

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

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TWIN VALLEY, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2015**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Joseph Peterick	Mayor	December 31, 2016
Mike Bolton	Councilmember	December 31, 2018
Joel Pearson	Councilmember	December 31, 2016
Dan Mickelson	Councilmember	December 31, 2016
Benjamin Fall	Councilmember	December 31, 2018
Appointed		
Tina M. Murn	Clerk/Treasurer	Indefinite

FINANCIAL SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC
Governmental Audit Services

INDEPENDENT AUDITOR'S REPORT

City Council
City of Twin Valley

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 Twin Valley, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley, Minnesota, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to the Financial Statements, the City has adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Twin Valley's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole. The introductory and other schedules sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016, on our consideration of the City of Twin Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Hoffman, Philipp, & Knutson

Hoffman, Philipp, & Knutson, PLLC

May 26, 2016



CITY OF TWIN VALLEY

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of the City of Twin Valley offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Twin Valley for the fiscal year ended December 31, 2015. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

During the current year, the City of Twin Valley adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities are \$1,182,344 of which \$398,254 is the net investment in capital assets, \$205,322 is restricted for specific purposes, and \$578,768 is unrestricted. The total net position of governmental activities decreased by \$105,263 for the year ended December 31, 2015. This is attributed primarily to depreciation of capital assets, and the implementation of GASB 68 which recognized expenses for net pension liability.

The total net position of business-type activities are \$3,486,818, of which \$1,236,350 is the net investment in capital assets, \$942,539 is restricted for debt service, and \$1,307,929 is unrestricted. The total net position of business-type activities decreased by \$211,094 in 2015, primarily due to depreciation of capital assets, and the implementation of GASB 68 which recognized expenses for net pension liability.

At the close of 2015, the City's governmental funds reported combined ending fund balances of \$814,778 an increase of \$13,624, from the prior year. Of the total fund balance amount, \$478 is legally or contractually restricted, \$776,386 is formally committed for specific purposes, \$13,724 is assigned for specific purposes, and \$24,190 is noted as the unassigned fund balance in the General Fund. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of 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's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the City'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 is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, culture and recreation, conservation of natural resources, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the municipal liquor dispensary, sanitation, sewer, storm utility, and water.

The government-wide financial statements can be found as Exhibits 1 and 2 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 Twin Valley, 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 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, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term 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 short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three governmental fund types: General, Special Revenue, and Capital Projects. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other nonmajor governmental

funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Twin Valley adopts annual budgets for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with its budget.

Proprietary Funds The City of Twin Valley maintains five proprietary funds. 1) The Liquor Enterprise Fund is used to account for operations of the municipal liquor dispensary. Financing is provided through the liquor store's sale of on and off-sale liquor. 2) The Sanitation Enterprise Fund is used to account for operations of the garbage collection system. Financing is provided by charges to residents for services. 3) The Sewer Enterprise Fund is used to account for the operations of the City's sewer system. Financing is provided by charges to residents for services. 4) The Storm Utility Enterprise Fund is used to account for the operations of the City's storm drainage utility. Financing is provided by charges to residents for services. 5) The Water Enterprise Fund is used to account for the operations of the City's water system. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. All of the enterprise funds are considered to be major funds except the Storm Utility Enterprise Fund.

Notes to the Financial Statements

The notes to the financial statements 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 beginning on page 27 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides supplementary and other information including combining statements and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$4,669,162 at the close of 2015. Approximately 35 percent of the City's net position reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 25 percent of the City's net position is restricted for specific purposes and 40 percent of the City's net position is unrestricted. The unrestricted net position amount of \$1,886,697 as of December 31, 2015, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position decreased from last year. Total assets decreased by \$17,840, from the prior year, primarily due to capital asset depreciation. Total liabilities increased by \$311,728, from the prior year, primarily due to the implementation of GASB 68 which recognizes a net pension liability. This resulted in a decreased net position of \$316,357 from the prior year.

