

CITY OF KENYON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF KENYON, MINNESOTA

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CITY OF KENYON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2012

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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
Dan Dummer	Council Member	12/31/2012

CITY OFFICIAL - APPOINTED

Pam Blow	Acting 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, 2012

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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, 2012, which collectively comprise the City of Kenyon, Minnesota's basic financial statements as listed in the table of contents and the related notes to the financial statements. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated February 21, 2012, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenyon, Minnesota as of December 31, 2012, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kenyon, Minnesota's financial statements as a whole. 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. The combining and individual nonmajor fund financial statements and the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
February 22, 2013

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, 2012. We encourage readers to consider the information presented here in conjunction with the entire audit report.

New Accounting Pronouncement. The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2012. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will notice a change in terminology from "net assets" to "net position."

FINANCIAL HIGHLIGHTS

- The total net position at December 31, 2012 (assets exceeding liabilities) for the City of Kenyon was \$13,221,960. Of this amount, \$4,329,426 (unrestricted net position) may be used to meet the city's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City of Kenyon's governmental funds reported combined ending fund balances of \$1,375,552, of which 49 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 \$591,016, or 62 percent of total general fund expenditures compared to 51 percent in 2011.
- The City of Kenyon increased its existing debt principal by \$238,000 during the current fiscal year, leaving a remaining balance of \$1,404,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net position presents all information on all of the City of Kenyon's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Kenyon is improving or deteriorating.

The statement of activities presents information showing how the city's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event changing the asset or liability occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. This may include uncollected taxes and other revenue or expenses that are appropriated for the current year even though cash is not received or expended until the following year.

The government-wide financial statements distinguish between functions of the City of Kenyon that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, sanitation and recycling, culture and recreation, and economic development. The business-type activities include water, sewer, electric, liquor, and storm sewer.

CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The government-wide financial statements can be found on pages 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 10 individual governmental funds, including two major funds, General and Capital Outlay. The other eight governmental funds include: Fire, Library, Economic Development Authority, Police Forfeiture, Special Purpose Donations, 2004 Tax Abatement/Tax Increment Financing Sunset Home, Trondheim Road Extension, and 2007 GO Refunding Bonds Debt Service.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Outlay funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

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

The basic governmental funds financial statements can be found on pages 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 30-50 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 51-54.

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a city's financial position. In the case of the City of Kenyon, assets exceeded liabilities by \$13,221,960 at the close of the fiscal year, with \$5,217,997 of this net position from governmental activities and \$8,003,963 from proprietary funds.

Of the net position \$8,754,306 or 66 percent is attributed to its investment in capital assets (e.g. land, buildings, streets, vehicles, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Kenyon uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City of Kenyon's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Kenyon's Net Position

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,671,132	\$ 1,408,327	\$ 3,072,038	\$ 3,098,845	\$ 4,743,170	\$ 4,507,172
Capital assets	4,397,067	4,520,114	5,858,486	5,481,918	10,255,553	10,002,032
Total assets	<u>\$ 6,068,199</u>	<u>\$ 5,928,441</u>	<u>\$ 8,930,524</u>	<u>\$ 8,580,763</u>	<u>\$ 14,998,723</u>	<u>\$ 14,509,204</u>
Long-term liabilities outstanding	\$ 737,522	\$ 745,751	\$ 645,225	\$ 384,778	\$ 1,382,747	\$ 1,130,529
Other liabilities	112,680	116,341	281,336	230,282	394,016	346,623
Total liabilities	<u>850,202</u>	<u>862,092</u>	<u>926,561</u>	<u>615,060</u>	<u>1,776,763</u>	<u>1,477,152</u>
Net position:						
Invested in capital assets, net of related debt	3,659,545	3,774,363	5,094,761	5,097,140	8,754,306	8,871,503
Restricted	138,228	21,096		168,327	138,228	189,423
Unrestricted	1,420,224	1,270,890	2,909,202	2,700,236	4,329,426	3,971,126
Total Net Position	<u>5,217,997</u>	<u>5,066,349</u>	<u>8,003,963</u>	<u>7,965,703</u>	<u>13,221,960</u>	<u>13,032,052</u>
Total Liabilities & Net Position	<u>\$ 6,068,199</u>	<u>\$ 5,928,441</u>	<u>\$ 8,930,524</u>	<u>\$ 8,580,763</u>	<u>\$ 14,998,723</u>	<u>\$ 14,509,204</u>

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

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

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

The total increase in net position for governmental activities is \$151,648 for the year ended December 31, 2012. The total revenues for governmental activities amounted to \$1,535,492 while total expenses were \$1,475,922 and transfers in were \$92,078, which is illustrated in the statement below.

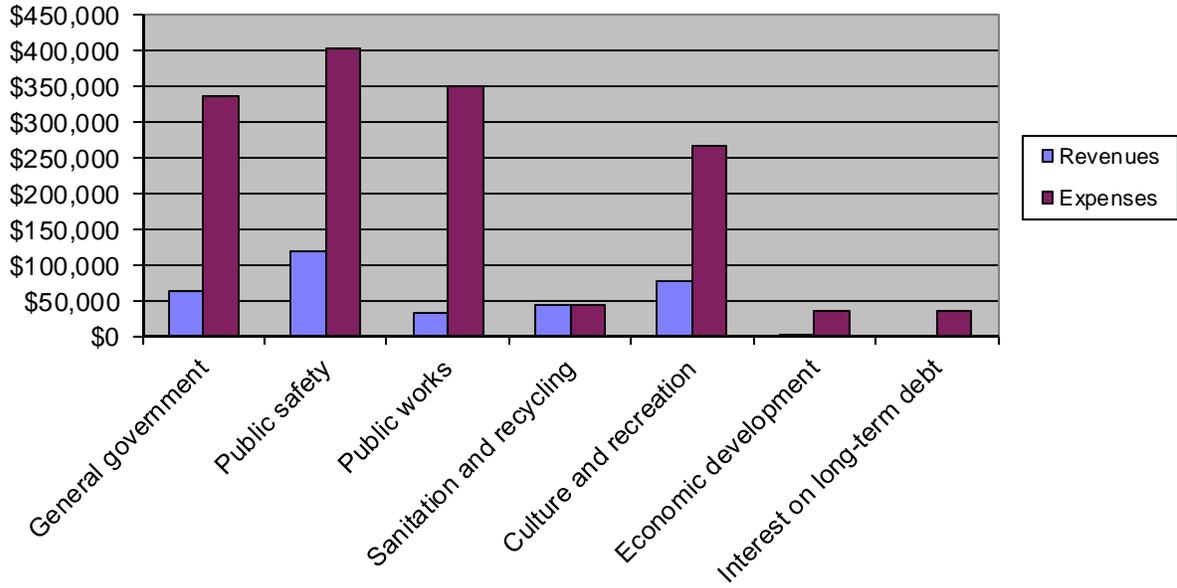
City of Kenyon's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues						
Charges for services	\$ 177,546	\$ 176,441	\$ 2,976,793	\$ 2,868,599	\$ 3,154,339	\$ 3,045,040
Operating grants & contributions	130,656	102,072			130,656	102,072
Capital grants & contributions	34,795	2,006	21,407	5,769	56,202	7,775
General revenues:						
General property taxes	661,547	577,517			661,547	577,517
Tax increments	18,284	17,019			18,284	17,019
Intergovernmental revenue	469,207	503,845	886	11,490	470,093	515,335
Interest earnings	23,960	6,746	22,498	19,272	46,458	26,018
Miscellaneous	5,255	11,721	48,444	62,726	53,699	74,447
Gain on sale of capital assets	14,242	7,150			14,242	7,150
Total revenues	1,535,492	1,404,517	3,070,028	2,967,856	4,605,520	4,372,373
Expenses:						
General government	336,780	284,404			336,780	284,404
Public safety	404,276	429,766			404,276	429,766
Public works	351,212	305,586			351,212	305,586
Sanitation and recycling	44,327	43,500			44,327	43,500
Culture and recreation	267,263	262,109			267,263	262,109
Economic development	35,492	42,004			35,492	42,004
Interest on long-term debt	36,572	39,455			36,572	39,455
Water			229,372	197,401	229,372	197,401
Sewer			296,964	285,080	296,964	285,080
Electric			1,747,301	1,511,094	1,747,301	1,511,094
Liquor			637,971	599,792	637,971	599,792
Storm sewer			28,082	19,294	28,082	19,294
Total expenses	1,475,922	1,406,824	2,939,690	2,612,661	4,415,612	4,019,485
Increase in net position before transfers and other items	59,570	(2,307)	130,338	355,195	189,908	352,888
Transfers	92,078	224,140	(92,078)	(224,140)		
Change in net assets	151,648	221,833	38,260	131,055	189,908	352,888
Net Position – January 1	5,066,349	4,844,516	7,965,703	7,834,648	13,032,052	12,679,164
Net Position – December 31	\$ 5,217,997	\$ 5,066,349	\$ 8,003,963	\$ 7,965,703	\$ 13,221,960	\$ 13,032,052

