31/2012
Richard Nielsen	Commissioner	12/31/2014

PUBLIC UTILITIES COMMISSION ADMINISTRATION - APPOINTED

Randy Eggert	Operations Superintendent
Susan Dodds	Bookkeeper

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CITY OF KENYON, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

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

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, 2011, which collectively comprise the City of Kenyon, Minnesota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated April 14, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, City of Kenyon, Minnesota adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City reporting nonspendable, restricted, assigned and unassigned fund balances in its governmental funds.

The Management's Discussion and Analysis on pages 3 to 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 of the City of Kenyon, Minnesota. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
February 21, 2012

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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, 2011. We encourage readers to consider the information presented here in conjunction with the entire audit report.

FINANCIAL HIGHLIGHTS

- The total net assets (assets exceeding liabilities) for the City of Kenyon were \$13,032,052. Of this amount, \$3,971,126 (unrestricted net assets) 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 \$1,094,116, of which 54 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 \$459,976, or 51 percent of total general fund expenditures compared to 15 percent in 2010.
- The City of Kenyon decreased its existing debt principal by \$347,000 during the current fiscal year, leaving a remaining balance of \$1,166,000.
- The Gunderson House (fund 206) was closed and the remaining balance of \$12,071 was transferred into the General fund.

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 assets presents all information on all of the City of Kenyon's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, recycling, culture and recreation, and economic development. The business-type activities include water, sewer, electric, liquor, and storm sewer.

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.

CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements can be found on pages 13-15 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 11 individual governmental funds, including two major funds, General and Trondheim Road Extension. The other nine governmental funds include:

- Ambulance
- Capital
- Fire
- Library
- Economic Development Authority
- Police Forfeitures
- Special Purpose Donations
- 2007 GO Refunding Debt Service
- 2004 Tax Abatement/Tax Increment Financing

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 Trondheim Road Extension 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 16-17 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 24-29 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 30-49 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 50-53.

Government-Wide Financial Analysis

As noted earlier, net assets 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 \$13,032,052 at the close of the fiscal year, with \$5,066,349 of these net assets from governmental activities and \$7,965,703 from proprietary funds.

Of these net assets \$8,871,503 or 68 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 Assets

	Government Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,408,327	\$ 1,087,483	\$ 3,098,845	\$ 3,002,332	\$ 4,507,172	\$ 4,089,815
Capital assets	4,520,114	4,689,093	5,481,918	5,676,230	10,002,032	10,365,323
Total assets	<u>\$ 5,928,441</u>	<u>\$ 5,776,576</u>	<u>\$ 8,580,763</u>	<u>\$ 8,678,562</u>	<u>\$14,509,204</u>	<u>\$14,455,138</u>
Long-term liabilities outstanding	\$ 745,751	\$ 832,755	\$ 384,778	\$ 625,977	\$ 1,130,529	\$ 1,458,732
Other liabilities	116,341	99,305	230,282	217,937	346,623	317,242
Total liabilities	<u>862,092</u>	<u>932,060</u>	<u>615,060</u>	<u>843,914</u>	<u>1,477,152</u>	<u>1,775,974</u>
Net assets:						
Invested in capital assets, net of related debt	3,774,363	3,856,338	5,097,140	5,050,253	8,871,503	8,906,591
Restricted	21,096	102,212	168,327	203,643	189,423	305,855
Unrestricted	1,270,890	885,966	2,700,236	2,580,752	3,971,126	3,466,718
Total Net Assets	<u>5,066,349</u>	<u>4,844,516</u>	<u>7,965,703</u>	<u>7,834,648</u>	<u>13,032,052</u>	<u>12,679,164</u>
Total Liabilities & Net Assets	<u>\$ 5,928,441</u>	<u>\$ 5,776,576</u>	<u>\$ 8,580,763</u>	<u>\$ 8,678,562</u>	<u>\$14,509,204</u>	<u>\$14,455,138</u>

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

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

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

The total increase in net assets for governmental activities is \$221,833 for the year ended December 31, 2011. The total revenues for governmental activities amounted to \$1,404,517 while total expenses were \$1,406,824 and transfers in were \$224,140, which is illustrated in the statement below.

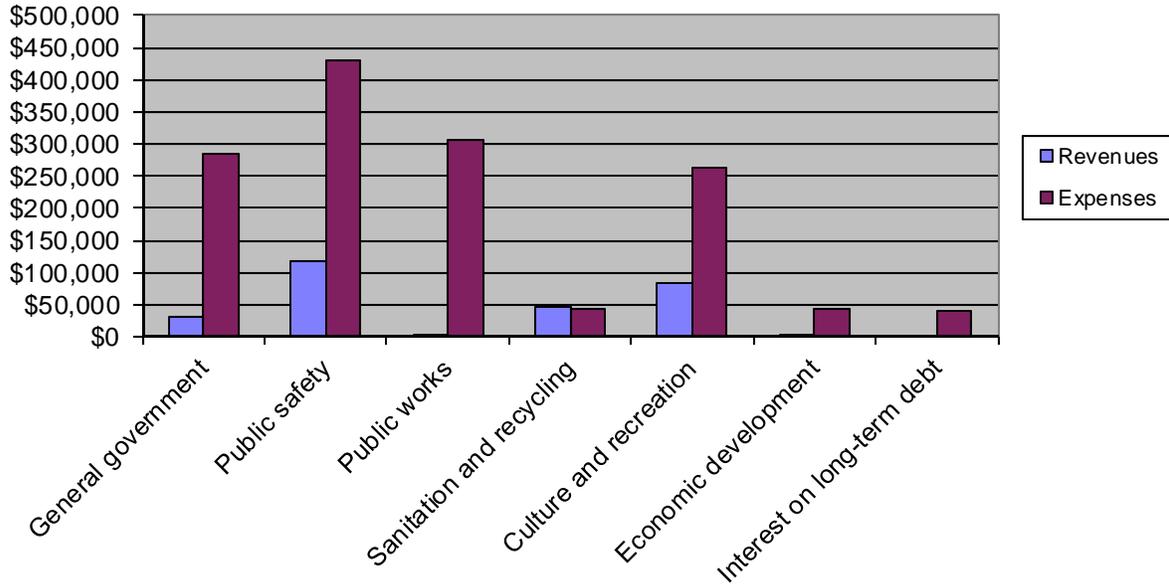
City of Kenyon's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$ 176,441	\$ 188,198	\$ 2,868,599	\$ 2,839,244	\$ 3,045,040	\$ 3,027,442
Operating Grants & Contributions	102,072	88,608			102,072	88,608
Capital Grants & Contributions	2,006	4,190	5,769	102,469	7,775	106,659
General revenues:						
General property taxes	577,517	512,720			577,517	512,720
Tax increments	17,019	15,620			17,019	15,620
Intergovernmental Revenue	503,845	501,237	11,490	864	515,335	502,101
Interest earnings	6,746	6,573	19,272	28,197	26,018	34,770
Miscellaneous	11,721	11,280	62,726	32,927	74,447	44,207
Gain on sale of capital assets	7,150	100			7,150	100
Total revenues	1,404,517	1,328,526	2,967,856	3,003,701	4,372,373	4,332,227
Expenses:						
General government	284,404	300,082			284,404	300,082
Public safety	429,766	421,124			429,766	421,124
Public works	305,586	335,365			305,586	335,365
Sanitation and recycling	43,500	43,500			43,500	43,500
Culture and recreation	262,109	245,958			262,109	245,958
Economic development	42,004	41,669			42,004	41,669
Interest on long-term debt	39,455	43,037			39,455	43,037
Water			197,401	210,614	197,401	210,614
Sewer			285,080	293,164	285,080	293,164
Electric			1,511,094	1,468,974	1,511,094	1,468,974
Liquor			599,792	592,675	599,792	592,675
Storm sewer			19,294	25,790	19,294	25,790
Total expenses	1,406,824	1,430,735	2,612,661	2,591,217	4,019,485	4,021,952
Increase in net assets before transfers and other items	(2,307)	(102,209)	355,195	412,484	352,888	310,275
Transfers	224,140	128,721	(224,140)	(128,721)		
Change in net assets	221,833	26,512	131,055	283,763	352,888	310,275
Net Assets – January 1	4,844,516	4,818,004	7,834,648	7,550,885	12,679,164	12,368,889
Net Assets – December 31	\$ 5,066,349	\$ 4,844,516	\$ 7,965,703	\$ 7,834,648	\$ 13,032,052	\$ 12,679,164

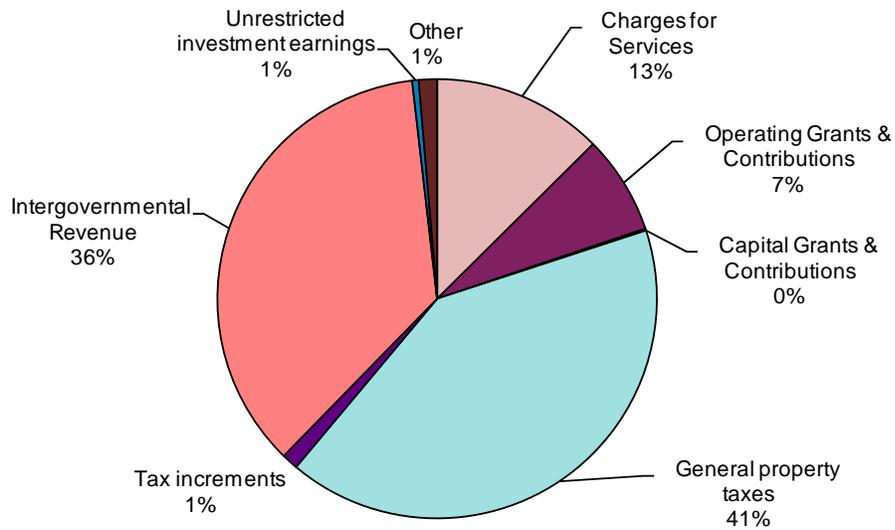
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs shows 2011 revenues and expenses for government activities.