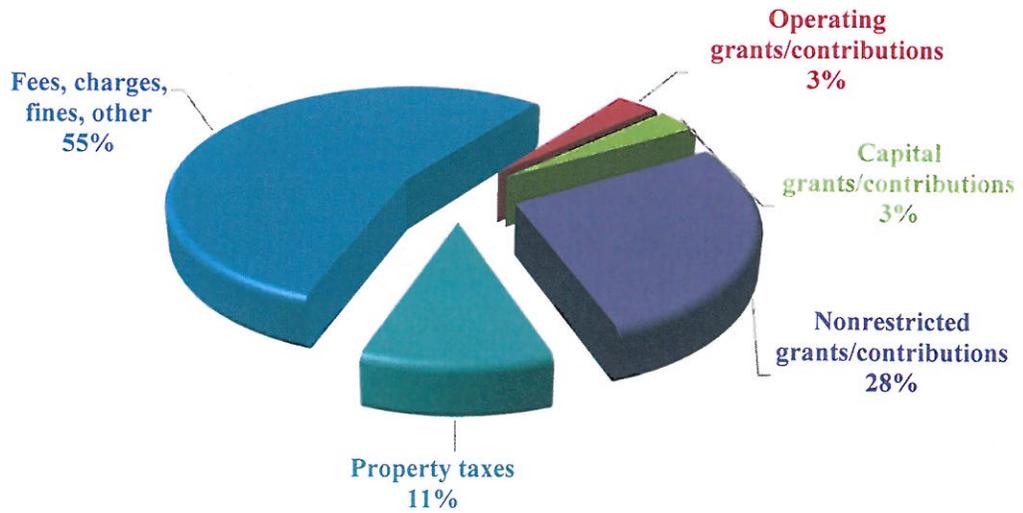
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,022,110	\$ 904,220	\$ 2,411,748	\$ 2,316,141	\$ 3,433,858	\$ 3,220,361
Capital assets	415,414	449,736	3,954,350	4,151,365	4,369,764	4,601,101
Total assets	\$ 1,437,524	\$ 1,353,956	\$ 6,366,098	\$ 6,467,506	\$ 7,803,622	\$ 7,821,462
Deferred Outflows - pensions	\$ 64,267	\$ -	\$ 22,340	\$ -	\$ 86,607	\$ -
Other liabilities	\$ 37,657	\$ 23,439	\$ 24,159	\$ 28,206	\$ 61,816	\$ 51,645
Long-term liabilities outstanding	233,337	42,910	2,852,518	2,741,388	3,085,855	2,784,298
Total liabilities	\$ 270,994	\$ 66,349	\$ 2,876,677	\$ 2,769,594	\$ 3,147,671	\$ 2,835,943
Deferred Inflows - pensions	\$ 48,453	\$ -	\$ 24,943	\$ -	\$ 73,396	\$ -
Net position						
Net investment in capital assets	\$ 398,254	\$ 427,304	\$ 1,236,350	\$ 1,381,365	\$ 1,634,604	\$ 1,808,669
Restricted	205,322	202,343	942,539	990,097	1,147,861	1,192,440
Unrestricted amounts	578,768	657,960	1,307,929	1,326,450	1,886,697	1,984,410
Total net position	\$ 1,182,344	\$ 1,287,607	\$ 3,486,818	\$ 3,697,912	\$ 4,669,162	\$ 4,985,519