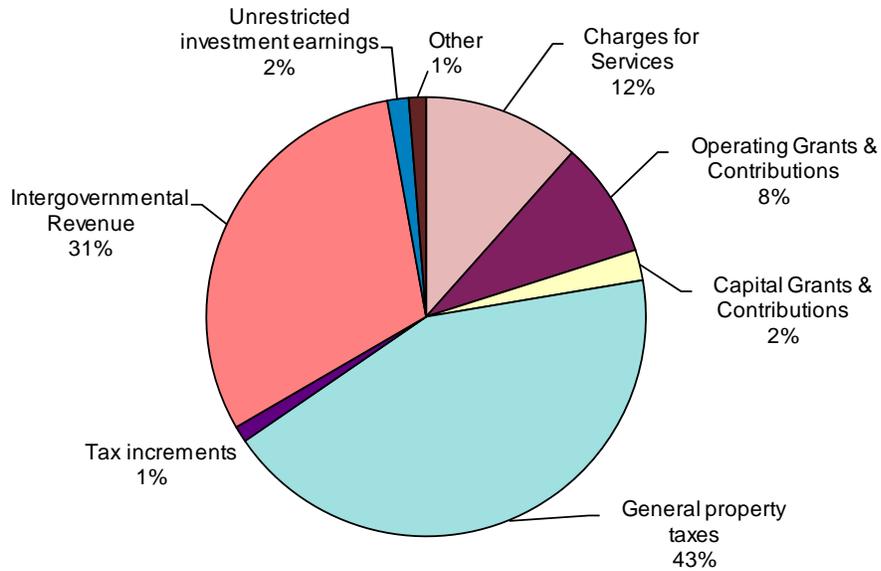
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs shows 2012 expenses and program revenues government activities.

Expenses and Program Revenues-Governmental Activities



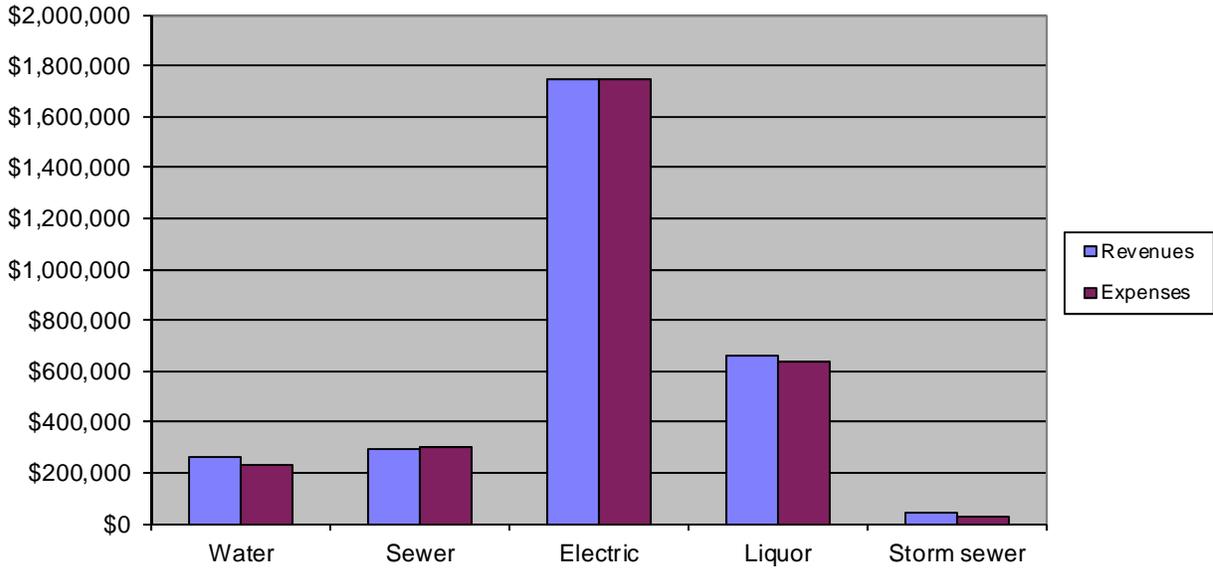
Government Activities Revenues



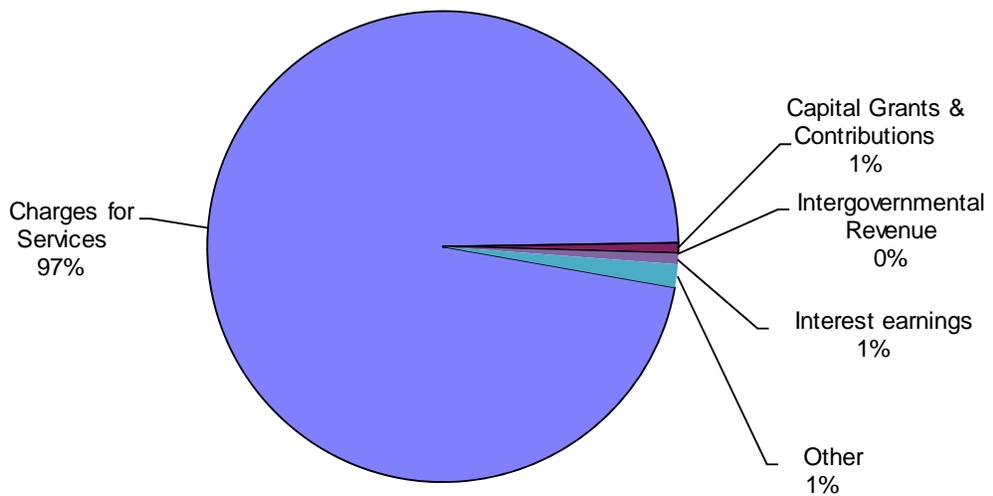
**CITY OF KENYON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business-type activities. Business-type activities increased the City of Kenyon net position \$38,260 for the year ended December 31, 2012. Business-type activities revenues and expenses are illustrated in the charts below.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Revenue



CITY OF KENYON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the City's Funds

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

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

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

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

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

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

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

Other information. Additional information regarding the committed fund balances can be found in Note 8 to Financial Statements.

At the end of the current fiscal year, the City of Kenyon's governmental funds reported combined ending fund balances of \$1,375,552, which included an unassigned fund balance of the general fund of \$591,016.

The fund balance of the City of Kenyon's general fund increased by \$115,253 during the current year. Some of the key factors in this change are as follows:

- Street maintenance expenses were \$48,000 under budget
- Miscellaneous revenue was \$24,224 over budget due primarily to dividends received from the League of Minnesota Cities for worker's compensation and liability insurance premiums

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

The 2007 G.O. Refunding Bond debt service fund has a total fund balance of \$103,184, 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 \$680,000 at December 31, 2012.

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

Unrestricted net position of the proprietary funds at year-end amounted to \$2,909,202 with a total increase in net position of \$38,260. Each of the following funds had net increases, with the exception of the electric fund:

- Water (net increase of \$36,781) – rates were increased for these services in October 2011
- Sanitary Sewer (net increase of \$6,219) – sanitary sewer rates were also increased in October 2011
- Electric (net decrease of \$30,201) - this is a direct result of changes in energy contracts. A 10-year contract with NSP, ending in 2011, was replaced with a new 4-year NSP contract and another contract for energy supplied from a nuclear plant was also approved in 2012. An electric rate increase has been approved for February 2013 to help recover losses incurred by rising electric costs.
- Liquor (net increase of \$11,468) - this net increase included a transfer of \$25,000 to the general fund compared to \$20,000 in 2011
- Storm Sewer (net increase of \$13,993) - rates for storm sewer were increased in January 2012

Capital Asset Administration. The City of Kenyon's investment in capital assets for its governmental and business type activities as of December 31, 2012 amounts to \$10,255,553 (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	
	2012	2011	2012	2011	2012	2011
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	5,243,865	5,131,831	6,951,956	6,839,922
Infrastructure	1,314,135	1,314,135	5,204,802	4,643,155	6,518,937	5,957,290
Machinery and Equipment	2,397,912	2,311,238	561,452	536,705	2,959,364	2,847,943
Transportation Equipment			344,468	302,332	344,468	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	7,514	31,906	149,243	126,028	156,757	157,934
Total assets	6,643,749	6,581,467	14,033,668	13,269,889	20,677,417	19,851,356
Less: Accumulated Depreciation	(2,246,682)	(2,061,353)	(8,175,182)	(7,787,971)	(10,421,864)	(9,849,324)
Net Capital Assets	\$ 4,397,067	\$ 4,520,114	\$ 5,858,486	\$ 5,481,918	\$ 10,255,553	\$ 10,002,032

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 \$1,404,000. Of this amount, \$680,000 for the 2007A Refunding Bond and \$78,775 of the 2012A Bond will be payable primarily from general property taxes. The remaining \$496,225 of the 2012A bond combined with the water fund's PFA loan (\$46,000) and the 2010 Minnesota Rural Water revenue note (\$103,000) are payable primarily from user fees and special assessments. The 2008 Electric refunding bond's final payment was 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	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 758,775	\$ 770,000	\$ 496,225	\$	\$ 1,255,000	\$ 770,000
General Obligation Revenue			149,000	176,000	149,000	176,000
Revenue Bonds				220,000		220,000
Total assets	\$ 758,775	\$ 770,000	\$ 645,225	\$ 396,000	\$ 1,404,000	\$ 1,166,000

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 2013 expenditure budget

- Wastewater Treatment System - The City of Kenyon's wastewater treatment system upgrade project is in need of several improvements, including a major upgrade of the overflow basin. Sewer Main improvements are also proposed to be included in the project. A portion of the sewer main costs will also be assessed to benefiting properties. Estimates for all required improvements total \$1,700,000. Low interest loan funding through the Minnesota DEED Public Facilities Program has been approved. Repayment will begin in 2014.
- 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 2013 to secure a site and develop final plans for this project.
- Historic Kenyon High School – The City has completed acquisition of the former High School site. The City levied \$195,000 in 2013 to cover the city's portion of the demolition. The cost of the bid for the demolition was much lower than the engineers' estimates. Therefore the potential for added costs to adversely affect the 2013 budget appear to be very low.
- 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.