Expenses and Program Revenues-Governmental Activities



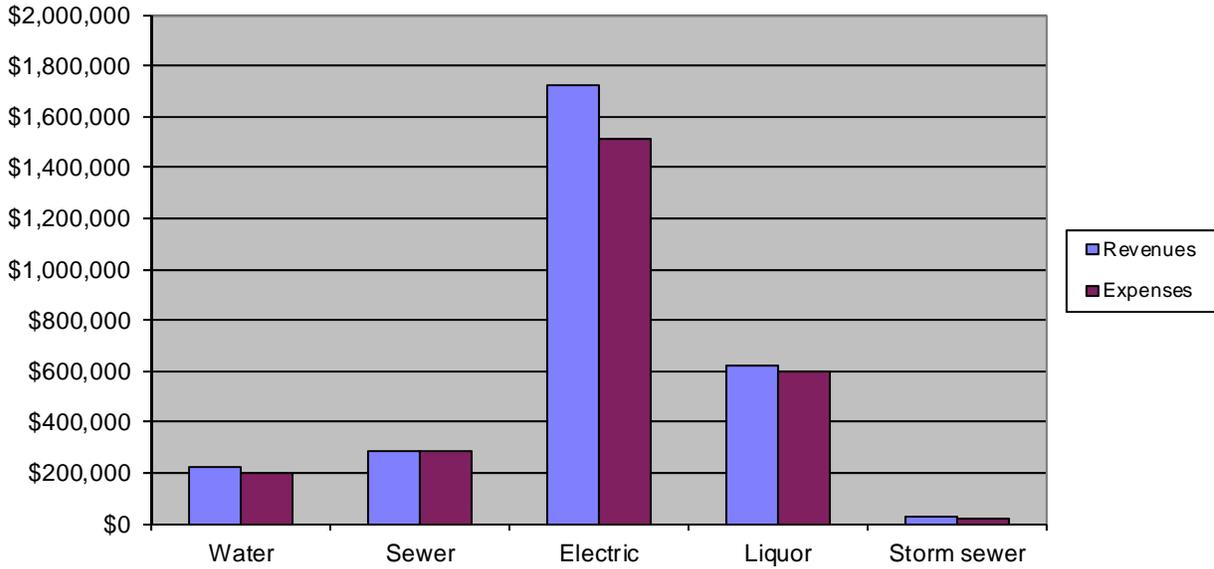
Government Activities Revenues



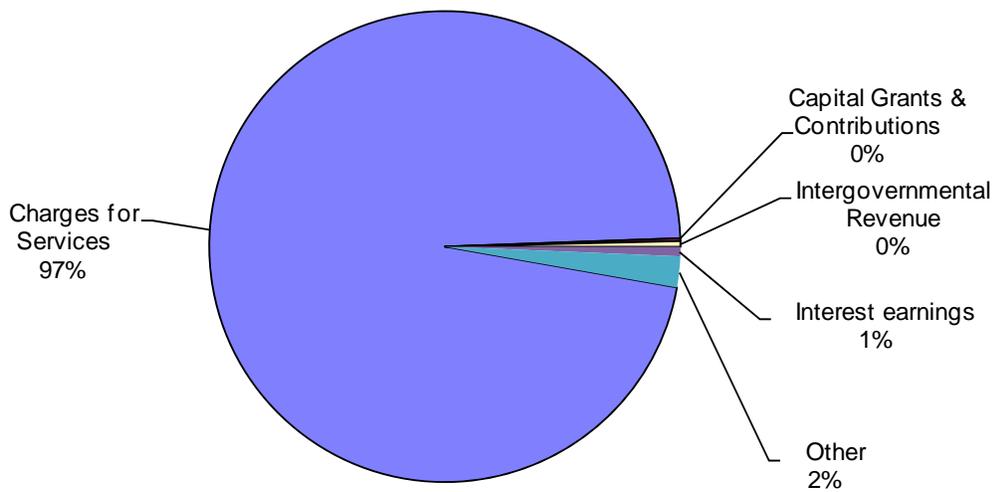
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business-type activities. Business-type activities increased the City of Kenyon net assets \$131,055 for the year ended December 31, 2011. Business-type activities revenues and expenses are illustrated in the charts below.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Revenue



CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Kenyon's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kenyon's financing requirements. In particular, unassigned and assigned fund balance may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

GASB (Governmental Accounting Standards Board) has issued statement 54 which address how fund balances are reported. Previously, balances were reported as reserved, restricted or unrestricted. The amounts have been restated in accordance with GASB 54 for comparison to 2011 figures. The new classifications are:

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. A 2011 resolutions by the Kenyon City Council committed the amounts in the Capital Fund, which were accumulated primarily by transfers form the general fund.

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 have been moved to 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 notes regarding the committed fund balances are found in Note 8 in the Notes to Financial Statements.

At the end of the current fiscal year, the City of Kenyon's governmental funds reported combined ending fund balances of \$1,094,116, which included an unassigned fund balance of the general fund of \$434,986.

The fund balance of the City of Kenyon's general fund increased by \$282,530 during the current year. Key factors in this change are as follows:

- LGA was \$87,342 more than anticipated
- State Market Value Credit was \$23,652 more than budgeted.
- An unbudgeted amount of \$100,000 from the Electric fund was transferred to the General fund.
- General fund Professional expenses, including legal, engineering and auditing services, were \$25,332 under budget.
- Transfer of \$10,000 from Law Enforcement department to the Capital fund budgeted for 2011 was not completed.

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

The debt service fund has a total fund balance of \$102,353, all of which is assigned for the payment of debt service. The net increase in fund balance during the current year is related to having resources available to paying off the 2007 refunding bond which had a remaining balance of \$770,000 at December 31, 2011.

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 assets of the proprietary funds at year-end amounted to \$2,700,236 with a total increase in net assets of \$131,055. Each of the following funds had net increases which contributed to this total:

- Water (net increase of \$21,220). Expenses relating to water leaks and repairs was down \$6,900 and engineering expenses decreased \$4,600 from 2010. Water rates were increased by approximately 10 percent in October 2011.
- Sanitary Sewer (net increase of \$44,969). The final payment for two existing bonds took place in 2010, significantly reducing debt payments for 2011. In October 2011, the Sanitary Sewer rates were increased by approximately 1 percent.
- Electric (net increase of \$44,557). Legal fees, auditing and bond interest decreased for a total of \$18,000 since 2010. The final expenses were made in 2011 for the Big Stone II project and totaled \$25,000 less than the previous year's expenses. A transfer to the General fund of \$100,000 was made in addition to the budgeted transfers for In Lieu of Taxes and Shared Facilities and Services.
- Liquor (net increase of \$13,901). The increase in net assets for the Liquor fund prior to the transfer to the General fund was \$33,901 compared to \$39,964 in 2010. A total of \$20,000 was transferred to the General fund in 2011.
- Storm Sewer (net increase of \$6,681). A slight decrease in repairs and maintenance costs resulted in a small increase in net assets.

Capital Asset Administration. The City of Kenyon's investment in capital assets for its governmental and business type activities as of December 31, 2011 amounts to \$10,002,032 (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	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,216,097	\$ 1,216,097	\$ 57,185	\$ 57,185	\$ 1,273,282	\$ 1,273,282
Building and Improvements	1,708,091	1,708,091	5,131,831	5,131,831	6,839,922	6,839,922
Infrastructure	1,314,135	1,333,135	4,643,155	4,604,485	5,957,290	5,937,620
Machinery and Equipment	2,311,238	2,311,238	536,705	520,389	2,847,943	2,831,627
Transportation Equipment			302,332	302,332	302,332	302,332
Office Furniture and Equipment			77,117	77,117	77,117	77,117
Generators			2,395,536	2,395,536	2,395,536	2,395,536
Construction in progress	31,906	7,514	126,028		157,934	7,514
Total assets	6,581,467	6,576,075	13,269,889	13,088,875	19,851,356	19,664,950
Less: Accumulated Depreciation	(2,061,353)	(1,886,982)	(7,787,971)	(7,412,645)	(9,849,324)	(9,299,627)
Net Capital Assets	\$ 4,520,114	\$ 4,689,093	\$ 5,481,918	\$ 5,676,230	\$ 10,002,032	\$ 10,365,323

More detailed information on the City of Kenyon's capital assets is presented in the Notes to the Financial Statements on page 40-41.

**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 \$1,166,000. Of this amount, \$770,000 is the general obligation refunding bond from 2007. The remainder of the City's debt includes bonds secured solely by specified revenue sources (i.e., Revenue Bonds). G.O. revenue bonds include the water fund's PFA loan and 2010 Utility Bonds. The 2008 Electric refunding bond is scheduled for final payment in August 2012. 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	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 770,000	\$ 860,000	\$	\$	\$ 770,000	\$ 860,000
General Obligation Revenue			176,000	193,000	176,000	193,000
Revenue Bonds			220,000	460,000	220,000	460,000
Total assets	\$ 770,000	\$ 860,000	\$ 396,000	\$ 653,000	\$ 1,166,000	\$ 1,513,000

Additional information on the City of Kenyon's long-term debt can be found in the Notes to the Financial Statements on pages 42-44.