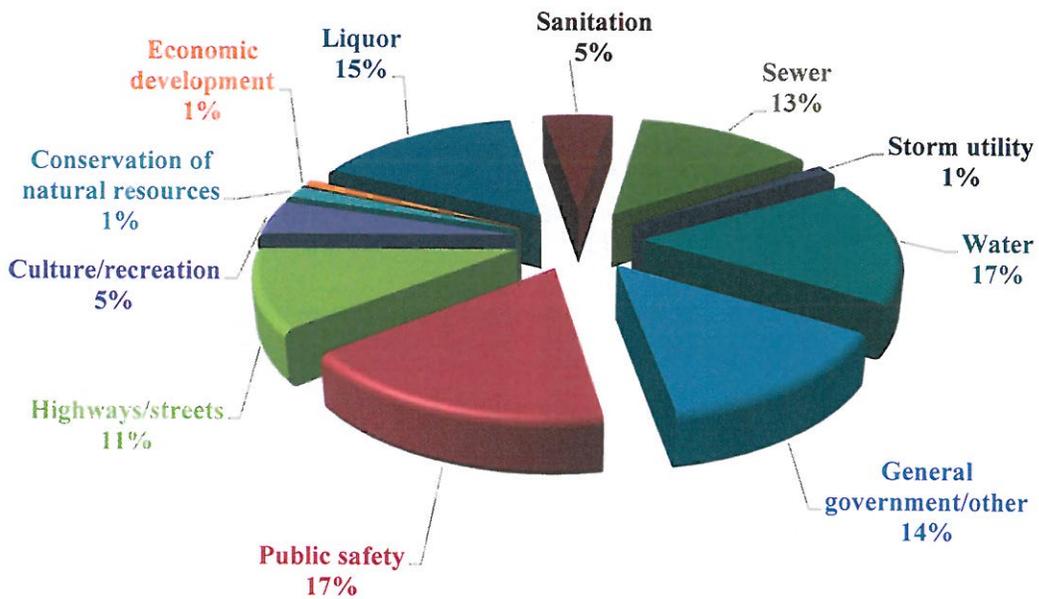
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 122,252	\$ 94,933	\$ 550,859	\$ 584,933	\$ 673,111	\$ 679,866
Operating grants and contributions	39,419	59,096	-	-	39,419	59,096
Capital grants and contributions	800	863	41,069	57,402	41,869	58,265
General Revenues and Transfers						
Property taxes	135,576	132,615	-	-	135,576	132,615
Grants and contributions not restricted to specific programs	322,713	300,570	20,925	22,204	343,638	322,774
Investment earnings	2,238	2,174	293	359	2,531	2,533
Transfers	-	15,000	-	(15,000)	-	-
Total revenues	\$ 622,998	\$ 605,251	\$ 613,146	\$ 649,898	\$ 1,236,144	\$ 1,255,149
Expenses						
General government	\$ 178,216	\$ 174,099	\$ -	\$ -	\$ 178,216	\$ 174,099
Public safety	220,998	215,879	-	-	220,998	215,879
Highways and streets	136,434	104,431	-	-	136,434	104,431
Culture and recreation	59,919	86,812	-	-	59,919	86,812
Conservation of natural resources	19,539	4,419	-	-	19,539	4,419
Economic development	11,461	5,595	-	-	11,461	5,595
Interest	1,314	-	-	-	1,314	-
Liquor	-	-	197,582	216,065	197,582	216,065
Sanitation	-	-	66,410	64,053	66,410	64,053
Sewer	-	-	168,721	181,074	168,721	181,074
Storm utility	-	-	15,746	16,053	15,746	16,053
Water	-	-	213,107	268,266	213,107	268,266
Total expenses	\$ 627,881	\$ 591,235	\$ 661,566	\$ 745,511	\$ 1,289,447	\$ 1,336,746
Increase (decrease) in net position	\$ (4,883)	\$ 14,016	\$ (48,420)	\$ (95,613)	\$ (53,303)	\$ (81,597)
Net position, January 1, as previously reported	\$ 1,287,607	\$ -	\$ 3,697,912	\$ -	\$ 4,985,519	\$ -
Prior period adjustment	(100,380)	-	(162,674)	-	(263,054)	-
Net position, January 1, as restated	\$ 1,187,227	\$ 1,273,591	\$ 3,535,238	\$ 3,793,525	\$ 4,722,465	\$ 5,067,116
Net position, December 31	\$ 1,182,344	\$ 1,287,607	\$ 3,486,818	\$ 3,697,912	\$ 4,669,162	\$ 4,985,519