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

Potential future revenue sources

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

Requests for Information

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

CITY OF KENYON, MINNESOTA
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

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CITY OF KENYON, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2012

With Comparative Totals for December 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
Assets				
Cash and investments	\$ 1,393,976	\$ 2,285,334	\$ 3,679,310	\$ 3,270,429
Receivables	276,357	485,625	761,982	723,671
Internal balances	(25,197)	25,197		
Inventory		205,258	205,258	216,702
Prepaid expenses	25,996	70,624	96,620	101,388
Restricted cash				194,982
Capital assets:				
Nondepreciable	1,223,611	206,428	1,430,039	1,431,216
Depreciable, net	3,173,456	5,652,058	8,825,514	8,570,816
Total Assets	\$ 6,068,199	\$ 8,930,524	\$ 14,998,723	\$ 14,509,204
Liabilities and Net Position				
Liabilities				
Accounts payable	\$ 64,328	\$ 232,533	\$ 296,861	\$ 255,635
Deposits payable	800	10,477	11,277	9,378
Compensated absences	18,760	16,640	35,400	33,280
Accrued liabilities	16,232	14,875	31,107	30,555
Accrued interest payable	12,475	6,811	19,286	17,325
Unearned revenue	85		85	450
Noncurrent liabilities:				
Due within one year	95,000	29,000	124,000	325,778
Due in more than one year	642,522	616,225	1,258,747	804,751
Total Liabilities	850,202	926,561	1,776,763	1,477,152
Net Position				
Invested in capital assets, net of related debt	3,659,545	5,094,761	8,754,306	8,871,503
Restricted for:				
Special purpose contribution	20,167		20,167	16,347
Tax increment districts	598		598	2,359
Public safety	790		790	2,390
Debt service	116,673		116,673	271,578
Unrestricted	1,420,224	2,909,202	4,329,426	3,867,875
Total Net Position	5,217,997	8,003,963	13,221,960	13,032,052
Total Liabilities and Net Position	\$ 6,068,199	\$ 8,930,524	\$ 14,998,723	\$ 14,509,204

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012
With Comparative Totals for December 31, 2011

<u>Functions/Programs</u>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 336,780	\$ 24,512	\$ 39,000	\$
Public safety	404,276	81,192	39,795	
Public works	351,212			34,795
Sanitation and recycling	44,327	45,088		
Culture and recreation	267,263	26,633	51,861	
Economic development	35,492	121		
Interest on long-term debt	36,572			
Total governmental activities	<u>1,475,922</u>	<u>177,546</u>	<u>130,656</u>	<u>34,795</u>
Business-Type activities:				
Water	229,372	251,396		9,460
Sewer	296,964	284,855		11,947
Electric	1,747,301	1,744,683		
Liquor	637,971	656,323		
Storm sewer	28,082	39,536		
Total business-type activities	<u>2,939,690</u>	<u>2,976,793</u>		<u>21,407</u>
Total	<u>\$ 4,415,612</u>	<u>\$ 3,154,339</u>	<u>\$ 130,656</u>	<u>\$ 56,202</u>

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

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2012	2011
\$ (273,268)	\$	\$ (273,268)	\$ (254,664)
(283,289)		(283,289)	(312,517)
(316,417)		(316,417)	(304,420)
761		761	1,728
(188,769)		(188,769)	(178,661)
(35,371)		(35,371)	(38,316)
(36,572)		(36,572)	(39,455)
<u>(1,132,925)</u>		<u>(1,132,925)</u>	<u>(1,126,305)</u>
	31,484	31,484	25,371
	(162)	(162)	(2,849)
	(2,618)	(2,618)	213,456
	18,352	18,352	20,236
	11,454	11,454	5,493
	<u>58,510</u>	<u>58,510</u>	<u>261,707</u>
<u>(1,132,925)</u>	<u>58,510</u>	<u>(1,074,415)</u>	<u>(864,598)</u>
661,547		661,547	577,517
18,284		18,284	17,019
469,207	886	470,093	515,335
23,960	22,498	46,458	26,018
5,255	48,444	53,699	74,447
14,242		14,242	7,150
92,078	(92,078)		
<u>1,284,573</u>	<u>(20,250)</u>	<u>1,264,323</u>	<u>1,217,486</u>
151,648	38,260	189,908	352,888
<u>5,066,349</u>	<u>7,965,703</u>	<u>13,032,052</u>	<u>12,679,164</u>
<u>\$ 5,217,997</u>	<u>\$ 8,003,963</u>	<u>\$ 13,221,960</u>	<u>\$ 13,032,052</u>

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CITY OF KENYON, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF KENYON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012
With Comparative Totals for December 31, 2011

	101 General	202 Capital Outlay	Other Governmental Funds	Total Governmental Funds	
				2012	2011
ASSETS					
Cash and investments	\$ 537,221	\$ 550,512	\$ 306,243	\$ 1,393,976	\$ 1,127,849
Accounts receivable	4,958	2,291	39,866	47,115	25,863
Developer receivable - deferred	42,018			42,018	52,725
Taxes receivable - delinquent	61,589			61,589	61,940
Special assessments receivable					
Delinquent			389	389	898
Deferred	2,068		108,071	110,139	114,268
Accrued interest receivable	143	131	60	334	313
Due from other funds	72,436			72,436	69,512
Due from other governments	14,773			14,773	33,279
Advances to other funds					16,653
Prepaid items	19,264		6,732	25,996	24,868
TOTAL ASSETS	\$ 754,470	\$ 552,934	\$ 461,361	\$ 1,768,765	\$ 1,528,168
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 24,783	\$ 1,426	\$ 38,119	\$ 64,328	\$ 65,913
Accrued liabilities	13,647		2,585	16,232	17,217
Customer deposits			800	800	800
Advances from other funds			97,633	97,633	119,841
Unearned revenue	85			85	450
Deferred revenue	105,675		108,460	214,135	229,831
Total Liabilities	144,190	1,426	247,597	393,213	434,052
Fund Balance					
Nonspendable:					
Prepaid items	19,264		6,732	25,996	24,868
Advances to other funds					16,653
Restricted:					
Special purpose contributions			20,167	20,167	16,347
Tax increment districts			598	598	2,359
Public safety			790	790	2,390
Creditors			103,184	103,184	102,353
Committed		551,508		551,508	445,190
Assigned			177,264	177,264	141,779
Unassigned	591,016		(94,971)	496,045	342,177
Total Fund Balance	610,280	551,508	213,764	1,375,552	1,094,116
TOTAL LIABILITIES AND FUND BALANCE	\$ 754,470	\$ 552,934	\$ 461,361	\$ 1,768,765	\$ 1,528,168

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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	101 General	202 Capital Outlay	Other Governmental Funds	Total Governmental Funds	
				2012	2011
REVENUES					
General property taxes	\$ 367,017	\$	\$ 294,881	\$ 661,898	\$ 577,535
Tax increment			18,284	18,284	17,019
Licenses and permits	6,163			6,163	6,142
Special assessments		35,450	3,983	39,433	3,344
Intergovernmental revenues	485,935		57,935	543,870	581,240
Charges for services	78,898		69,520	148,418	136,986
Fines and forfeitures	7,414		1,409	8,823	11,535
Investment income	4,559	2,363	924	7,846	6,353
Loan repayments					3,215
Donations			20,001	20,001	26,124
Miscellaneous revenues	66,589	3,734	13,712	84,035	89,185
Total Revenues	1,016,575	41,547	480,649	1,538,771	1,458,678
EXPENDITURES					
General government	303,609			303,609	269,193
Public safety	268,239		80,458	348,697	376,405
Public works	256,337			256,337	205,806
Sanitation and recycling	44,327			44,327	43,500
Culture and recreation	83,553		159,507	243,060	237,490
Economic development			35,432	35,432	32,024
Capital outlay		84,016		84,016	38,172
Debt service:					
Principal			90,000	90,000	90,000
Interest and other		987	34,079	35,066	37,879
Total Expenditures	956,065	85,003	399,476	1,440,544	1,330,469
Excess (deficiency) of revenues over (under) expenditures	60,510	(43,456)	81,173	98,227	128,209
OTHER FINANCING SOURCES (USES)					
Sale of capital assets		1,999	10,357	12,356	
Bond proceeds		78,775		78,775	
Transfers in	93,743	69,000		162,743	232,140
Transfers out	(39,000)		(31,665)	(70,665)	(47,000)
Total Other Financing Sources (Uses)	54,743	149,774	(21,308)	183,209	185,140
Net change in fund balances	115,253	106,318	59,865	281,436	313,349
Fund Balance - Beginning	495,027	445,190	153,899	1,094,116	780,767
Fund Balance - Ending	\$ 610,280	\$ 551,508	\$ 213,764	\$ 1,375,552	\$ 1,094,116