Factors on the City of Kenyon's Future

Potential adjustments to the 2012 expenditure budget

- Wastewater Treatment System - The City of Kenyon's wastewater treatment system is in need of several improvements, including a major upgrade of the overflow basin. Estimates for all required improvements total \$1.75 million, and an application has been submitted to the Minnesota Pollution Control Agency PFA program for low interest financing. PFA financing will not be awarded until late 2012, and the city will continue to make repairs as needed utilizing the existing fund balance. The city also passed a refunding resolution which will allow these expenditures to be included in the long-term financing. If a PFA loan is not secured from the MPCA, the City of Kenyon will need to pursue other long-term financing options to complete these repairs and upgrades.
- Kenyon Fire Station - The City of Kenyon continues to consider options for replacement of the existing fire station. Options include a renovation and expansion project at the current site or new construction at a different site. This project will require long-term financing, but further expenditures may be needed in 2012 to secure a site and develop final plans for this project.
- Historic Kenyon High School - Last summer, the City Council passed a Resolution which established the a goal of acquiring the existing site to eliminate blight and prepare for future development. As this issue unfolds, additional funding may be needed for hazardous material abatement, preliminary demolition work, or to match State or Federal grant funding.

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

Potential future revenue sources

- Institute Street Light Utility District – Street Lighting Utility Districts are becoming very common as a way to pass on the cost of street light operation and maintenance to local property owners. Due to policy changes implemented in 2009, the street lighting budget has been reduced by approximately 18% since 2008. Even so, the annual electrical cost for public street lights continues to be over \$30,000. Based on the number of utility customers, a monthly fee of \$2.65 would generate enough revenue to cover this cost.
- Institute Cable and/or Gas Franchise Fee – a franchise fee is paid to a local authority for the privilege of using the public rights-of-way and to compensate for the costs of regulation. The City of Kenyon received a Cable Franchise Fee until 1999 when an agreement was reached to provide free services to all government offices was reached. These franchise fees are typically passed on to the end users.
- Staff continues to work on several major redevelopment projects (Kenyon Sunset Home, Central Valley Cooperative, Hanke Ready Mix Plant, and Central Hotel) that will increase the taxable value of each parcel and add to the City of Kenyon's tax capacity.

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, 2011

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CITY OF KENYON, MINNESOTA
STATEMENT OF NET ASSETS

December 31, 2011

With Comparative Totals for December 31, 2010

	Governmental Activities	Business-Type Activities	Totals	
			2011	2010
Assets				
Cash and investments	\$ 1,127,849	\$ 2,142,580	\$ 3,270,429	\$ 2,851,658
Receivables	289,286	434,385	723,671	694,517
Internal balances	(33,676)	33,676		
Inventory		216,702	216,702	226,315
Loans receivable				3,666
Prepaid expenses	24,868	76,520	101,388	110,016
Restricted cash		194,982	194,982	203,643
Capital assets:				
Nondepreciable	1,248,003	183,213	1,431,216	1,280,796
Depreciable, net	3,272,111	5,298,705	8,570,816	9,084,527
Total Assets	\$ 5,928,441	\$ 8,580,763	\$ 14,509,204	\$ 14,455,138
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 65,913	\$ 189,722	\$ 255,635	\$ 215,998
Deposits payable	800	8,578	9,378	9,760
Compensated absences	18,983	14,297	33,280	39,580
Accrued liabilities	17,217	13,338	30,555	29,692
Accrued interest payable	12,978	4,347	17,325	22,212
Unearned revenue	450		450	
Noncurrent liabilities:				
Due within one year	90,000	235,778	325,778	347,000
Due in more than one year	655,751	149,000	804,751	1,111,732
Total Liabilities	862,092	615,060	1,477,152	1,775,974
Net Assets				
Invested in capital assets, net of related debt	3,774,363	5,097,140	8,871,503	8,906,591
Restricted for:				
Special purpose contribution	16,347		16,347	10,147
Tax increment districts	2,359		2,359	2,459
Public safety	2,390		2,390	175
Debt service		168,327	168,327	177,553
Unrestricted	1,270,890	2,700,236	3,971,126	3,582,239
Total Net Assets	5,066,349	7,965,703	13,032,052	12,679,164
Total Liabilities and Net Assets	\$ 5,928,441	\$ 8,580,763	\$ 14,509,204	\$ 14,455,138

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011
With Comparative Totals for December 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 284,404	\$ 29,740	\$	\$
Public safety	429,766	73,340	43,069	840
Public works	305,586			1,166
Sanitation and recycling	43,500	45,228		
Culture and recreation	262,109	24,625	58,823	
Economic development	42,004	3,508	180	
Interest on long-term debt	39,455			
Total governmental activities	<u>1,406,824</u>	<u>176,441</u>	<u>102,072</u>	<u>2,006</u>
Business-Type activities:				
Water	197,401	222,772		
Sewer	285,080	276,462		5,769
Electric	1,511,094	1,724,550		
Liquor	599,792	620,028		
Storm sewer	19,294	24,787		
Total business-type activities	<u>2,612,661</u>	<u>2,868,599</u>		<u>5,769</u>
Total	<u>\$ 4,019,485</u>	<u>\$ 3,045,040</u>	<u>\$ 102,072</u>	<u>\$ 7,775</u>

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

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements

FORM A-2

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2011	2010
\$ (254,664)	\$	\$ (254,664)	\$ (279,660)
(312,517)		(312,517)	(297,796)
(304,420)		(304,420)	(334,447)
1,728		1,728	381
(178,661)		(178,661)	(174,069)
(38,316)		(38,316)	(21,111)
(39,455)		(39,455)	(43,037)
<u>(1,126,305)</u>		<u>(1,126,305)</u>	<u>(1,149,739)</u>
	25,371	25,371	50,399
	(2,849)	(2,849)	32,637
	213,456	213,456	244,944
	20,236	20,236	24,191
	5,493	5,493	(1,675)
	<u>261,707</u>	<u>261,707</u>	<u>350,496</u>
<u>(1,126,305)</u>	<u>261,707</u>	<u>(864,598)</u>	<u>(799,243)</u>
577,517		577,517	512,720
17,019		17,019	15,620
503,845	11,490	515,335	502,101
6,746	19,272	26,018	34,770
11,721	62,726	74,447	44,207
7,150		7,150	100
224,140	(224,140)		
<u>1,348,138</u>	<u>(130,652)</u>	<u>1,217,486</u>	<u>1,109,518</u>
221,833	131,055	352,888	310,275
<u>4,844,516</u>	<u>7,834,648</u>	<u>12,679,164</u>	<u>12,368,889</u>
<u>\$ 5,066,349</u>	<u>\$ 7,965,703</u>	<u>\$ 13,032,052</u>	<u>\$ 12,679,164</u>

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CITY OF KENYON, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2011

CITY OF KENYON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011
With Comparative Totals for December 31, 2010

	101 General	409 Trondheim Road Extension	Other Governmental Funds	Total Governmental Funds	
				2011	2010
ASSETS					
Cash and investments	\$ 394,821	\$ 2,042	\$ 730,986	\$ 1,127,849	\$ 807,498
Accounts receivable	3,891		21,972	25,863	12,995
Developer receivable - deferred	52,725			52,725	62,018
Taxes receivable - delinquent	61,940			61,940	61,958
Special assessments receivable					
Delinquent			898	898	898
Deferred	3,595	110,673		114,268	116,446
Loan receivable					3,666
Accrued interest receivable	105		208	313	337
Due from other funds	69,512			69,512	69,056
Due from other governments	33,279			33,279	12,837
Advances to other funds	16,653			16,653	32,895
Prepaid items	18,398		6,470	24,868	26,720
TOTAL ASSETS	\$ 654,919	\$ 112,715	\$ 760,534	\$ 1,528,168	\$ 1,207,324
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 27,375	\$	\$ 38,538	\$ 65,913	\$ 44,021
Accrued liabilities	14,257		2,960	17,217	16,909
Customer deposits			800	800	800
Advances from other funds		119,841		119,841	119,841
Unearned revenue			450	450	
Deferred revenue	118,260	110,673	898	229,831	244,986
Total Liabilities	159,892	230,514	43,646	434,052	426,557
Fund Balance					
Nonspendable:					
Prepaid items	18,398		6,470	24,868	26,720
Advances to other funds	16,653			16,653	32,895
Restricted:					
Special purpose contributions			16,347	16,347	10,147
Tax increment districts			2,359	2,359	2,459
Public safety			2,390	2,390	175
Committed			445,190	445,190	418,322
Assigned			244,132	244,132	259,641
Unassigned	459,976	(117,799)		342,177	30,408
Total Fund Balance	495,027	(117,799)	716,888	1,094,116	780,767
TOTAL LIABILITIES AND FUND BALANCE	\$ 654,919	\$ 112,715	\$ 760,534	\$ 1,528,168	\$ 1,207,324