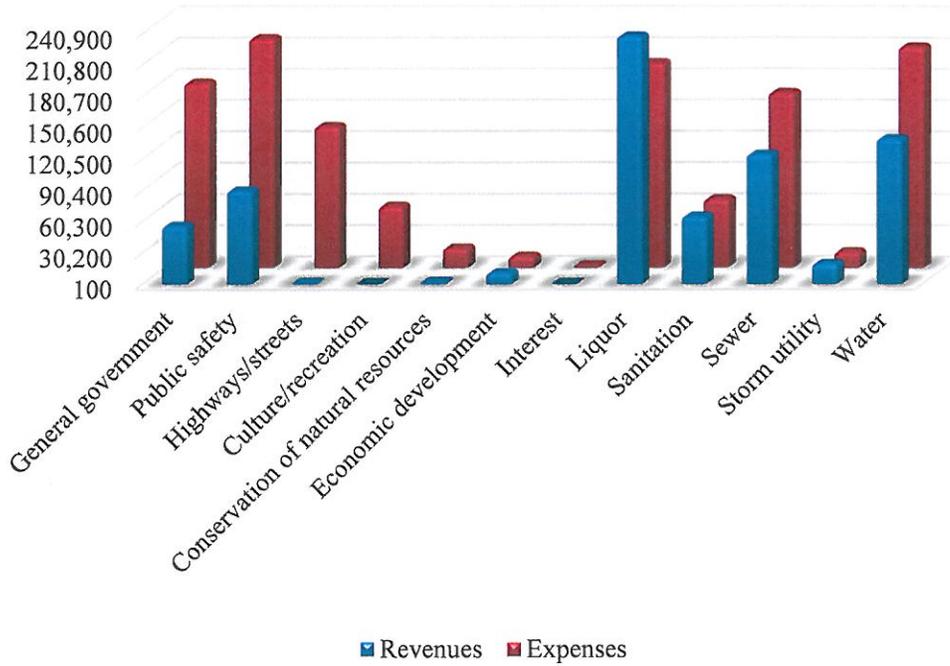
Revenues by Source



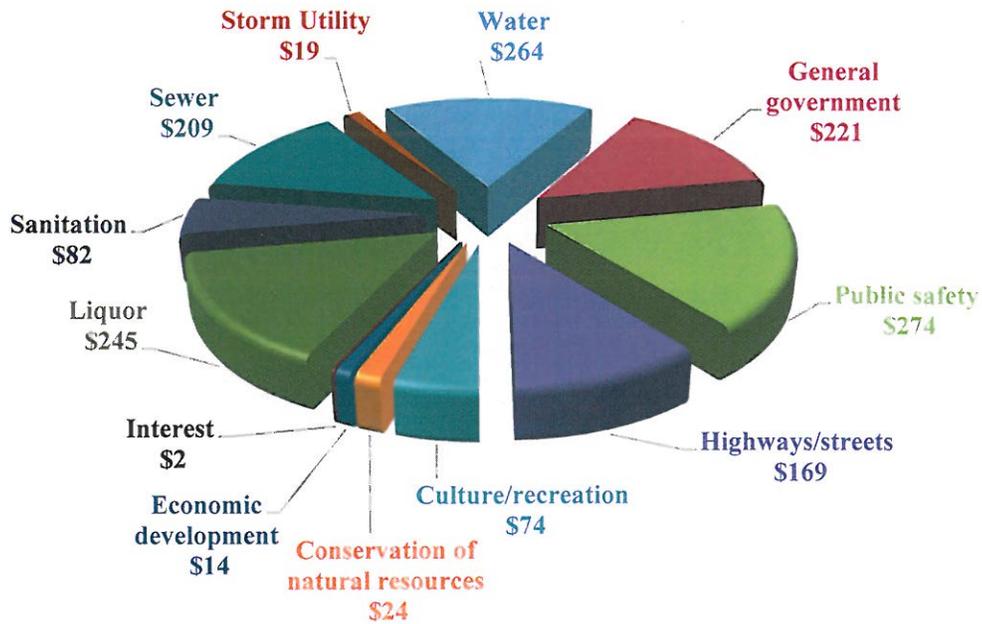
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 808 Population as of 2015



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2015, the City's governmental funds reported combined ending fund balances of \$814,778. Of this amount, less than one half of one percent constitutes legally or contractually restricted fund balance, 95 percent constitutes formally committed fund balance, 2 percent constitutes specifically assigned fund balance, and 3 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$596,210. The General Fund's restricted fund balance was \$478, committed fund balance was \$571,542, and unassigned fund balance was \$24,190. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2015. Both unrestricted fund balance and total fund balance represents approximately 102 percent of total General Fund expenditures.

In 2015, the fund balance amount in the General Fund increased by \$9,349, due to increased tax collections, and collections on the note receivable.

Proprietary Funds

The Liquor Enterprise Fund reported an operating income in 2015 of \$40,545, resulting from a normal mark-up for this type of business and aggressive management.

The Sewer Enterprise Fund reported an operating loss in 2015 of \$65,156, as a result of depreciation of water/sewer projects.

The Water Enterprise Fund reported an operating loss in 2015 of \$47,354, as a result of depreciation of water/sewer projects.

The Sanitation Enterprise Fund reported an operating loss in 2015 of \$358, indicating that the fund is collecting fees of a rate consistent with costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2015.

Actual revenues were less than overall budgeted revenues by \$43,494, with the largest variance in miscellaneous revenues. Actual expenditures were less than overall final budgeted expenditures by \$79,781, primarily as a result of most City departments operating within their budgets.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2015, amounted to \$4,369,764 (net of accumulated depreciation). The total decrease in the City's

investment in capital assets for the current fiscal year was approximately three percent. This decrease was primarily due to depreciation of capital assets.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 38,673	\$ 41,376	\$ 46,816	\$ 46,816	\$ 85,489	\$ 88,192
Construction in progress	26,134	26,134	-	-	26,134	26,134
Infrastructure	56,000	60,000	3,720,863	3,898,577	3,776,863	3,958,577
Buildings and improvements	45,163	50,090	175,687	188,640	220,850	238,730
Land improvements	9,240	10,500	-	-	9,240	10,500
Machinery and equipment	240,204	261,636	10,984	17,332	251,188	278,968
Total capital assets	\$ 415,414	\$ 449,736	\$ 3,954,350	\$ 4,151,365	\$ 4,369,764	\$ 4,601,101

Additional information on the City’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$2,697,011 which is backed by the full faith and credit of the government.