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2012

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

Total governmental fund balances (page 16)	\$	1,375,552
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	6,643,749
Less: Accumulated depreciation		<u>(2,246,682)</u>
		4,397,067
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Developer receivable	\$	42,018
Delinquent property taxes		61,589
Deferred and delinquent special assessments		<u>110,528</u>
		214,135
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	\$	(758,775)
Compensated absences		(18,760)
Deferred charges		21,253
Accrued interest		<u>(12,475)</u>
		<u>(768,757)</u>
Net position of governmental activities (page 13)	\$	<u><u>5,217,997</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, 2012

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

Net change in fund balances - total governmental funds (page 17)	\$	281,436
<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	\$ 62,282	
Depreciation expense	<u>(185,329)</u>	(123,047)
<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, 2012	\$ 214,135	
Deferred revenue, December 31, 2011	<u>(229,831)</u>	(15,696)
<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, 2012	\$ (18,760)	
Compensated absences, December 31, 2011	<u>18,983</u>	223
<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	
Issuance of long-term debt	(78,775)	
Amortization of deferred charges	(2,996)	
Change in accrued interest	<u>503</u>	<u>8,732</u>
Change in net position of governmental activities (pages 14 and 15)	\$	<u><u>151,648</u></u>

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 373,214	\$ 373,214	\$ 367,017	\$ (6,197)	\$ 321,313
Licenses and Permits	5,794	5,794	6,163	369	6,142
Intergovernmental Revenues					
Local government aid	466,643	466,643	466,643		466,643
Market value credit			845	845	23,652
Police state aid	15,000	15,000	14,024	(976)	18,597
Other state aid	2,740	2,740	4,423	1,683	15,521
Total Intergovernmental	484,383	484,383	485,935	1,552	524,413
Charges for Services					
General government	10,050	10,050	8,586	(1,464)	9,235
Recycling	45,200	45,200	45,088	(112)	45,228
Culture and recreation	23,540	23,540	25,224	1,684	23,362
Total Charges for Services	78,790	78,790	78,898	108	77,825
Fines and Forfeits	9,165	9,165	7,414	(1,751)	9,757
Investment Income	1,226	1,226	4,559	3,333	5,111
Miscellaneous Revenues					
Refunds and reimbursements	1,000	1,000	10,706	9,706	17,520
Insurance dividends			11,914	11,914	393
Rents	1,365	1,365	1,365		1,365
Shared facility charge	39,000	39,000	39,000		39,000
Other	1,000	1,000	3,604	2,604	9,758
Total Miscellaneous Revenues	42,365	42,365	66,589	24,224	68,036
TOTAL REVENUES	\$ 994,937	\$ 994,937	\$ 1,016,575	\$ 21,638	\$ 1,012,597

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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 15,110	\$ 15,110	\$ 15,707	\$ (597)	\$ 15,226
Other services and charges	2,700	2,700	375	2,325	484
Total Mayor and Council	<u>17,810</u>	<u>17,810</u>	<u>16,082</u>	<u>1,728</u>	<u>15,710</u>
City Administration					
Employee services	158,028	158,028	132,230	25,798	156,571
Travel and conferences	3,500	3,500	1,468	2,032	3,100
SHIP grant			2,121	(2,121)	12,393
Other services and charges	1,100	1,100	3,566	(2,466)	2,644
Total City Administration	<u>162,628</u>	<u>162,628</u>	<u>139,385</u>	<u>23,243</u>	<u>174,708</u>
Elections	<u>2,750</u>	<u>2,750</u>	<u>1,964</u>	<u>786</u>	<u>191</u>
Old Highschool Project					
Engineering			23,323	(23,323)	
Other services and charges			4,881	(4,881)	
Total Old Highschool Project			<u>28,204</u>	<u>(28,204)</u>	
General Government					
Employee services	4,345	4,345	3,003	1,342	4,111
Supplies	7,600	7,600	10,375	(2,775)	8,307
Telephone	9,000	9,000	8,897	103	9,212
Insurance	5,376	5,376	3,820	1,556	4,883
Utilities	7,597	7,597	6,255	1,342	5,584
Other services and charges	15,450	15,450	20,529	(5,079)	16,804
Total Government Buildings	<u>49,368</u>	<u>49,368</u>	<u>52,879</u>	<u>(3,511)</u>	<u>48,901</u>
Professional Services					
Auditing and accounting	13,190	13,190	13,150	40	12,815
Legal	20,000	20,000	26,210	(6,210)	11,379
Engineering	25,000	25,000	25,735	(735)	5,477
Total Professional Services	<u>58,190</u>	<u>58,190</u>	<u>65,095</u>	<u>(6,905)</u>	<u>29,671</u>
Total General Government	<u>\$ 290,746</u>	<u>\$ 290,746</u>	<u>\$ 303,609</u>	<u>\$ (12,863)</u>	<u>\$ 269,181</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

EXPENDITURES (Continued)	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
Public Safety					
Police Protection					
Employee services	\$ 206,994	\$ 206,994	\$ 219,738	\$ (12,744)	\$ 218,027
Supplies	19,631	19,631	18,571	1,060	24,922
Legal	12,500	12,500	10,991	1,509	29,130
Telephone	3,000	3,000	2,536	464	2,369
Insurance	3,031	3,031	2,430	601	2,993
Other services and charges	12,750	12,750	13,973	(1,223)	11,323
Total Police Protection	257,906	257,906	268,239	(10,333)	288,764
Total Public Safety	257,906	257,906	268,239	(10,333)	288,764
Public Works					
Streets					
Employee services	124,677	124,677	123,459	1,218	122,109
Supplies	35,150	35,150	21,673	13,477	31,806
Contracts	110,000	110,000	61,246	48,754	1,706
Insurance	7,150	7,150	5,987	1,163	6,661
Utilities	8,800	8,800	7,324	1,476	8,015
Other services and charges	4,300	4,300	4,240	60	2,621
Total Streets	290,077	290,077	223,929	66,148	172,918
Street Lighting	31,700	31,700	32,408	(708)	32,888
Total Public Works	321,777	321,777	256,337	65,440	205,806
Sanitation and Recycling					
Recycling	43,500	43,500	44,327	(827)	43,500
Culture and Recreation					
Park and Recreation					
Employee services	12,421	12,421	15,537	(3,116)	11,022
Supplies	2,000	2,000	2,601	(601)	1,977
Insurance	4,009	4,009	4,031	(22)	3,975
Utilities	1,745	1,745	1,476	269	1,558
Other services and charges	700	700	94	606	952
Total Park and Recreation	\$ 20,875	\$ 20,875	\$ 23,739	\$ (2,864)	\$ 19,484

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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Culture and Recreation (Continued)					
Swimming Pool					
Employee services	\$ 24,909	\$ 24,909	\$ 28,765	\$ (3,856)	\$ 26,943
Supplies	5,250	5,250	6,748	(1,498)	6,813
Insurance	3,717	3,717	3,738	(21)	3,668
Utilities	7,790	7,790	10,518	(2,728)	10,706
Other services and charges	4,050	4,050	3,923	127	3,907
Total Swimming Pool	<u>45,716</u>	<u>45,716</u>	<u>53,692</u>	<u>(7,976)</u>	<u>52,037</u>
Gunderson House					
Insurance	3,437	3,437	3,457	(20)	3,400
Management fees	2,500	2,500	2,500		2,500
Other services and charges	1,000	1,000	165	835	29
Total Gunderson House	<u>6,937</u>	<u>6,937</u>	<u>6,122</u>	<u>815</u>	<u>5,929</u>
Total Culture and Recreation	<u>73,528</u>	<u>73,528</u>	<u>83,553</u>	<u>(10,025)</u>	<u>77,450</u>
Economic Development					<u>5,707</u>
Capital Outlay	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>	<u>3,799</u>
TOTAL EXPENDITURES	<u>988,457</u>	<u>988,457</u>	<u>956,065</u>	<u>32,392</u>	<u>894,207</u>
Excess of revenues over expenditures	<u>6,480</u>	<u>6,480</u>	<u>60,510</u>	<u>54,030</u>	<u>118,390</u>
Other Financing Sources (Uses)					
Transfers in	89,720	89,720	93,743	4,023	185,140
Transfers out	(39,000)	(39,000)	(39,000)		(21,000)
Total Other Financing Sources (Uses)	<u>50,720</u>	<u>50,720</u>	<u>54,743</u>	<u>4,023</u>	<u>164,140</u>
Net change in fund balance	57,200	57,200	115,253	58,053	282,530
FUND BALANCE - Beginning	<u>495,027</u>	<u>495,027</u>	<u>495,027</u>		<u>212,497</u>
FUND BALANCE - Ending	<u>\$ 552,227</u>	<u>\$ 552,227</u>	<u>\$ 610,280</u>	<u>\$ 58,053</u>	<u>\$ 495,027</u>