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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	101 General	409 Trondheim Road Extension	Other Governmental Funds	Total Governmental Funds	
				2011	2010
REVENUES					
General property taxes	\$ 321,313	\$ 2,012	\$ 254,210	\$ 577,535	\$ 519,375
Tax increment			17,019	17,019	15,620
Licenses and permits	6,142			6,142	5,008
Special assessments		3,344		3,344	3,978
Intergovernmental revenues	524,413		56,827	581,240	586,465
Charges for services	77,825		56,661	134,486	140,585
Fines and forfeitures	9,757		1,778	11,535	8,078
Investment income	5,504		1,242	6,746	6,573
Loan repayments			3,215	3,215	4,866
Donations			26,124	26,124	7,692
Miscellaneous revenues	28,643		23,649	52,292	44,414
Total Revenues	<u>973,597</u>	<u>5,356</u>	<u>440,725</u>	<u>1,419,678</u>	<u>1,342,654</u>
EXPENDITURES					
General government	269,181		12	269,193	282,326
Public safety	288,764		87,641	376,405	356,756
Public works	205,806			205,806	236,173
Sanitation and recycling	43,500			43,500	43,500
Culture and recreation	77,450		160,040	237,490	225,034
Economic development	5,707		26,317	32,024	84,548
Capital outlay	3,799		34,373	38,172	26,814
Debt service:					
Principal			90,000	90,000	160,000
Interest and other		4,494	33,385	37,879	42,589
Total Expenditures	<u>894,207</u>	<u>4,494</u>	<u>431,768</u>	<u>1,330,469</u>	<u>1,457,740</u>
Excess (deficiency) of revenues over (under) expenditures	<u>79,390</u>	<u>862</u>	<u>8,957</u>	<u>89,209</u>	<u>(115,086)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	224,140		47,000	271,140	220,721
Transfers out	(21,000)		(26,000)	(47,000)	(92,000)
Total Other Financing Sources (Uses)	<u>203,140</u>		<u>21,000</u>	<u>224,140</u>	<u>128,721</u>
Net change in fund balances	282,530	862	29,957	313,349	13,635
Fund Balance - Beginning	<u>212,497</u>	<u>(118,661)</u>	<u>686,931</u>	<u>780,767</u>	<u>767,132</u>
Fund Balance - Ending	<u>\$ 495,027</u>	<u>\$ (117,799)</u>	<u>\$ 716,888</u>	<u>\$ 1,094,116</u>	<u>\$ 780,767</u>

See Notes to Financial Statements

**CITY OF KENYON, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS**

December 31, 2011

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

Total governmental fund balances (page 16)		\$ 1,094,116
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 6,581,467	
Less: Accumulated depreciation	<u>(2,061,353)</u>	
		4,520,114
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Developer receivable	\$ 52,725	
Delinquent property taxes	61,940	
Deferred and delinquent special assessments	<u>115,166</u>	
		229,831
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	\$ (770,000)	
Compensated absences	(18,983)	
Deferred charges	24,249	
Accrued interest	<u>(12,978)</u>	
		<u>(777,712)</u>
Net assets of governmental activities (page 13)		<u><u>\$ 5,066,349</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, 2011

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

Net change in fund balances - total governmental funds (page 17)	\$	313,349
<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	\$ 24,392	
Depreciation expense	<u>(193,371)</u>	(168,979)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2011	\$ 229,831	
Deferred revenue, December 31, 2010	<u>(244,986)</u>	(15,155)
<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, 2011	\$ (18,983)	
Compensated absences, December 31, 2010	<u>23,177</u>	4,194
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal retirement on long-term debt	\$ 90,000	
Amortization of deferred charges	(2,996)	
Change in accrued interest	<u>1,420</u>	<u>88,424</u>
Change in net assets of governmental activities (pages 14 and 15)	\$	<u><u>221,833</u></u>

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 292,704	\$ 292,704	\$ 321,313	\$ 28,609	\$ 216,308
Licenses and Permits	4,000	4,000	6,142	2,142	5,008
Intergovernmental Revenues					
Local government aid	379,301	379,301	466,643	87,342	466,643
Market value credit			23,652	23,652	24,353
Police state aid	15,000	15,000	18,597	3,597	17,931
Other state aid	2,700	2,700	15,521	12,821	13,513
Total Intergovernmental	397,001	397,001	524,413	127,412	522,440
Charges for Services					
General government	10,600	10,600	9,235	(1,365)	14,234
Recycling	43,500	43,500	45,228	1,728	43,881
Culture and recreation	22,500	22,500	23,362	862	22,400
Total Charges for Services	76,600	76,600	77,825	1,225	80,515
Fines and Forfeits	6,000	6,000	9,757	3,757	6,859
Investment Income	2,000	2,000	5,504	3,504	2,915
Miscellaneous Revenues					
Refunds and reimbursements	2,000	2,000	17,520	15,520	12,345
Rents			1,365	1,365	1,365
Other	1,000	1,000	9,758	8,758	7,273
Total Miscellaneous Revenues	3,000	3,000	28,643	25,643	20,983
TOTAL REVENUES	\$ 781,305	\$ 781,305	\$ 973,597	\$ 192,292	\$ 855,028

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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 15,121	\$ 15,121	\$ 15,226	\$ (105)	\$ 13,296
Other services and charges	2,700	2,700	484	2,216	2,144
Total Mayor and Council	<u>17,821</u>	<u>17,821</u>	<u>15,710</u>	<u>2,111</u>	<u>15,440</u>
City Administration					
Employee services	156,118	156,118	156,571	(453)	154,540
Travel and conferences	3,500	3,500	3,100	400	3,148
SHIP grant			12,393	(12,393)	793
Other services and charges	1,000	1,000	2,644	(1,644)	1,509
Total City Administration	<u>160,618</u>	<u>160,618</u>	<u>174,708</u>	<u>(14,090)</u>	<u>159,990</u>
Elections	<u>250</u>	<u>250</u>	<u>191</u>	<u>59</u>	<u>2,512</u>
General Government					
Employee services	5,572	5,572	4,111	1,461	5,509
Supplies	7,600	7,600	8,307	(707)	8,776
Telephone	9,000	9,000	9,212	(212)	9,420
Insurance	5,375	5,375	4,883	492	9,443
Utilities	5,675	5,675	5,584	91	10,829
Other services and charges	14,950	14,950	16,804	(1,854)	17,435
Total Government Buildings	<u>48,172</u>	<u>48,172</u>	<u>48,901</u>	<u>(729)</u>	<u>61,412</u>
Professional Services					
Auditing and accounting	20,000	20,000	12,815	7,185	22,990
Legal	20,000	20,000	11,379	8,621	12,999
Engineering	15,000	15,000	5,477	9,523	5,565
Total Professional Services	<u>55,000</u>	<u>55,000</u>	<u>29,671</u>	<u>25,329</u>	<u>41,554</u>
Total General Government	<u>\$ 281,861</u>	<u>\$ 281,861</u>	<u>\$ 269,181</u>	<u>\$ 12,680</u>	<u>\$ 280,908</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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Public Safety					
Police Protection					
Employee services	\$ 211,582	\$ 211,582	\$ 218,027	\$ (6,445)	\$ 216,301
Supplies	18,750	18,750	24,922	(6,172)	23,299
Legal	12,000	12,000	29,130	(17,130)	9,510
Telephone	3,000	3,000	2,369	631	3,177
Insurance	3,030	3,030	2,993	37	4,994
Other services and charges	12,750	12,750	11,323	1,427	11,603
Total Police Protection	<u>261,112</u>	<u>261,112</u>	<u>288,764</u>	<u>(27,652)</u>	<u>268,884</u>
Total Public Safety	<u>261,112</u>	<u>261,112</u>	<u>288,764</u>	<u>(27,652)</u>	<u>268,884</u>
Public Works					
Streets					
Employee services	123,690	123,690	122,109	1,581	114,275
Supplies	37,200	37,200	31,806	5,394	30,611
Contracts	10,000	10,000	1,706	8,294	41,323
Insurance	7,150	7,150	6,661	489	6,476
Utilities	10,600	10,600	8,015	2,585	8,913
Other services and charges	5,200	5,200	2,621	2,579	1,646
Total Streets	<u>193,840</u>	<u>193,840</u>	<u>172,918</u>	<u>20,922</u>	<u>203,244</u>
Street Lighting	<u>31,700</u>	<u>31,700</u>	<u>32,888</u>	<u>(1,188)</u>	<u>32,929</u>
Total Public Works	<u>225,540</u>	<u>225,540</u>	<u>205,806</u>	<u>19,734</u>	<u>236,173</u>
Sanitation and Recycling					
Recycling	<u>43,500</u>	<u>43,500</u>	<u>43,500</u>		<u>43,500</u>
Culture and Recreation					
Park and Recreation					
Employee services	10,056	10,056	11,022	(966)	12,506
Supplies	2,500	2,500	1,977	523	3,592
Insurance	4,010	4,010	3,975	35	3,914
Utilities	1,250	1,250	1,558	(308)	1,875
Other services and charges	200	200	952	(752)	278
Total Park and Recreation	<u>\$ 18,016</u>	<u>\$ 18,016</u>	<u>\$ 19,484</u>	<u>\$ (1,468)</u>	<u>\$ 22,165</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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Culture and Recreation (Continued)					
Swimming Pool					
Employee services	\$ 26,104	\$ 26,104	\$ 26,943	\$ (839)	\$ 24,124
Supplies	5,750	5,750	6,813	(1,063)	4,985
Insurance	3,720	3,720	3,668	52	3,548
Utilities	8,000	8,000	10,706	(2,706)	7,622
Other services and charges	4,550	4,550	3,907	643	4,992
Total Swimming Pool	<u>48,124</u>	<u>48,124</u>	<u>52,037</u>	<u>(3,913)</u>	<u>45,271</u>
Gunderson House	<u>6,940</u>	<u>6,940</u>	<u>5,929</u>	<u>1,011</u>	<u>5,904</u>
Total Culture and Recreation	<u>73,080</u>	<u>73,080</u>	<u>77,450</u>	<u>(4,370)</u>	<u>73,340</u>
Economic Development			<u>5,707</u>	<u>(5,707)</u>	<u>54,907</u>
Capital Outlay	<u>1,000</u>	<u>1,000</u>	<u>3,799</u>	<u>(2,799)</u>	<u>14,621</u>
TOTAL EXPENDITURES	<u>886,093</u>	<u>886,093</u>	<u>894,207</u>	<u>(8,114)</u>	<u>972,333</u>
Excess of revenues over expenditures	<u>(104,788)</u>	<u>(104,788)</u>	<u>79,390</u>	<u>184,178</u>	<u>(117,305)</u>
Other Financing Sources (Uses)					
Transfers in	126,347	126,347	224,140	97,793	128,721
Transfers out	(31,000)	(31,000)	(21,000)	10,000	(54,000)
Total Other Financing Sources (Uses)	<u>95,347</u>	<u>95,347</u>	<u>203,140</u>	<u>107,793</u>	<u>74,721</u>
Net change in fund balance	(9,441)	(9,441)	282,530	291,971	(42,584)
FUND BALANCE - Beginning	<u>212,497</u>	<u>212,497</u>	<u>212,497</u>		<u>255,081</u>
FUND BALANCE - Ending	<u>\$ 203,056</u>	<u>\$ 203,056</u>	<u>\$ 495,027</u>	<u>\$ 291,971</u>	<u>\$ 212,497</u>