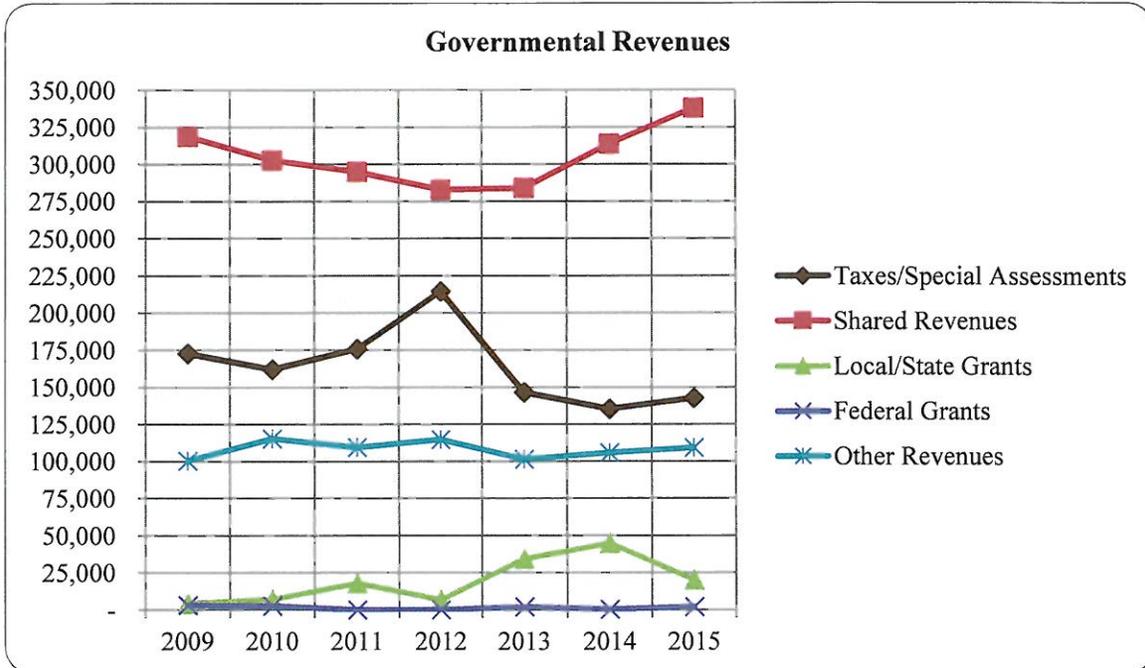
	Business-Type Activities	
	2015	2014
Police Interceptor Lease	\$ 17,160	\$ 25,106
G.O. Utility Revenue and Refunding Bonds, Series 2012A	448,000	500,000
G.O. Utility Revenue and Refunding Bonds, Series 2013A	2,270,000	2,270,000
Less: Bond discount	(38,149)	(39,564)
	\$ 2,697,011	\$ 2,755,542

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2015, overall debt of the City is below the three percent debt limit.

Additional information on the City’s long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

- The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The seven-year analysis below focuses on the revenues of the City’s governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Specific unemployment statistics for the City of Twin Valley are not available. However, the unemployment rate for Norman County was 5.1 percent as of December 31, 2015. This is higher than the statewide rate of 3.7 percent and lower than the national average rate of 5.0 percent.
- Twin Valley's 2015 population was 808, a decline of 17 since the 2010 census of 821.
- On December 14, 2015, the City of Twin Valley set its 2016 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Twin Valley for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Twin Valley Clerk/Treasurer, City Hall, P.O. Box 307, Twin Valley, Minnesota 56584.

BASIC FINANCIAL STATEMENTS

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 503,744	\$ 1,302,807	\$ 1,806,551
Investments	283,254	65,071	348,325
Taxes receivable			
Current	5,526	791	6,317
Prior	8,859	1,266	10,125
Special assessments receivable			
Current	-	7,742	7,742
Prior	494	26,162	26,656
Accounts receivable	23,584	19,920	43,504
Accrued interest receivable	208	14	222
Loans receivable	69,314	-	69,314
Inventories	-	43,759	43,759
Prepaid items	1,119	1,677	2,796
Notes receivable	35,000	-	35,000
Special assessments receivable - noncurrent	-	942,539	942,539
Net pension asset	91,008	-	91,008
Capital assets			
Non-depreciable	64,807	46,816	111,623
Depreciable - net of accumulated depreciation	350,607	3,907,534	4,258,141
Total Assets	\$ 1,437,524	\$ 6,366,098	\$ 7,803,622
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 64,267	\$ 22,340	\$ 86,607
<u>Liabilities</u>			
Accounts payable	\$ 12,006	\$ 12,210	\$ 24,216
Salaries payable	23,851	6,918	30,769
Due to other governments	-	5,031	5,031
Customer deposits	1,800	-	1,800
Long-term liabilities			
Due within one year	11,566	115,410	126,976
Due in more than one year	221,771	2,737,108	2,958,879
Total Liabilities	\$ 270,994	\$ 2,876,677	\$ 3,147,671
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 48,453	\$ 24,943	\$ 73,396
<u>Net Position</u>			
Net investment in capital assets	\$ 398,254	\$ 1,236,350	\$ 1,634,604
Amounts restricted for			
Debt service	-	942,539	942,539
Capital projects	76,922	-	76,922
Culture and recreation	478	-	478
Economic development	127,922	-	127,922
Unrestricted amounts	578,768	1,307,929	1,886,697
Total Net Position	\$ 1,182,344	\$ 3,486,818	\$ 4,669,162