See Notes to Financial Statements

CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2012
With Comparative Totals for December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund Fund	602 Sewer Fund Fund	603 Electric Fund Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 363,130	\$ 525,796	\$ 841,375
Accounts receivable	37,492	18,533	281,948
Accrued interest receivable	55	131	663
Due from other funds	992	71,437	10,315
Inventory	18,191		154,446
Prepaid items	2,746	2,972	59,561
Total Current Assets	<u>422,606</u>	<u>618,869</u>	<u>1,348,308</u>
Other Assets:			
Special assessments		143,277	
Advances to other funds			216,133
Restricted cash			
Total Other Assets		<u>143,277</u>	<u>216,133</u>
Capital assets:			
Nondepreciable		149,243	14,372
Depreciable	2,122,818	5,417,091	5,290,682
Less: Accumulated depreciation	(995,702)	(3,783,707)	(3,038,192)
Net capital assets	<u>1,127,116</u>	<u>1,782,627</u>	<u>2,266,862</u>
Total Assets	<u>1,549,722</u>	<u>2,544,773</u>	<u>3,831,303</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,771	28,527	133,885
Accrued liabilities	2,717	1,590	6,567
Accrued interest payable	3,261	1,803	388
Customer deposits	2,465		8,087
Due to other funds	45,013	11,307	101,245
Accrued compensated absences	3,579	592	8,551
Current maturities of bonds payable	11,000	18,000	
Total Current Liabilities	<u>69,806</u>	<u>61,819</u>	<u>258,723</u>
Noncurrent Liabilities:			
Advances from other funds			
Bonds payable, net of current maturities, discount, and issuance costs	<u>269,025</u>	<u>197,125</u>	<u>33,350</u>
Total Liabilities	<u>338,831</u>	<u>258,944</u>	<u>292,073</u>
NET POSITION			
Invested in capital assets, net of related debt	847,091	1,567,502	2,233,512
Restricted for debt service			
Unrestricted	<u>363,800</u>	<u>718,327</u>	<u>1,305,718</u>
Total Net Position	<u>\$ 1,210,891</u>	<u>\$ 2,285,829</u>	<u>\$ 3,539,230</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund Fund	605 Storm Sewer Fund	TOTALS	
		2012	2011
\$ 87,016	\$ 468,017	\$ 2,285,334	\$ 2,142,580
	3,395	341,368	337,970
18	113	980	1,006
	2,385	85,129	92,114
32,621		205,258	216,702
4,960	385	70,624	76,520
<u>124,615</u>	<u>474,295</u>	<u>2,988,693</u>	<u>2,866,892</u>
		143,277	95,409
		216,133	119,841
			194,982
		<u>359,410</u>	<u>410,232</u>
42,813		206,428	183,213
353,386	643,265	13,827,242	13,086,677
(177,081)	(180,502)	(8,175,184)	(7,787,972)
<u>219,118</u>	<u>462,763</u>	<u>5,858,486</u>	<u>5,481,918</u>
<u>343,733</u>	<u>937,058</u>	<u>9,206,589</u>	<u>8,759,042</u>
67,896	454	232,533	189,722
4,001		14,875	13,338
	1,359	6,811	4,347
(75)		10,477	8,578
		157,565	161,626
3,918		16,640	14,297
		29,000	235,778
<u>75,740</u>	<u>1,813</u>	<u>467,901</u>	<u>627,686</u>
118,500		118,500	16,653
	116,725	616,225	149,000
<u>194,240</u>	<u>118,538</u>	<u>1,202,626</u>	<u>793,339</u>
100,618	346,038	5,094,761	5,097,140
			168,327
48,875	472,482	2,909,202	2,700,236
<u>\$ 149,493</u>	<u>\$ 818,520</u>	<u>\$ 8,003,963</u>	<u>\$ 7,965,703</u>

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

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Operating Revenues			
Sales and charges for services	\$ 251,396	\$ 284,855	\$ 1,744,683
Operating Expenses			
Cost of sales			
Power costs			1,081,844
Conservation improvement program			18,463
Base load projects			
Salaries and wages	96,898	51,539	227,209
Supplies	5,554	6,614	3,742
Professional services	1,035	7,430	4,366
Insurance	3,349	4,537	54,117
Utilities	11,698	50,611	25,322
Repairs and maintenance	20,510	37,217	20,056
Depreciation	64,895	128,659	155,538
Dues and subscriptions	594	1,473	33,565
Other services	145	316	326
Safety	12		12,333
Generator expense			44,849
Shared facility charge	7,800		31,200
Other operating expense	8,203	2,644	17,457
Total Operating Expenses	<u>220,693</u>	<u>291,040</u>	<u>1,730,387</u>
Operating Income (Loss)	<u>30,703</u>	<u>(6,185)</u>	<u>14,296</u>
Nonoperating Revenues (Expenses)			
Miscellaneous revenue	727	219	11,566
Insurance dividend	339	1,700	15,885
Connection fees			
Intergovernmental	173		713
Special assessments	9,460	11,947	
Investment income	4,058	4,462	11,331
Amortization of deferred charges	(2,574)		(11,589)
Miscellaneous expense	(4)		(500)
Interest expense	(6,101)	(5,924)	(4,825)
Total Nonoperating Revenues (Expenses)	<u>6,078</u>	<u>12,404</u>	<u>22,581</u>
Income Before Transfers	36,781	6,219	36,877
Transfers out			(67,078)
Change in net position	36,781	6,219	(30,201)
Net Position - Beginning of Year	<u>1,174,110</u>	<u>2,279,610</u>	<u>3,569,431</u>
Net Position - End of Year	<u>\$ 1,210,891</u>	<u>\$ 2,285,829</u>	<u>\$ 3,539,230</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund	605 Storm Sewer Fund	TOTALS	
		2012	2011
\$ 656,323	\$ 39,536	\$ 2,976,793	\$ 2,868,599
435,193		435,193	416,711
		1,081,844	859,457
		18,463	21,953
			13,669
111,269		486,915	479,604
5,500		21,410	22,958
35		12,866	26,695
11,002		73,005	72,599
13,189		100,820	101,904
11,720	3,326	92,829	55,529
17,171	20,948	387,211	375,326
533		36,165	36,982
19,882		20,669	8,492
		12,345	12,273
		44,849	41,374
		39,000	39,000
12,248	977	41,529	29,650
<u>637,742</u>	<u>25,251</u>	<u>2,905,113</u>	<u>2,614,176</u>
<u>18,581</u>	<u>14,285</u>	<u>71,680</u>	<u>254,423</u>
15,738		28,250	61,632
2,045	225	20,194	
			1,094
		886	11,490
		21,407	5,769
333	2,314	22,498	19,272
		(14,163)	(15,801)
		(504)	(1,501)
(229)	(2,831)	(19,910)	(20,183)
<u>17,887</u>	<u>(292)</u>	<u>58,658</u>	<u>61,772</u>
36,468	13,993	130,338	316,195
<u>(25,000)</u>		<u>(92,078)</u>	<u>(185,140)</u>
11,468	13,993	38,260	131,055
<u>138,025</u>	<u>804,527</u>	<u>7,965,703</u>	<u>7,834,648</u>
<u>\$ 149,493</u>	<u>\$ 818,520</u>	<u>\$ 8,003,963</u>	<u>\$ 7,965,703</u>

CITY OF KENYON, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	603 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 245,679	\$ 298,456	\$ 1,736,722
Cash payments to suppliers	(69,047)	(100,860)	(1,335,464)
Cash payments to employees	(96,724)	(51,753)	(215,654)
Other cash receipts (payments)	400		1,574
Net Cash Provided By Operating Activities	<u>80,308</u>	<u>145,843</u>	<u>187,178</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(212,098)	(249,767)	(80,344)
Bond proceeds	234,025	112,125	33,350
Principal payments on bonds	(11,000)	(16,000)	(220,000)
Interest paid on bonds	(3,506)	(4,696)	(7,543)
Connection fees received			
Special assessments received	9,460	8,989	
Net Cash Used In Capital and Related Financing Activities	<u>16,881</u>	<u>(149,349)</u>	<u>(274,537)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in from (out to) other funds			(67,078)
Increase (decrease) in advances to other funds			(96,292)
Increase (decrease) in due to other funds	(6,652)	7,048	2,591
Other cash payments		(44,910)	
Other income (expense)	1,235	1,919	27,664
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(5,417)</u>	<u>(35,943)</u>	<u>(133,115)</u>
Cash Flows From Investing Activities			
Investment earnings received	4,057	4,487	11,337
Net Increase (Decrease) in Cash and Cash Equivalents	95,829	(34,962)	(209,137)
Cash and Cash Equivalents, Beginning of Year	<u>267,301</u>	<u>560,758</u>	<u>1,050,512</u>
Cash and Cash Equivalents, End of Year	<u>\$ 363,130</u>	<u>\$ 525,796</u>	<u>\$ 841,375</u>
Classified As:			
Current assets	\$ 363,130	\$ 525,796	\$ 841,375
Restricted assets			
Total Cash and Cash Equivalents, End of Year	<u>\$ 363,130</u>	<u>\$ 525,796</u>	<u>\$ 841,375</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ 30,703	\$ (6,185)	\$ 14,296
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	62,321	128,659	155,171
(Increase) Decrease In:			
Accounts receivable	(5,717)	13,601	(7,961)
Inventory	2,179		4,504
Prepaid items	(274)	(398)	7,572
Increase (Decrease) In:			
Accounts payable	(9,478)	10,380	11,413
Accrued liabilities	174	(214)	609
Customer deposits	400		1,574
Net Cash Provided By Operating Activities	<u>\$ 80,308</u>	<u>\$ 145,843</u>	<u>\$ 187,178</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