See Notes to Financial Statements

**CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Assets**

December 31, 2011

With Comparative Totals for December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601 Water Fund Fund	602 Sewer Fund Fund	603 Electric Fund Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 267,301	\$ 560,758	\$ 855,530
Accounts receivable	31,775	32,134	273,987
Accrued interest receivable	54	156	668
Due from other funds	992	78,485	10,315
Inventory	20,370		158,950
Prepaid items	2,472	2,574	67,133
Total Current Assets	<u>322,964</u>	<u>674,107</u>	<u>1,366,583</u>
Other Assets:			
Special assessments		95,409	
Advances to other funds			119,841
Restricted cash			194,982
Total Other Assets		<u>95,409</u>	<u>314,823</u>
Capital assets:			
Nondepreciable	51,654	29,893	22,981
Depreciable	1,859,066	5,286,674	5,201,729
Less: Accumulated depreciation	(930,807)	(3,655,048)	(2,882,653)
Net capital assets	<u>979,913</u>	<u>1,661,519</u>	<u>2,342,057</u>
Total Assets	<u>1,302,877</u>	<u>2,431,035</u>	<u>4,023,463</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	11,249	18,147	122,472
Accrued liabilities	2,595	1,420	6,043
Accrued interest payable	666	575	3,106
Customer deposits	2,065		6,513
Due to other funds	51,665	11,307	98,654
Accrued compensated absences	3,527	976	8,466
Current maturities of bonds payable	11,000	16,000	208,778
Total Current Liabilities	<u>82,767</u>	<u>48,425</u>	<u>454,032</u>
Noncurrent Liabilities:			
Advances from other funds			
Bonds payable, net of current maturities, discount, and issuance costs	<u>46,000</u>	<u>103,000</u>	
Total Liabilities	<u>128,767</u>	<u>151,425</u>	<u>454,032</u>
NET ASSETS			
Invested in capital assets, net of related debt	922,913	1,542,519	2,133,279
Restricted for debt service			168,327
Unrestricted	<u>251,197</u>	<u>737,091</u>	<u>1,267,825</u>
Total Net Assets	<u>\$ 1,174,110</u>	<u>\$ 2,279,610</u>	<u>\$ 3,569,431</u>

See Notes to Financial Statements

FORM C-1

Business-Type Activities - Enterprise Funds			
609 Liquor Fund Fund	605 Storm Sewer Fund	TOTALS	
		2011	2010
\$ 42,105	\$ 416,886	\$ 2,142,580	\$ 2,044,160
74		337,970	316,485
10	118	1,006	1,487
	2,322	92,114	88,399
37,382		216,702	226,315
4,000	341	76,520	83,296
<u>83,571</u>	<u>419,667</u>	<u>2,866,892</u>	<u>2,760,142</u>
		95,409	109,056
		119,841	119,841
		194,982	203,643
		<u>410,232</u>	<u>432,540</u>
42,813	35,872	183,213	57,185
224,372	514,836	13,086,677	13,031,690
(159,910)	(159,554)	(7,787,972)	(7,412,645)
<u>107,275</u>	<u>391,154</u>	<u>5,481,918</u>	<u>5,676,230</u>
<u>190,846</u>	<u>810,821</u>	<u>8,759,042</u>	<u>8,868,912</u>
31,560	6,294	189,722	171,977
3,280		13,338	12,783
		4,347	7,814
		8,578	8,960
		161,626	157,455
1,328		14,297	16,403
		235,778	257,000
<u>36,168</u>	<u>6,294</u>	<u>627,686</u>	<u>632,392</u>
16,653		16,653	32,895
		149,000	368,977
<u>52,821</u>	<u>6,294</u>	<u>793,339</u>	<u>1,034,264</u>
107,275	391,154	5,097,140	5,050,253
		168,327	177,553
<u>30,750</u>	<u>413,373</u>	<u>2,700,236</u>	<u>2,606,842</u>
<u>\$ 138,025</u>	<u>\$ 804,527</u>	<u>\$ 7,965,703</u>	<u>\$ 7,834,648</u>

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Operating Revenues			
Sales and charges for services	\$ 222,772	\$ 276,462	\$ 1,724,550
Operating Expenses			
Cost of sales			859,457
Power costs			21,953
Conservation improvement program			13,669
Base load projects			225,589
Salaries and wages	92,463	48,448	6,053
Supplies	3,714	9,461	11,723
Professional services	997	13,975	55,043
Insurance	3,088	4,740	27,064
Utilities	14,705	46,167	11,867
Repairs and maintenance	10,750	24,275	152,560
Depreciation	60,704	130,253	33,688
Dues and subscriptions	644	1,565	233
Other services	27	506	12,249
Safety	24		41,374
Generator expense			9,221
Other operating expense	6,756	1,722	
Total Operating Expenses	<u>193,872</u>	<u>281,112</u>	<u>1,481,743</u>
Operating Income (Loss)	<u>28,900</u>	<u>(4,650)</u>	<u>242,807</u>
Nonoperating Revenues (Expenses)			
Miscellaneous revenue	353	34,581	12,939
Connection fees	844		250
Intergovernmental	185	10,615	690
Special assessments		5,769	
Investment income	2,267	2,349	13,562
Amortization of deferred charges		(376)	(15,425)
Miscellaneous expense			(1,501)
Interest expense	(3,529)	(3,592)	(12,425)
Total Nonoperating Revenues (Expenses)	<u>120</u>	<u>49,346</u>	<u>(1,910)</u>
Income Before Transfers	29,020	44,696	240,897
Transfers out	<u>(7,800)</u>		<u>(196,340)</u>
Change in net assets	21,220	44,696	44,557
Total Net Assets - Beginning of Year	<u>1,152,890</u>	<u>2,234,914</u>	<u>3,524,874</u>
Total Net Assets - End of Year	<u>\$ 1,174,110</u>	<u>\$ 2,279,610</u>	<u>\$ 3,569,431</u>

See Notes to Financial Statements

FORM C-2

Business-Type Activities - Enterprise Funds			
609 Liquor Fund	605 Storm Sewer Fund	TOTALS	
		2011	2010
\$ 620,028	\$ 24,787	\$ 2,868,599	\$ 2,839,244
416,711		416,711	406,958
		859,457	768,053
		21,953	29,887
		13,669	32,356
113,104		479,604	488,204
3,730		22,958	18,915
		26,695	37,534
9,728		72,599	72,051
13,968		101,904	107,818
7,723	914	55,529	79,723
13,429	18,380	375,326	378,287
1,085		36,982	36,752
7,726		8,492	7,861
		12,273	13,171
		41,374	42,404
11,951		29,650	28,029
<u>599,155</u>	<u>19,294</u>	<u>2,575,176</u>	<u>2,548,003</u>
20,873	5,493	293,423	291,241
13,611	148	61,632	31,359
		1,094	1,568
		11,490	864
		5,769	102,469
54	1,040	19,272	28,197
		(15,801)	(10,846)
		(1,501)	(1,198)
(637)		(20,183)	(31,170)
<u>13,028</u>	<u>1,188</u>	<u>61,772</u>	<u>121,243</u>
33,901	6,681	355,195	412,484
(20,000)		(224,140)	(128,721)
13,901	6,681	131,055	283,763
<u>124,124</u>	<u>797,846</u>	<u>7,834,648</u>	<u>7,550,885</u>
<u>\$ 138,025</u>	<u>\$ 804,527</u>	<u>\$ 7,965,703</u>	<u>\$ 7,834,648</u>

**CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Cash Flows

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601	602	603
	Water Fund	Sewer Fund	Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 220,137	\$ 258,264	\$ 1,719,372
Cash payments to suppliers	(25,122)	(94,653)	(1,110,620)
Cash payments to employees	(92,085)	(48,414)	(211,865)
Other cash payments	(60)		(322)
Net Cash Provided By Operating Activities	102,870	115,197	396,565
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(77,489)	(51,163)	(16,491)
Bond proceeds			
Principal payments on bonds	(11,000)	(6,000)	(240,000)
Interest paid on bonds	(3,775)	(3,623)	(15,615)
Connection fees received	844		250
Special assessments received		19,416	
Net Cash Used In Capital and Related Financing Activities	(91,420)	(41,370)	(271,856)
Cash Flows From Non-Capital Financing Activities			
Transfers in from (out to) other funds	(7,800)		(196,340)
Increase (decrease) in advances to other funds			
Increase (decrease) in due to other funds	1,991	(3,750)	2,180
Other income (expense)	538	45,196	12,128
Net Cash Provided By (Used In) Non-Capital Financing Activities	(5,271)	41,446	(182,032)
Cash Flows From Investing Activities			
Investment earnings received	2,266	2,316	14,034
Net Increase (Decrease) in Cash and Cash Equivalents	8,445	117,589	(43,289)
Cash and Cash Equivalents, Beginning of Year	258,856	443,169	1,093,801
Cash and Cash Equivalents, End of Year	\$ 267,301	\$ 560,758	\$ 1,050,512
Classified As:			
Current assets	\$ 267,301	\$ 560,758	\$ 855,530
Restricted assets			194,982
Total Cash and Cash Equivalents, End of Year	\$ 267,301	\$ 560,758	\$ 1,050,512

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ 28,900	\$ (4,650)	\$ 242,807
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	60,704	130,253	152,560
(Increase) Decrease In:			
Accounts receivable	(2,635)	(18,198)	(5,178)
Inventory	6,264		3,264
Prepaid items	(63)	39	6,695
Increase (Decrease) In:			
Accounts payable	9,382	7,719	(3,001)
Accrued liabilities	378	34	(260)
Customer deposits	(60)		(322)
Net Cash Provided By Operating Activities	\$ 102,870	\$ 115,197	\$ 396,565

See Notes to Financial Statements

FORM C-3

Business-Type Activities - Enterprise Funds			
609	605	TOTALS	
Liquor Fund	Storm Sewer	2011	2010
\$ 624,554	\$ 24,787	\$ 2,847,114	\$ 2,907,099
(475,104)	5,403	(1,700,096)	(1,706,951)
(114,807)		(467,171)	(485,927)
		(382)	(3,128)
<u>34,643</u>	<u>30,190</u>	<u>679,465</u>	<u>711,093</u>
	(35,872)	(181,015)	(236,879)
			125,000
		(257,000)	(335,000)
(637)		(23,650)	(33,785)
		1,094	1,568
		19,416	6,888
<u>(637)</u>	<u>(35,872)</u>	<u>(441,155)</u>	<u>(472,208)</u>
(20,000)		(224,140)	(128,721)
(16,242)		(16,242)	(21,467)
	35	456	3,800
13,611	148	71,621	31,025
<u>(22,631)</u>	<u>183</u>	<u>(168,305)</u>	<u>(115,363)</u>
51	1,087	19,754	29,999
11,426	(4,412)	89,759	153,521
30,679	421,298	2,247,803	2,094,282
<u>\$ 42,105</u>	<u>\$ 416,886</u>	<u>\$ 2,337,562</u>	<u>\$ 2,247,803</u>
\$ 42,105	\$ 416,886	\$ 2,142,580	\$ 2,044,160
		194,982	203,643
<u>\$ 42,105</u>	<u>\$ 416,886</u>	<u>\$ 2,337,562</u>	<u>\$ 2,247,803</u>
\$ 20,873	\$ 5,493	\$ 293,423	\$ 291,241
13,429	18,380	375,326	378,289
4,526		(21,485)	67,855
85		9,613	4,304
82	23	6,776	(15,245)
(2,649)	6,294	17,745	(14,500)
(1,703)		(1,551)	2,277
		(382)	(3,128)
<u>\$ 34,643</u>	<u>\$ 30,190</u>	<u>\$ 679,465</u>	<u>\$ 711,093</u>

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CITY OF KENYON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 of 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. Separate financial statements are issued for this component unit and also are combined within this report.

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 assets 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.

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

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

The City reports the following major governmental funds:

The *General fund* is the 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 *2006 Trondheim Road Extension fund* accounts for activities of its related capital project.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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)

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.

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, and Net Assets or Equity

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 2011. The enterprise fund accounts receivable are reported net of a \$5,000 allowance for uncollectible accounts in 2011 and 2010.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

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 revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

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".

Restricted Assets

The issuance of the Electric Revenue Bonds, required the establishment of the following separate restricted funds:

Reserve Account – This account is used only when money in the debt service account or other moneys available therefore are insufficient to pay principal and interest on the revenue bonds, provided, however, that the moneys in the reserve account may be used to prepay the revenue bonds, when such repayment will retire all of the revenue bonds then outstanding.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Debt Service Account – This account is used for the payment of principal and interest of the Electric Revenue Bonds. In accordance with the resolution, monthly deposits are made to the account for one-twelfth of the total principal and interest payments required during the following 12 months.

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 5.0% to 7.5%. 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 revenue 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.

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

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

Market Value Credit (MVC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by MVC. This credit is paid to the City by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The intergovernmental revenue is recognized as revenue by the City at the time of recognition. In governmental fund types the cost of these benefits is recognized when payments are made to the employees.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs may be reported separately and amortized over the term of the related debt.

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

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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Concentration of Credit Risk

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

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

Net Assets / Fund Balance

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

Invested in Capital Assets, Net of Related Debt – 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 Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

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 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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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 2010 financial statements have been reclassified to conform to the 2011 presentation.

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2011, 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	\$ 586,687
Money Market Mutual Funds	None	N/A	1,854,260
Non-Negotiable CD's	January - December 2012	Unrated	<u>1,024,464</u>
Total			<u>\$ 3,465,411</u>

Per Statement of Net Assets:

Cash and Investments	\$ 3,270,429
Restricted Cash	<u>194,982</u>
Total	<u>\$ 3,465,411</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.
-

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

- 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.

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, 2011 are as follows:

<u>Fund</u>	<u>Goodhue County</u>
General	\$ 33,279

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,216,097	\$	\$	\$ 1,216,097
Work in progress	7,514	24,392		31,906
Total capital assets, not being depreciated	1,223,611	24,392		1,248,003
Capital assets, being depreciated:				
Buildings/improvements	1,708,091			1,708,091
Machinery and equipment	1,333,135		19,000	1,314,135
Infrastructure	2,311,238			2,311,238
Total capital assets, being depreciated	5,352,464		19,000	5,333,464
Less accumulated depreciation for:				
Buildings/improvements	597,571	48,338		645,909
Machinery and equipment	715,163	81,060	19,000	777,223
Infrastructure	574,248	63,973		638,221
Total accumulated depreciation	1,886,982	193,371	19,000	2,061,353
Total capital assets, being depreciated, net	3,465,482	(193,371)		3,272,111
Governmental activities capital assets, net	\$ 4,689,093	\$ (168,979)	\$	\$ 4,520,114

Governmental Activities:

General government	\$ 16,447
Public safety	54,948
Streets and highways	97,756
Culture and recreation	24,220
Total depreciation expense - governmental activities	\$ 193,371

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
Work in progress		126,028		126,028
Total capital assets, not being depreciated	57,185	126,028		183,213
Capital assets, being depreciated:				
Buildings and structures	5,131,831			5,131,831
Infrastructure	4,604,485	38,670		4,643,155
Machinery and other equipment	520,389	16,316		536,705
Transportation equipment	302,332			302,332
Office furniture and equipment	77,117			77,117
Generators	2,395,536			2,395,536
Total capital assets, being depreciated	13,031,690	54,986		13,086,676
Less accumulated depreciation for:				
Buildings and structures	3,662,106	111,155		3,773,261
Infrastructure	2,158,322	140,586		2,298,908
Machinery and other equipment	310,551	30,930		341,481
Transportation equipment	167,758	13,360		181,118
Office furniture and equipment	68,727	811		69,538
Generators	1,045,181	78,484		1,123,665
Total accumulated depreciation	7,412,645	375,326		7,787,971
Total capital assets, being depreciated, net	5,619,045	(320,340)		5,298,705
Business-type activities capital assets, net	\$ 5,676,230	\$ (194,312)	\$	\$ 5,481,918

Business-Type Activities:

Water	\$ 60,704
Sewer	130,253
Electric	152,560
Storm Water	18,380
Liquor	13,429
	<u>\$ 375,326</u>

Total depreciation expense - business-type activities

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 2000 Public Project Revenue Bonds and to finance construction of various improvements. These bonds are payable primarily from ad valorem tax levies 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.

Revenue Bonds:

The 2008 Electric Revenue Bonds were issued to refund the 2002 Electric Revenue and Refunding Bonds. These bonds are payable primarily from user fees and are backed by the full faith and credit of the City.