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 178,216	\$ 56,842	\$ -
Public safety	220,998	53,721	37,419
Highways and streets	136,434	-	-
Culture and recreation	59,919	-	-
Conservation of natural resources	19,539	-	2,000
Economic development	11,461	11,689	-
Interest	1,314	-	-
Total governmental activities	\$ 627,881	\$ 122,252	\$ 39,419
Business-type activities			
Liquor	\$ 197,582	\$ 239,278	\$ -
Sanitation	66,410	66,052	-
Sewer	168,721	84,485	-
Storm utility	15,746	20,284	-
Water	213,107	140,760	-
Total business-type activities	\$ 661,566	\$ 550,859	\$ -
Total	\$ 1,289,447	\$ 673,111	\$ 39,419

General revenues

Property taxes

Grants and contributions not restricted to specific programs

Investment earnings

Total general revenues

Change in net position

Net Position - January 1, as previously reported

Prior period adjustment

Net Position - January 1, as restated

Net Position - December 31

EXHIBIT 2

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (121,374)	\$ -	\$ (121,374)
-	(129,858)	-	(129,858)
750	(135,684)	-	(135,684)
50	(59,869)	-	(59,869)
-	(17,539)	-	(17,539)
-	228	-	228
-	(1,314)	-	(1,314)
\$ 800	\$ (465,410)	\$ -	\$ (465,410)
\$ -	\$ -	\$ 41,696	\$ 41,696
-	-	(358)	(358)
41,069	-	(43,167)	(43,167)
-	-	4,538	4,538
-	-	(72,347)	(72,347)
\$ 41,069	\$ -	\$ (69,638)	\$ (69,638)
\$ 41,869	\$ (465,410)	\$ (69,638)	\$ (535,048)
	\$ 135,576	\$ -	\$ 135,576
	322,713	20,925	343,638
	2,238	293	2,531
	\$ 460,527	\$ 21,218	\$ 481,745
	\$ (4,883)	\$ (48,420)	\$ (53,303)
	\$ 1,287,607	\$ 3,697,912	\$ 4,985,519
	(100,380)	(162,674)	(263,054)
	\$ 1,187,227	\$ 3,535,238	\$ 4,722,465
	\$ 1,182,344	\$ 3,486,818	\$ 4,669,162

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Other Governmental Funds (Statement 1)	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 317,855	\$ 185,889	\$ 503,744
Investments	250,638	32,616	283,254
Taxes receivable			
Current	5,166	360	5,526
Prior	8,250	609	8,859
Special assessments receivable - prior	494	-	494
Accounts receivable	23,584	-	23,584
Accrued interest receivable	181	27	208
Loans receivable	-	69,314	69,314
Notes receivable	35,000	-	35,000
Prepaid items	1,119	-	1,119
Total Assets	\$ 642,287	\$ 288,815	\$ 931,102
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 11,682	\$ 324	\$ 12,006
Salaries payable	23,851	-	23,851
Customer deposits	1,800	-	1,800
Total Liabilities	\$ 37,333	\$ 324	\$ 37,657
Deferred Inflows of Resources			
Taxes	\$ 8,250	\$ 609	\$ 8,859
Loans	-	69,314	69,314
Special assessments	494	-	494
Total Deferred Inflows of Resources	\$ 8,744	\$ 69,923	\$ 78,667
Fund Balances			
Restricted for parks and recreation	\$ 478	\$ -	\$ 478
Committed to			
Capital improvements	200,000	76,922	276,922
Contingencies	108,791	-	108,791
Economic development	-	127,922	127,922
Fire - equipment	45,398	-	45,398
Future expenditures	161,471	-	161,471
Highways and streets - equipment	31,786	-	31,786
Rescue squad	24,096	-	24,096
Assigned to capital outlay	-	13,724	13,724
Unassigned	24,190	-	24,190
Total Fund Balances	\$ 596,210	\$ 218,568	\$ 814,778
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 642,287	\$ 288,815	\$ 931,102