609 Liquor Fund	605 Storm Sewer	TOTALS	
		2012	2011
\$ 656,397	\$ 36,141	\$ 2,973,395	\$ 2,847,114
(469,165)	(10,187)	(1,984,723)	(1,739,096)
(107,958)		(472,089)	(467,171)
(75)		1,899	(382)
<u>79,199</u>	<u>25,954</u>	<u>518,482</u>	<u>640,465</u>
(129,014)	(92,557)	(763,780)	(181,015)
	116,725	496,225	
		(247,000)	(257,000)
(229)	(1,472)	(17,446)	(23,650)
			1,094
		18,449	19,416
<u>(129,243)</u>	<u>22,696</u>	<u>(513,552)</u>	<u>(441,155)</u>
(25,000)		(92,078)	(185,140)
101,847		5,555	(16,242)
	(63)	2,924	456
		(44,910)	
17,783	225	48,826	71,621
<u>94,630</u>	<u>162</u>	<u>(79,683)</u>	<u>(129,305)</u>
325	2,319	22,525	19,754
44,911	51,131	(52,228)	89,759
42,105	416,886	2,337,562	2,247,803
<u>\$ 87,016</u>	<u>\$ 468,017</u>	<u>\$ 2,285,334</u>	<u>\$ 2,337,562</u>
\$ 87,016	\$ 468,017	\$ 2,285,334	\$ 2,142,580
			194,982
<u>\$ 87,016</u>	<u>\$ 468,017</u>	<u>\$ 2,285,334</u>	<u>\$ 2,337,562</u>
\$ 18,581	\$ 14,285	\$ 71,680	\$ 254,423
17,171	20,948	384,270	375,326
74	(3,395)	(3,398)	(21,485)
4,761		11,444	9,613
(960)	(44)	5,896	6,776
36,336	(5,840)	42,811	17,745
3,311		3,880	(1,551)
(75)		1,899	(382)
<u>\$ 79,199</u>	<u>\$ 25,954</u>	<u>\$ 518,482</u>	<u>\$ 640,465</u>

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CITY OF KENYON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

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

Reporting Entity

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

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

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

The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the Council. The EDA board consists of two council members and three representatives from local business. The EDA activities are blended and reported in a separate special revenue fund. 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 position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

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 Position 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 2012. The enterprise fund accounts receivable are reported net of an allowance for uncollectible accounts.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position 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".

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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 Position 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.

Compensated Absences

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

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, 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 Position 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 Position / Fund Balance

In the government-wide and proprietary financial statements, net position is 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 Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

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

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

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

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

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 2011 financial statements have been reclassified to conform to the 2012 presentation.

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2012, 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	\$ 331,516
Money Market Mutual Funds	None	N/A	1,326,964
Municipal Bonds	February 2015	AAA	52,130
Non-Negotiable CD's	January 2013 - August 2017	Unrated	1,968,700
Total			<u>\$ 3,679,310</u>

Investments Authorized by Minnesota Statutes

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

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or its municipalities.
- d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

- 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, 2012 are as follows:

<u>Fund</u>	<u>Goodhue County</u>
General	\$ 14,773

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,216,097	\$	\$	\$ 1,216,097
Construction in progress	31,906		24,392	7,514
Total capital assets, not being depreciated	1,248,003		24,392	1,223,611
Capital assets, being depreciated:				
Buildings/improvements	1,708,091			1,708,091
Machinery and equipment	1,314,135			1,314,135
Infrastructure	2,311,238	86,674		2,397,912
Total capital assets, being depreciated	5,333,464	86,674		5,420,138
Less accumulated depreciation for:				
Buildings/improvements	645,909	48,338		694,247
Machinery and equipment	777,223	71,285		848,508
Infrastructure	638,221	65,706		703,927
Total accumulated depreciation	2,061,353	185,329		2,246,682
Total capital assets, being depreciated, net	3,272,111	(98,655)		3,173,456
Governmental activities capital assets, net	\$ 4,520,114	\$ (98,655)	\$ 24,392	\$ 4,397,067

Governmental Activities:

General government	\$ 16,447
Public safety	49,760
Streets and highways	94,902
Culture and recreation	24,220
Total depreciation expense - governmental activities	\$ 185,329

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 57,185	\$	\$	\$ 57,185
Construction in progress	126,028	119,350	96,135	149,243
Total capital assets, not being depreciated	183,213	119,350	96,135	206,428
Capital assets, being depreciated:				
Buildings and structures	5,131,831	112,034		5,243,865
Infrastructure	4,643,155	561,647		5,204,802
Machinery and other equipment	536,705	24,747		561,452
Transportation equipment	302,332	42,136		344,468
Office furniture and equipment	77,117			77,117
Generators	2,395,536			2,395,536
Total capital assets, being depreciated	13,086,676	740,564		13,827,240
Less accumulated depreciation for:				
Buildings and structures	3,773,261	114,622		3,887,883
Infrastructure	2,298,908	151,053		2,449,961
Machinery and other equipment	341,481	27,381		368,862
Transportation equipment	181,118	14,864		195,982
Office furniture and equipment	69,538	807		70,345
Generators	1,123,665	78,484		1,202,149
Total accumulated depreciation	7,787,971	387,211		8,175,182
Total capital assets, being depreciated, net	5,298,705	353,353		5,652,058
Business-type activities capital assets, net	\$ 5,481,918	\$ 472,703	\$ 96,135	\$ 5,858,486

Business-Type Activities:

Water	\$ 64,895
Sewer	128,659
Electric	155,538
Storm Water	20,948
Liquor	17,171
Total depreciation expense - business-type activities	\$ 387,211

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt

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

General Obligation Improvement Bonds:

The 2007A G.O. Refunding bonds were issued to refund the 1999 G.O. Improvement and 2000 Public Project Revenue Bonds and to finance construction of various improvements. The 2012A Bonds were issued to finance the Highway 56 project. These bonds are payable primarily from ad valorem tax levies 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, 2012 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2012
General Obligation Improvement Bonds			
Series 2007A Refunding	3.75 - 4.20%	2020	\$ 680,000
Series 2012A	0.85 - 2.75%	2023	575,000
General Obligation Revenue Bonds			
Series 2003 Water (PFA)	3.24%	2016	46,000
Series 2010 Utility	2.90%	2018	103,000
Total			<u>\$ 1,404,000</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, 2012 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Improvement Bonds:					
Series 2007A Refunding	\$ 770,000	\$	\$ 90,000	\$ 680,000	\$ 95,000
Series 2012A		78,775		78,775	
Unamortized Discount and Issue Costs	(24,249)		(2,996)	(21,253)	
Compensated Absences	18,983		223	18,760	18,760
Governmental Activities Long-term Liabilities	<u>764,734</u>	<u>78,775</u>	<u>87,227</u>	<u>756,282</u>	<u>113,760</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
Series 2003 Water (PFA)	57,000		11,000	46,000	11,000
Series 2010 Utility	119,000		16,000	103,000	18,000
General Obligation Improvement Bonds:					
Series 2012A		496,225		496,225	
Revenue Bonds:					
Series 2008 Electric and Refunding	220,000		220,000		
Unamortized Discount and Issue Costs	(11,222)		(11,222)		
Compensated Absences	14,297	2,343		16,640	16,640
Business-type Activities Long-term Liabilities	<u>399,075</u>	<u>498,568</u>	<u>235,778</u>	<u>661,865</u>	<u>45,640</u>
Total	<u><u>\$ 1,163,809</u></u>	<u><u>\$ 577,343</u></u>	<u><u>\$ 323,005</u></u>	<u><u>\$ 1,418,147</u></u>	<u><u>\$ 159,400</u></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, 2012 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes	
	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>				
2013	\$ 95,000	\$ 27,652		
2014	102,535	23,475		
2015	107,535	19,511		
2016	82,535	15,894		
2017	82,535	12,726		
2018-2022	279,730	19,075		
2023	8,905	122		
Totals	<u>\$ 758,775</u>	<u>\$ 118,457</u>		
<u>Business-Type Activities</u>				
2013	\$	\$ 10,847	\$ 29,000	\$ 4,347
2014	47,465	8,476	30,000	3,468
2015	47,465	8,073	30,000	2,558
2016	47,465	7,574	30,000	1,646
2017	47,465	6,981	20,000	725
2018-2022	250,270	22,267	10,000	145
2023	56,095	771		
Totals	<u>\$ 496,225</u>	<u>\$ 64,987</u>	<u>\$ 149,000</u>	<u>\$ 12,889</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, 2012 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, 2012 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 93,743	\$ 39,000
Special Revenue Funds:		
Fire		30,000
2004 Tax Abatement TIF / Sun Home		1,665
Capital Project Funds:		
Capital Outlay	69,000	
Enterprise Funds:		
Electric		67,078
Liquor		25,000
Total Transfers	<u>\$ 162,743</u>	<u>\$ 162,743</u>