A summary of interest rates, maturities and December 31, 2011 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2011
General Obligation Improvement Bonds			
Series 2007A Refunding	3.75 - 4.20%	2020	\$ 770,000
General Obligation Revenue Bonds			
Series 2003 Water (PFA)	3.24%	2016	57,000
Series 2010 Utility	2.90%	2018	119,000
Revenue Bonds			
Series 2008 Electric and Refunding	2.90 - 3.40%	2012	220,000
Total			<u>\$ 1,166,000</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The changes in the Long-Term Debt of the City during the year ended December 31, 2011 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Improvement Bonds:					
Series 2007A Refunding	\$ 860,000	\$	\$ 90,000	\$ 770,000	\$ 90,000
Unamortized Discount and Issue Costs	(27,245)		(2,996)	(24,249)	
Compensated Absences	23,177		4,194	18,983	18,983
Governmental Activities Long-term Liabilities	<u>855,932</u>		<u>91,198</u>	<u>764,734</u>	<u>108,983</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
Series 2003 Water (PFA)	68,000		11,000	57,000	11,000
Series 2010 Utility	125,000		6,000	119,000	16,000
Revenue Bonds:					
Series 2008 Electric and Refunding	460,000		240,000	220,000	220,000
Unamortized Discount and Issue Costs	(27,023)		(15,801)	(11,222)	
Compensated Absences	16,403		2,106	14,297	14,297
Business-type Activities Long-term Liabilities	<u>642,380</u>		<u>243,305</u>	<u>399,075</u>	<u>261,297</u>
Total	<u>\$ 1,498,312</u>	<u>\$</u>	<u>\$ 334,503</u>	<u>\$ 1,163,809</u>	<u>\$ 370,280</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2011 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2012	\$ 90,000	\$ 29,540				
2013	95,000	25,930				
2014	95,000	22,130				
2015	100,000	18,230				
2016	75,000	14,692				
2017-2020	315,000	27,158				
Totals	<u>\$ 770,000</u>	<u>\$ 137,680</u>				
<u>Business-Type Activities</u>						
2012			\$ 27,000	\$ 5,182	\$ 220,000	\$ 7,480
2013			29,000	4,347		
2014			30,000	3,468		
2015			30,000	2,558		
2016			30,000	1,646		
2017-2020			30,000	871		
Totals			<u>\$ 176,000</u>	<u>\$ 18,072</u>	<u>\$ 220,000</u>	<u>\$ 7,480</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, 2011 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, 2011 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 224,140	\$ 21,000
Special Revenue Funds:		
Fire		25,000
Library		1,000
Capital Project Funds:		
Capital Outlay	47,000	
Enterprise Funds:		
Water		7,800
Electric		196,340
Liquor		20,000
Total Transfers	<u>\$ 271,140</u>	<u>\$ 271,140</u>

The amounts due to and from and advanced to and from other funds at December 31, 2011, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 69,512	\$
Enterprise Funds:		
Water	992	51,665
Sewer	78,485	11,307
Electric	10,315	98,654
Storm Water	2,322	
	<u>\$ 161,626</u>	<u>\$ 161,626</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Individual Fund Disclosures (Continued)

	Advances From Other Funds	Advances To Other Funds
General Fund	\$ 16,653	\$
Capital Project Funds:		
Trondheim Road Extension		119,841
Enterprise Funds:		
Electric	119,841	
Liquor		16,653
	<u>\$ 136,494</u>	<u>\$ 136,494</u>

At December 31, 2011 the following funds have deficit fund equity:

Capital Project Funds:		
Trondheim Road Extension		\$ 117,799

The City intends to fund accumulated deficits through additional revenue sources.

7. Deferred Revenue

Deferred revenue recorded in the fund financial statements at December 31, 2011 consists of the following:

- Special assessments, taxes and loans receivable that are not available for current year expenditures

Revenue	General Fund	Special Revenue	Debt Service Funds	Capital Projects Funds	Totals
Special assessments	\$ 3,595	\$	\$ 898	\$ 110,673	\$ 115,166
Taxes receivable	61,940				61,940
Other	52,725				52,725
Total	<u>\$ 118,260</u>	<u>\$</u>	<u>\$ 898</u>	<u>\$ 110,673</u>	<u>\$ 229,831</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Fund Equity

	<u>Capital Outlay Fund</u>
Committed fund balance:	
General government	\$ 75,103
Industrial park	15,083
Police department	18,514
Fire department	187,318
Street department	111,907
Library	9,714
Parks	10,128
Pool	<u>17,423</u>
 Total committed fund balance	 <u><u>\$ 445,190</u></u>

9. 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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans - Statewide

Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Risk Management

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF Members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$66,798, \$63,342, and \$62,861, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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 2011.

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 2011. 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.

12. Fireman's Relief Association

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

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

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

Contributions totaling \$17,970 were received by the Fire Relief from the State (through the City), in accordance with Minnesota statute requirements for the year ended December 31, 2011.

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CITY OF KENYON, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2011

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

December 31, 2011

	Special Revenue				
	201 Ambulance	203 Fire	204 Library	205	
				Economic Development Authority	210 Police Forfeiture
ASSETS					
Cash and investments	\$ 476	\$ 12,251	\$ 42,139	\$ 100,146	\$ 790
Accounts receivable		21,250	122	600	
Special assessments receivable					
Delinquent					
Accrued interest receivable			12	28	
Prepaid items		4,544	1,528	398	
TOTAL ASSETS	\$ 476	\$ 38,045	\$ 43,801	\$ 101,172	\$ 790
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 476	\$ 28,678	\$ 1,599	\$ 282	\$
Accrued liabilities			2,960		
Customer deposits				800	
Unearned revenue				450	
Deferred revenue					
Total Liabilities	476	28,678	4,559	1,532	
Fund Balance:					
Nonspendable:					
Prepaid items		4,544	1,528	398	
Restricted:					
Special purpose contributions					
Tax increment districts					
Public safety					790
Committed					
Assigned		4,823	37,714	99,242	
Total Fund Balance		9,367	39,242	99,640	790
TOTAL LIABILITIES AND FUND BALANCE	\$ 476	\$ 38,045	\$ 43,801	\$ 101,172	\$ 790

FORM D-1

Special Revenue		Capital Project	Debt Service	Total Nonmajor Governmental Funds
230	402		307	2011
Special Purpose Donation	2004 Tax Abatement TIF/ Sun Home	202 Capital Outlay	2007 G.O. Refunding Bonds	
\$ 18,639	\$ 2,359	\$ 451,870	\$ 102,316	\$ 730,986
				21,972
			898	898
5		126	37	208
				6,470
<u>\$ 18,644</u>	<u>\$ 2,359</u>	<u>\$ 451,996</u>	<u>\$ 103,251</u>	<u>\$ 760,534</u>
\$ 697		\$ 6,806	\$	\$ 38,538
				2,960
				800
				450
			898	898
<u>697</u>		<u>6,806</u>	<u>898</u>	<u>43,646</u>
				6,470
16,347				16,347
	2,359			2,359
1,600				2,390
		445,190		445,190
			102,353	244,132
<u>17,947</u>	<u>2,359</u>	<u>445,190</u>	<u>102,353</u>	<u>716,888</u>
<u>\$ 18,644</u>	<u>\$ 2,359</u>	<u>\$ 451,996</u>	<u>\$ 103,251</u>	<u>\$ 760,534</u>

CITY OF KENYON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Special Revenue				
	201 Ambulance	203 Fire	204 Library	205 Economic Development Authority	210 Police Forfeiture
REVENUES					
General property taxes	\$	\$ 22,500	\$ 102,075	\$	\$
Tax increment					
Intergovernmental revenues		18,094	38,733		
Charges for services		56,661			
Fines and forfeitures			1,163		615
Investment income	5	5	36	211	
Loan repayments				3,215	
Donations		5,247			
Miscellaneous revenues		7,850	619	11,730	
TOTAL REVENUES	5	110,357	142,626	15,156	615
EXPENDITURES					
General government					
Public safety	4,738	81,927			
Culture and recreation			147,918		
Economic development				2,948	
Capital outlay				9,980	
Principal					
Interest and other					
TOTAL EXPENDITURES	4,738	81,927	147,918	12,928	
Excess (deficiency) of revenues over (under) expenditures	(4,733)	28,430	(5,292)	2,228	615
OTHER FINANCING SOURCES (USES)					
Transfers In					
Transfers out		(25,000)	(1,000)		
Total other financing sources (uses)		(25,000)	(1,000)		
Net change in fund balances	(4,733)	3,430	(6,292)	2,228	615
Fund Balance - Beginning	4,733	5,937	45,534	97,412	175
Fund Balance - Ending	\$	\$ 9,367	\$ 39,242	\$ 99,640	\$ 790

FORM D-2

Special Revenue		Capital Project	Debt Service	Total Nonmajor Governmental Funds
230 Special Purpose Donation	402 2004 Tax Abatement TIF/ Sun Home	202 Capital Outlay	307 2007 G.O. Refunding Bonds	2011
\$	\$ 6,250 17,019	\$	\$ 123,385	\$ 254,210 17,019 56,827 56,661 1,778 1,242 3,215 26,124 23,649
33		811	141	
20,877		3,450		
<u>20,910</u>	<u>23,269</u>	<u>4,261</u>	<u>123,526</u>	<u>440,725</u>
12 976 12,122	23,369	24,393	90,000 33,385	12 87,641 160,040 26,317 34,373 90,000 33,385
<u>13,110</u>	<u>23,369</u>	<u>24,393</u>	<u>123,385</u>	<u>431,768</u>
7,800	(100)	(20,132)	141	8,957
		47,000		47,000 (26,000)
		47,000		21,000
7,800	(100)	26,868	141	29,957
<u>10,147</u>	<u>2,459</u>	<u>418,322</u>	<u>102,212</u>	<u>686,931</u>
<u>\$ 17,947</u>	<u>\$ 2,359</u>	<u>\$ 445,190</u>	<u>\$ 102,353</u>	<u>\$ 716,888</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, 2011 and 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 22,500	\$ 22,500	\$ 22,500	\$	\$ 20,341
Intergovernmental Revenues					
Fire state aid	17,000	17,000	17,694	694	17,970
Other state aid	1,750	1,750	400	(1,350)	1,760
Federal grants					
Total Intergovernmental	18,750	18,750	18,094	(656)	19,730
Charges for Services					
Fire contracts	56,661	56,661	56,661		60,070
Investment Income					
			5	5	64
Miscellaneous Revenues					
Donations			5,247	5,247	1,275
Other	10,000	10,000	7,850	(2,150)	2,841
Total Miscellaneous Revenues	10,000	10,000	13,097	3,097	4,116
TOTAL REVENUES	107,911	107,911	110,357	2,446	104,321
EXPENDITURES					
Employee services	7,385	7,385	3,522	3,863	2,893
Supplies	12,000	12,000	16,013	(4,013)	5,890
Repairs and maintenance	13,000	13,000	9,114	3,886	14,808
Professional services	3,500	3,500	3,000	500	2,845
Training	7,500	7,500	14,531	(7,031)	12,153
Insurance	5,775	5,775	5,774	1	5,793
Utilities	6,750	6,750	5,067	1,683	6,159
Fire state aid	17,000	17,000	17,694	(694)	17,970
Capital outlay	2,500	2,500	210	2,290	
Other services and charges	7,500	7,500	7,002	498	5,001
TOTAL EXPENDITURES	82,910	82,910	81,927	983	73,512
Excess of revenues over expenditures	25,001	25,001	28,430	3,429	30,809
OTHER FINANCING USES					
Transfers out	(25,000)	(25,000)	(25,000)		(30,000)
Net Change in Fund Balance	1	1	3,430	3,429	809
FUND BALANCE - Beginning	5,937	5,937	5,937		5,128
FUND BALANCE - Ending	\$ 5,938	\$ 5,938	\$ 9,367	\$ 3,429	\$ 5,937