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)	\$	814,778
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		415,414
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		78,667
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable	\$ (14,905)	
Loans payable	(17,160)	(32,065)
<p>Net pension asset, net pension liability and related inflows/outflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
Net pension asset	\$ 91,008	
Net pension liability	(201,272)	
Deferred outflows related to pensions	64,267	
Deferred inflows related to pensions	(48,453)	(94,450)
Net position of governmental activities (Exhibit 1)	\$	<u>1,182,344</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues			
Property taxes	\$ 132,566	\$ 10,005	\$ 142,571
Licenses and permits	2,315	-	2,315
Intergovernmental	359,698	-	359,698
Charges for services	52,251	-	52,251
Fines and forfeitures	2,539	-	2,539
Gifts and contributions	3,734	-	3,734
Investment earnings	2,161	77	2,238
Miscellaneous	40,461	5,654	46,115
Total Revenues	\$ 595,725	\$ 15,736	\$ 611,461
Expenditures			
Current			
General government	\$ 172,895	\$ -	\$ 172,895
Public safety	185,462	-	185,462
Highways and streets	129,146	-	129,146
Culture and recreation	56,118	-	56,118
Conservation of natural resources	19,539	-	19,539
Economic development	-	11,461	11,461
Debt service			
Principal retirement	7,946	-	7,946
Interest and fees	1,314	-	1,314
Capital outlay			
Culture and recreation	13,956	-	13,956
Total Expenditures	\$ 586,376	\$ 11,461	\$ 597,837
Excess of Revenues Over (Under) Expenditures	\$ 9,349	\$ 4,275	\$ 13,624
Fund Balance - January 1	586,861	214,293	801,154
Fund Balance - December 31	\$ 596,210	\$ 218,568	\$ 814,778

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 13,624**

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

Governmental funds report capital outlay 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.

Expenditures for general capital assets and infrastructure	\$	13,956	
Current year depreciation		(45,575)	
Net book value of assets disposed		(2,703)	(34,322)

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in			
Taxes receivable	\$	(6,875)	
Special assessments receivable		(120)	
Loans receivable		6,035	(960)

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term
debt consumes the resources of governmental funds. Neither transaction,
however, has any effect on net position.

Principal repayment			7,946
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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.

Change in compensated absences payable			2,899
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Net pension liability does not represent the impending use of current resources.
Therefore, the change in the liability and the related deferrals are not
reported in the governmental funds:

			5,930
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Change in net position of governmental activities (Exhibit 2) **\$ (4,883)**

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
<u>Assets</u>						
Current Assets						
Cash and pooled investments	\$ 183,896	\$ 104,600	\$ 523,932	\$ 431,213	\$ 59,166	\$ 1,302,807
Investments	23,907	-	36,144	5,020	-	65,071
Taxes receivable						
Current	-	-	522	269	-	791
Prior	-	-	1,080	186	-	1,266
Special assessments receivable						
Current	-	-	3,503	4,239	-	7,742
Prior	-	1,042	9,736	14,999	385	26,162
Accounts receivable	2,945	1,274	7,395	7,789	517	19,920
Accrued interest receivable	4	-	9	1	-	14
Due from other funds	-	-	378	-	-	378
Inventories	43,759	-	-	-	-	43,759
Prepaid items	1,677	-	-	-	-	1,677
Total Current Assets	\$ 256,188	\$ 106,916	\$ 582,699	\$ 463,716	\$ 60,068	\$ 1,469,587
Noncurrent Assets						
Special assessments receivable	\$ -	\$ -	\$ 343,515	\$ 599,024	\$ -	\$ 942,539
Capital assets						
Non-depreciable	10,000	-	18,086	7,000	11,730	46,816
Depreciable - net of accumulated depreciation	77,573	1,114	1,818,849	1,469,823	540,175	3,907,534
Total Noncurrent Assets	\$ 87,573	\$ 1,114	\$ 2,180,450	\$ 2,075,847	\$ 551,905	\$ 4,896,889
Total Assets	\$ 343,761	\$ 108,030	\$ 2,763,149	\$ 2,539,563	\$ 611,973	\$ 6,366,476
<u>Deferred Outflows of Resources</u>						
Related to pensions	\$ 11,170	\$ -	\$ 5,585	\$ 5,585	\$ -	\$ 22,340