The amounts due to and from and advanced to and from other funds at December 31, 2012, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 72,436	\$
Enterprise Funds:		
Water	992	45,013
Sewer	71,437	11,307
Electric	10,315	101,245
Storm Water	2,385	
	<u>\$ 157,565</u>	<u>\$ 157,565</u>

	Advances From Other Funds	Advances To Other Funds
Capital Project Funds:		
Trondheim Road Extension	\$	\$ 97,633
Enterprise Funds:		
Electric	216,133	
Liquor		118,500
	<u>\$ 216,133</u>	<u>\$ 216,133</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Deferred Revenue

Deferred revenue recorded in the fund financial statements at December 31, 2012 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	\$ 2,068	\$	\$ 108,460	\$	\$ 110,528
Taxes receivable	61,589				61,589
Other	42,018				42,018
Total	\$ 105,675	\$	\$ 108,460	\$	\$ 214,135

8. Fund Equity

The City has restricted portions of fund balance in the fund financial statements and fund equity in the government-wide financial statements. The restricted fund balance / equity represents the portion not available for expenditure or legally segregated for specific use. A summary of the restricted portion of the fund balance / equity at December 31, 2012 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
Restricted Fund Balance				
Special Purpose Donation Fund:				
Public safety	\$ 3,028	\$	\$	\$
Culture and recreation	17,139			
2004 Tax Abatement TIF / Sun Home Fund:				
Tax increment financing plan				598
Police Forfeiture Fund:				
Public safety				790
Debt Service Funds:				
Debt service requirements			103,184	
Total Restricted Fund Balance	<u>\$ 20,167</u>	<u>\$</u>	<u>\$ 103,184</u>	<u>\$ 1,388</u>
Restricted Net Position				
Public safety	\$ 3,028	\$	\$	\$
Culture and recreation	17,139			
Tax increment financing plan				598
Public safety				790
Debt service requirements			116,673	
Total Restricted Net Position	<u>\$ 20,167</u>	<u>\$</u>	<u>\$ 116,673</u>	<u>\$ 1,388</u>

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Fund Equity

The City has committed and assigned portions of the fund equity in the governmental funds. A summary of the committed and assigned portion of the fund equity at December 31, 2012 is as follows:

Specific Purpose	Fire	Library	Economic Development Authority	Special Purpose Donations
Assigned Fund Balance				
Public safety	\$ 19,955	\$	\$	\$
Culture and recreation		44,058		2,070
Economic development			111,181	
Total Assigned Fund Balance	<u>\$ 19,955</u>	<u>\$ 44,058</u>	<u>\$ 111,181</u>	<u>\$ 2,070</u>

	Capital Outlay Fund
Committed Fund Balance:	
General government	\$ 64,659
Industrial park	15,172
Hwy 56 project	26,564
Gunderson house	7,000
Police department	26,981
Fire department	218,417
Street department	153,232
Library	9,771
Parks	10,187
Pool	19,525
Total Committed Fund Balance	<u>\$ 551,508</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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans – Statewide (Continued)

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. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members and 7.25% for Coordinated Plan GERP Members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$60,309, \$66,798, and \$63,342, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for employee health, liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2012.

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 2012. 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.

CITY OF KENYON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 \$17,660 were received by the Fire Relief from the State (through the City), in accordance with Minnesota statute requirements for the year ended December 31, 2012.

13. New Accounting Pronouncements

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

CITY OF KENYON, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2012

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

December 31, 2012

	Special Revenue			
	205			
	203	204	Economic Development Authority	210 Police Forfeiture
	Fire	Library		
ASSETS				
Cash and investments	\$ 30,267	\$ 30,660	\$ 114,099	\$ 790
Accounts receivable	22,432	17,434		
Special assessments receivable				
Delinquent				
Deferred				
Accrued interest receivable			30	
Prepaid items	4,862	1,445	425	
TOTAL ASSETS	\$ 57,561	\$ 49,539	\$ 114,554	\$ 790
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 32,744	\$ 1,451	\$ 2,148	\$
Accrued liabilities		2,585		
Customer deposits			800	
Advances from other funds				
Deferred revenue				
Total Liabilities	32,744	4,036	2,948	
Fund Balance:				
Nonspendable:				
Prepaid items	4,862	1,445	425	
Restricted:				
Special purpose contributions				
Tax increment districts				
Public safety				790
Creditors				
Assigned	19,955	44,058	111,181	
Unassigned				
Total Fund Balance	24,817	45,503	111,606	790
TOTAL LIABILITIES AND FUND BALANCE	\$ 57,561	\$ 49,539	\$ 114,554	\$ 790

Special Revenue		Debt Service		Total Nonmajor Governmental Funds
230 Special Purpose Donations	402/403 2004 Tax Abatement TIF/ Sun Home	409 <i>Trondheim</i> Road Extension	307 2007 G.O. Refunding Bonds	
\$ 24,013	\$ 598	\$ 2,662	\$ 103,154	\$ 306,243
				39,866
			389	389
		108,071		108,071
			30	60
				6,732
<u>\$ 24,013</u>	<u>\$ 598</u>	<u>\$ 110,733</u>	<u>\$ 103,573</u>	<u>\$ 461,361</u>
\$ 1,776	\$	\$	\$	\$ 38,119
				2,585
				800
		97,633		97,633
		108,071	389	108,460
<u>1,776</u>		<u>205,704</u>	<u>389</u>	<u>247,597</u>
				6,732
20,167				20,167
	598			598
				790
			103,184	103,184
2,070				177,264
		(94,971)		(94,971)
<u>22,237</u>	<u>598</u>	<u>(94,971)</u>	<u>103,184</u>	<u>213,764</u>
<u>\$ 24,013</u>	<u>\$ 598</u>	<u>\$ 110,733</u>	<u>\$ 103,573</u>	<u>\$ 461,361</u>

CITY OF KENYON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue			
	203 Fire	204 Library	205 Economic Development Authority	210 Police Forfeiture
REVENUES				
General property taxes	\$ 28,177	\$ 114,108	\$ 2,124	\$
Tax increment				
Special assessments				
Intergovernmental revenues	23,067	34,868		
Charges for services	69,520			
Fines and forfeitures		1,409		
Investment income	150	48	547	
Donations				
Miscellaneous revenues	3,329	1,180	9,203	
TOTAL REVENUES	124,243	151,613	11,874	
EXPENDITURES				
Public safety	78,793			
Culture and recreation		145,352		
Economic development			10,265	
Principal				
Interest and other				
TOTAL EXPENDITURES	78,793	145,352	10,265	
Excess (deficiency) of revenues over (under) expenditures	45,450	6,261	1,609	
OTHER FINANCING SOURCES (USES)				
Sale of general fixed assets			10,357	
Transfers out	(30,000)			
Total other financing sources (uses)	(30,000)		10,357	
Net change in fund balances	15,450	6,261	11,966	
Fund Balance - Beginning	9,367	39,242	99,640	790
Fund Balance - Ending	\$ 24,817	\$ 45,503	\$ 111,606	\$ 790