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, 2011 and 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 102,075	\$ 102,075	\$ 102,075	\$	\$ 102,075
Intergovernmental Revenues					
County aid	38,733	38,733	38,733		44,295
Fines and Foreitures	1,000	1,000	1,163	163	1,219
Investment Income			36	36	85
Miscellaneous Revenues					
Other	250	250	619	369	1,264
TOTAL REVENUES	<u>142,058</u>	<u>142,058</u>	<u>142,626</u>	<u>568</u>	<u>148,938</u>
EXPENDITURES					
Employee services	113,166	113,166	114,547	(1,381)	118,598
Supplies	1,500	1,500	899	601	903
Repairs and maintenance			372	(372)	672
Training	600	600	97	503	95
Insurance	2,625	2,625	2,604	21	1,314
Utilities	5,725	5,725	4,700	1,025	61
Automation	5,000	5,000	4,824	176	4,828
Capital outlay	19,800	19,800	19,055	745	19,346
Other services and charges	1,310	1,310	820	490	1,274
TOTAL EXPENDITURES	<u>149,726</u>	<u>149,726</u>	<u>147,918</u>	<u>1,808</u>	<u>147,091</u>
Excess of revenues over expenditures	(7,668)	(7,668)	(5,292)	2,376	1,847
OTHER FINANCING USES					
Transfers out	(1,000)	(1,000)	(1,000)		(1,000)
Net Change in Fund Balance	(8,668)	(8,668)	(6,292)	2,376	847
FUND BALANCE - Beginning	<u>45,534</u>	<u>45,534</u>	<u>45,534</u>		<u>44,687</u>
FUND BALANCE - Ending	<u>\$ 36,866</u>	<u>\$ 36,866</u>	<u>\$ 39,242</u>	<u>\$ 2,376</u>	<u>\$ 45,534</u>

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CITY OF KENYON, MINNESOTA
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2011

SCHEDULE 1

CITY OF KENYON, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue		
Charges for services	\$ 222,772	\$ 212,176
Operating Expenses		
Salaries and wages	92,463	92,160
Supplies	3,714	4,661
Professional services	997	6,522
Insurance	3,088	3,017
Utilities	14,705	18,075
Repairs and maintenance	10,750	18,629
Depreciation	60,704	57,233
Dues and subscriptions	644	684
Other services	27	10
Safety	24	32
Other operating expense	6,756	6,816
Total Operating Expenses	193,872	207,839
Operating Income	28,900	4,337
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	353	2,894
Connection fees	844	
Intergovernmental	185	173
Special assessments		48,837
Investment income	2,267	2,647
Miscellaneous expense		(5)
Interest expense	(3,529)	(2,770)
Total Nonoperating Revenues (Expenses)	120	51,776
INCOME BEFORE TRANSFERS	29,020	56,113
Transfers out	(7,800)	(7,800)
Change in net assets	21,220	48,313
Net Assets - Beginning of Year	1,152,890	1,104,577
Net Assets - End of Year	\$ 1,174,110	\$ 1,152,890

SCHEDULE 2

**CITY OF KENYON, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010**

	2011	2010
Operating Revenue		
Charges for services	\$ 276,462	\$ 272,169
Operating Expenses		
Salaries and wages	48,448	48,342
Supplies	9,461	7,930
Professional services	13,975	8,068
Insurance	4,740	5,159
Utilities	46,167	47,921
Repairs and maintenance	24,275	32,383
Depreciation	130,253	127,469
Dues and subscriptions	1,565	1,775
Other services	506	965
Other operating expense	1,722	2,725
Total Operating Expenses	281,112	282,737
Operating Income (Loss)	(4,650)	(10,568)
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	34,581	609
Connection fees		1,318
Intergovernmental	10,615	
Special assessments	5,769	53,632
Investment income	2,349	3,221
Amortization of deferred charges	(376)	(2,655)
Interest expense	(3,592)	(7,772)
Total Nonoperating Revenues (Expenses)	49,346	48,353
Change in net assets	44,696	37,785
Net Assets - Beginning of Year	2,234,914	2,197,129
Net Assets - End of Year	\$ 2,279,610	\$ 2,234,914

SCHEDULE 3

**CITY OF KENYON, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010**

	2011	2010
Operating Revenue		
Charges for services	<u>\$ 1,724,550</u>	<u>\$ 1,713,918</u>
Operating Expenses		
Power costs	859,457	768,053
Conservation improvement program	21,953	29,887
Base load projects	13,669	32,356
Salaries and wages	225,589	227,514
Supplies	6,053	3,570
Professional services	11,723	22,944
Insurance	55,043	54,664
Utilities	27,064	27,589
Repairs and maintenance	11,867	13,447
Depreciation	152,560	158,293
Dues and subscriptions	33,688	34,223
Other services	233	3,833
Safety	12,249	13,139
Generator expense	41,374	42,404
Other operating expense	9,221	8,087
Total Operating Expenses	<u>1,481,743</u>	<u>1,440,003</u>
Operating Income	<u>242,807</u>	<u>273,915</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	12,939	12,157
Connection fees	250	250
Intergovernmental	690	691
Investment income	13,562	18,475
Amortization of deferred charges	(15,425)	(8,191)
Miscellaneous expense	(1,501)	(1,193)
Interest expense	(12,425)	(19,587)
Total Nonoperating Revenues (Expenses)	<u>(1,910)</u>	<u>2,602</u>
INCOME BEFORE TRANSFERS	240,897	276,517
Transfers out	<u>(196,340)</u>	<u>(95,921)</u>
Change in net assets	44,557	180,596
Net Assets - Beginning of Year	<u>3,524,874</u>	<u>3,344,278</u>
Net Assets - End of Year	<u>\$ 3,569,431</u>	<u>\$ 3,524,874</u>

CITY OF KENYON, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue		
Sales	\$ 620,028	\$ 616,866
Cost of sales	416,711	406,958
Gross Profit	<u>203,317</u>	<u>209,908</u>
Operating Expenses		
Salaries and wages	113,104	120,188
Supplies	3,730	2,754
Insurance	9,728	8,847
Utilities	13,968	14,233
Repairs and maintenance	7,723	8,217
Depreciation	13,429	16,913
Dues and subscriptions	1,085	70
Other services	7,726	3,053
Other operating expense	11,951	10,401
Total Operating Expenses	<u>182,444</u>	<u>184,676</u>
Operating Income	<u>20,873</u>	<u>25,232</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	13,611	15,699
Investment income	54	74
Interest expense	(637)	(1,041)
Total Nonoperating Revenues (Expenses)	<u>13,028</u>	<u>14,732</u>
INCOME BEFORE TRANSFERS	33,901	39,964
Transfers out	<u>(20,000)</u>	<u>(25,000)</u>
Change in net assets	13,901	14,964
Net Assets - Beginning of Year	<u>124,124</u>	<u>109,160</u>
Net Assets - End of Year	<u>\$ 138,025</u>	<u>\$ 124,124</u>

SCHEDULE 5

**CITY OF KENYON, MINNESOTA
STORM SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010**

	2011	2010
Operating Revenue		
Charges for services	\$ 24,787	\$ 24,115
Operating Expenses		
Insurance		364
Repairs and maintenance	914	7,047
Depreciation	18,380	18,379
Total Operating Expenses	<u>19,294</u>	<u>25,790</u>
Operating Income (Loss)	<u>5,493</u>	<u>(1,675)</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	148	
Investment income	1,040	3,780
Total Nonoperating Revenues (Expenses)	<u>1,188</u>	<u>3,780</u>
Change in net assets	6,681	2,105
Net Assets - Beginning of Year	<u>797,846</u>	<u>795,741</u>
Net Assets - End of Year	<u><u>\$ 804,527</u></u>	<u><u>\$ 797,846</u></u>

AUDITOR'S REPORT ON COMPLIANCE

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

We have audited the financial statements of the City of Kenyon, Minnesota as of and for the year ended December 31, 2011 and have issued our report thereon dated February 21, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

Smith, Schafers and Associates, Ltd.

Rochester, Minnesota
February 21, 2012