Special Revenue		Debt Service		Total Nonmajor Governmental Funds
230 Special Purpose Donations	402/403 2004 Tax Abatement TIF/ Sun Home	409 <i>Trondheim</i> Road Extension	307 2007 G.O. Refunding Bonds	
\$	\$ 6,784 18,284	\$ 23,723	\$ 119,965	\$ 294,881
		3,220	763	18,284
				3,983
				57,935
				69,520
				1,409
109	3		67	924
20,001				20,001
				13,712
<u>20,110</u>	<u>25,071</u>	<u>26,943</u>	<u>120,795</u>	<u>480,649</u>
1,665				80,458
14,155				159,507
	25,167			35,432
			90,000	90,000
		4,115	29,964	34,079
<u>15,820</u>	<u>25,167</u>	<u>4,115</u>	<u>119,964</u>	<u>399,476</u>
4,290	(96)	22,828	831	81,173
	(1,665)			10,357
				(31,665)
	(1,665)			(21,308)
4,290	(1,761)	22,828	831	59,865
17,947	2,359	(117,799)	102,353	153,899
<u>\$ 22,237</u>	<u>\$ 598</u>	<u>\$ (94,971)</u>	<u>\$ 103,184</u>	<u>\$ 213,764</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, 2012 and 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 28,177	\$ 28,177	\$ 28,177	\$	\$ 22,500
Intergovernmental Revenues					
Fire state aid	17,000	17,000	22,522	5,522	17,694
Other state aid	1,000	1,000	545	(455)	400
Total Intergovernmental	18,000	18,000	23,067	5,067	18,094
Charges for Services					
Fire contracts	68,595	63,595	69,520	5,925	59,161
Investment Income					
			150	150	5
Miscellaneous Revenues					
Donations					5,247
Insurance dividend			2,929	2,929	
Other			400	400	5,350
Total Miscellaneous Revenues			3,329	3,329	10,597
TOTAL REVENUES	114,772	109,772	124,243	14,471	110,357
EXPENDITURES					
Employee services	3,608	3,608	3,867	(259)	3,522
Supplies	10,250	10,250	11,360	(1,110)	16,013
Repairs and maintenance	13,500	13,500	8,452	5,048	9,114
Professional services	3,000	3,000	3,560	(560)	3,000
Training	15,000	15,000	12,868	2,132	14,531
Insurance	5,774	5,774	5,764	10	5,774
Utilities	6,440	6,440	5,221	1,219	5,067
Fire state aid	17,000	17,000	22,522	(5,522)	17,694
Capital outlay	2,000	2,000	342	1,658	210
Other services and charges	8,200	8,200	4,837	3,363	7,002
TOTAL EXPENDITURES	84,772	84,772	78,793	5,979	81,927
Excess of revenues over expenditures	30,000	25,000	45,450	20,450	28,430
OTHER FINANCING USES					
Transfers out	(30,000)	(30,000)	(30,000)		(25,000)
Net Change in Fund Balance		(5,000)	15,450	20,450	3,430
FUND BALANCE - Beginning	9,367	9,367	9,367		5,937
FUND BALANCE - Ending	\$ 9,367	\$ 4,367	\$ 24,817	\$ 20,450	\$ 9,367

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, 2012 and 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 114,108	\$ 114,108	\$ 114,108	\$	\$ 102,075
Intergovernmental Revenues					
County aid	34,868	34,868	34,868		38,733
Fines and Foreitures	1,000	1,000	1,409	409	1,163
Investment Income			48	48	36
Miscellaneous Revenues					
Insurance dividend			1,008	1,008	
Other	250	250	172	(78)	619
Total Miscellaneous Revenues	250	250	1,180	930	619
TOTAL REVENUES	150,226	150,226	151,613	1,387	142,626
EXPENDITURES					
Employee services	116,965	116,965	109,457	7,508	114,547
Supplies	1,500	1,500	1,585	(85)	899
Repairs and maintenance			1,073	(1,073)	372
Training	500	500	343	157	97
Insurance	2,625	2,625	2,445	180	2,604
Utilities	2,943	2,943	5,047	(2,104)	4,700
Automation	5,293	5,293	5,114	179	4,824
Capital outlay	19,800	19,800	19,766	34	19,055
Other services and charges	600	600	522	78	820
TOTAL EXPENDITURES	150,226	150,226	145,352	4,874	147,918
Excess of revenues over expenditures			6,261	6,261	(5,292)
OTHER FINANCING USES					
Transfers out					(1,000)
Net Change in Fund Balance			6,261	6,261	(6,292)
FUND BALANCE - Beginning	39,242	39,242	39,242		45,534
FUND BALANCE - Ending	\$ 39,242	\$ 39,242	\$ 45,503	\$ 6,261	\$ 39,242

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CITY OF KENYON, MINNESOTA
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2012

CITY OF KENYON, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Charges for services	\$ 251,396	\$ 222,772
Operating Expenses		
Salaries and wages	96,898	92,463
Supplies	5,554	3,714
Professional services	1,035	997
Insurance	3,349	3,088
Utilities	11,698	14,705
Repairs and maintenance	20,510	10,750
Depreciation	64,895	60,704
Dues and subscriptions	594	644
Other services	145	27
Safety	12	24
Shared facility charge	7,800	7,800
Other operating expense	8,203	6,756
Total Operating Expenses	220,693	201,672
Operating Income	30,703	21,100
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	727	353
Insurance dividends	339	
Connection fees		844
Intergovernmental	173	185
Special assessments	9,460	
Investment income	4,058	2,267
Amortization of deferred charges	(2,574)	
Miscellaneous expense	(4)	
Interest expense	(6,101)	(3,529)
Total Nonoperating Revenues (Expenses)	6,078	120
Change in net position	36,781	21,220
Net Position - Beginning of Year	1,174,110	1,152,890
Net Position - End of Year	\$ 1,210,891	\$ 1,174,110

**CITY OF KENYON, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Positon**
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Charges for services	\$ 284,855	\$ 276,462
Operating Expenses		
Salaries and wages	51,539	48,448
Supplies	6,614	9,461
Professional services	7,430	13,975
Insurance	4,537	4,740
Utilities	50,611	46,167
Repairs and maintenance	37,217	24,275
Depreciation	128,659	130,253
Dues and subscriptions	1,473	1,565
Other services	316	506
Other operating expense	2,644	1,722
Total Operating Expenses	291,040	281,112
Operating Income (Loss)	(6,185)	(4,650)
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	219	34,581
Insurance dividends	1,700	
Intergovernmental		10,615
Special assessments	11,947	5,769
Investment income	4,462	2,349
Amortization of deferred charges		(376)
Interest expense	(5,924)	(3,592)
Total Nonoperating Revenues (Expenses)	12,404	49,346
Change in net position	6,219	44,696
Net Position - Beginning of Year	2,279,610	2,234,914
Net Position - End of Year	\$ 2,285,829	\$ 2,279,610

CITY OF KENYON, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Charges for services	\$ 1,744,683	\$ 1,724,550
Operating Expenses		
Power costs	1,081,844	859,457
Conservation improvement program	18,463	21,953
Base load projects		13,669
Salaries and wages	227,209	225,589
Supplies	3,742	6,053
Professional services	4,366	11,723
Insurance	54,117	55,043
Utilities	25,322	27,064
Repairs and maintenance	20,056	11,867
Depreciation	155,538	152,560
Dues and subscriptions	33,565	33,688
Other services	326	233
Safety	12,333	12,249
Generator expense	44,849	41,374
Shared facility charge	31,200	31,200
Other operating expense	17,457	9,221
Total Operating Expenses	<u>1,730,387</u>	<u>1,512,943</u>
Operating Income	<u>14,296</u>	<u>211,607</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	11,566	12,939
Insurance dividends	15,885	
Connection fees		250
Intergovernmental	713	690
Investment income	11,331	13,562
Amortization of deferred charges	(11,589)	(15,425)
Miscellaneous expense	(500)	(1,501)
Interest expense	(4,825)	(12,425)
Total Nonoperating Revenues (Expenses)	<u>22,581</u>	<u>(1,910)</u>
INCOME BEFORE TRANSFERS	36,877	209,697
Transfers out	<u>(67,078)</u>	<u>(165,140)</u>
Change in net position	(30,201)	44,557
Net Position - Beginning of Year	<u>3,569,431</u>	<u>3,524,874</u>
Net Position - End of Year	<u>\$ 3,539,230</u>	<u>\$ 3,569,431</u>

CITY OF KENYON, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Sales	\$ 656,323	\$ 620,028
Cost of sales	435,193	416,711
Gross Profit	221,130	203,317
Operating Expenses		
Salaries and wages	111,269	113,104
Supplies	5,500	3,730
Professional services	35	
Insurance	11,002	9,728
Utilities	13,189	13,968
Repairs and maintenance	11,720	7,723
Depreciation	17,171	13,429
Dues and subscriptions	533	1,085
Other services	19,882	7,726
Other operating expense	12,248	11,951
Total Operating Expenses	202,549	182,444
Operating Income	18,581	20,873
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	15,738	13,611
Insurance dividend	2,045	
Investment income	333	54
Interest expense	(229)	(637)
Total Nonoperating Revenues (Expenses)	17,887	13,028
INCOME BEFORE TRANSFERS	36,468	33,901
Transfers out	(25,000)	(20,000)
Change in net position	11,468	13,901
Net Position - Beginning of Year	138,025	124,124
Net Position - End of Year	\$ 149,493	\$ 138,025

CITY OF KENYON, MINNESOTA
STORM SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Charges for services	\$ 39,536	\$ 24,787
Operating Expenses		
Repairs and maintenance	3,326	914
Depreciation	20,948	18,380
Total Operating Expenses	25,251	19,294
Operating Income	14,285	5,493
Nonoperating Revenues (Expenses)		
Miscellaneous revenue		148
Insurance dividend	225	
Investment income	2,314	1,040
Total Nonoperating Revenues (Expenses)	(292)	1,188
Change in net position	13,993	6,681
Net Position - Beginning of Year	804,527	797,846
Net Position - End of Year	\$ 818,520	\$ 804,527

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, 2012 and have issued our report thereon dated February 22, 2013.

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 Political Subdivisions*, 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 Political Subdivisions* 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, Schafner and Associates, Ltd.

Rochester, Minnesota
February 22, 2013