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
<u>Liabilities</u>						
Current Liabilities						
Accounts payable	\$ 4,449	\$ 5,210	\$ 157	\$ 2,394	\$ -	\$ 12,210
Salaries payable	3,452	-	1,733	1,733	-	6,918
Compensated absences payable	756	-	827	827	-	2,410
Due to other funds	-	-	-	378	-	378
Due to other governments	4,181	789	-	61	-	5,031
2013 Utility Revenue Refunding Bonds payable	-	-	30,660	39,000	-	69,660
2012 Utility Revenue and Refunding Bonds payable	-	-	22,500	7,340	13,500	43,340
Total Current Liabilities	\$ 12,838	\$ 5,999	\$ 55,877	\$ 51,733	\$ 13,500	\$ 139,947
Noncurrent Liabilities						
Compensated absences payable	\$ 3,941	\$ -	\$ 2,103	\$ 2,103	\$ -	\$ 8,147
Net pension liability	81,054	-	40,528	40,528	-	162,110
2013 Utility Revenue Refunding Bonds payable	-	-	773,500	1,436,500	-	2,210,000
2012 Utility Revenue and Refunding Bonds payable	-	-	239,497	55,333	100,170	395,000
Unamortized discounts on revenue bonds	-	-	(13,352)	(24,797)	-	(38,149)
Total Noncurrent Liabilities	\$ 84,995	\$ -	\$ 1,042,276	\$ 1,509,667	\$ 100,170	\$ 2,737,108
Total Liabilities	\$ 97,833	\$ 5,999	\$ 1,098,153	\$ 1,561,400	\$ 113,670	\$ 2,877,055
<u>Deferred Inflows of Resources</u>						
Related to pensions	\$ 12,471	\$ -	\$ 6,236	\$ 6,236	\$ -	\$ 24,943
<u>Net Position</u>						
Net investment in capital assets	\$ 87,573	\$ 1,114	\$ 770,778	\$ (61,350)	\$ 438,235	\$ 1,236,350
Amounts restricted for debt service	-	-	343,515	599,024	-	942,539
Unrestricted amounts	157,054	100,917	550,052	439,838	60,068	1,307,929
Total Net Position	\$ 244,627	\$ 102,031	\$ 1,664,345	\$ 977,512	\$ 498,303	\$ 3,486,818

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Liquor Enterprise	Sanitation Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Utility Enterprise	Total
Sales and Cost of Goods Sold						
Sales	\$ 510,026	\$ -	\$ -	\$ -	\$ -	\$ 510,026
Cost of goods sold	(275,914)	-	-	-	-	(275,914)
Gross Profit	\$ 234,112	\$ -	\$ -	\$ -	\$ -	\$ 234,112
Operating Revenues						
Charges for services	\$ -	\$ 66,052	\$ 84,485	\$ 140,760	\$ 20,284	\$ 311,581
Vending machine commission	2,052	-	-	-	-	2,052
Rental income	1,963	-	-	-	-	1,963
Total Operating Revenues	\$ 4,015	\$ 66,052	\$ 84,485	\$ 140,760	\$ 20,284	\$ 315,596
Total Gross Profit and Operating Revenues	\$ 238,127	\$ 66,052	\$ 84,485	\$ 140,760	\$ 20,284	\$ 549,708
Operating Expenses						
Personnel services	\$ 120,997	\$ -	\$ 32,311	\$ 63,070	\$ -	\$ 216,378
Professional services	-	-	3,316	1,635	-	4,951
Contracted services	-	63,527	8,845	-	-	72,372
Administration	21,891	-	-	-	-	21,891
Advertising	8,332	-	-	-	-	8,332
Fuel	-	-	927	1,321	-	2,248
Insurance	8,112	-	2,296	2,554	-	12,962
Licenses and fees	-	-	-	3,158	-	3,158
Operating supplies	8,113	-	5,430	10,487	-	24,030
Other service and charges	-	2,725	-	-	-	2,725
Repairs and maintenance	4,817	-	10,912	3,753	-	19,482
Utilities	11,912	-	2,098	13,346	-	27,356
Miscellaneous	1,805	-	80	29	14	1,928
Depreciation	11,603	158	83,426	88,761	13,067	197,015
Total Operating Expenses	\$ 197,582	\$ 66,410	\$ 149,641	\$ 188,114	\$ 13,081	\$ 614,828
Operating Income (Loss)	\$ 40,545	\$ (358)	\$ (65,156)	\$ (47,354)	\$ 7,203	\$ (65,120)

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Liquor Enterprise	Sanitation Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Utility Enterprise	Total
Nonoperating Revenues (Expenses)						
Property taxes	\$ -	\$ -	\$ 20,031	\$ 894	\$ -	\$ 20,925
Special assessments	-	-	17,936	23,133	-	41,069
Miscellaneous	1,151	-	-	-	-	1,151
Investment earnings	212	-	72	9	-	293
Interest expense	-	-	(19,080)	(24,993)	(2,665)	(46,738)
Total Nonoperating Revenues (Expenses)	\$ 1,363	\$ -	\$ 18,959	\$ (957)	\$ (2,665)	\$ 16,700
Change in Net Position	\$ 41,908	\$ (358)	\$ (46,197)	\$ (48,311)	\$ 4,538	\$ (48,420)
Net Position - January 1	\$ 284,057	\$ 102,389	\$ 1,751,210	\$ 1,066,491	\$ 493,765	\$ 3,697,912
Prior period adjustment	(81,338)	-	(40,668)	(40,668)	-	(162,674)
Net Position - January 1, as restated	\$ 202,719	\$ 102,389	\$ 1,710,542	\$ 1,025,823	\$ 493,765	\$ 3,535,238
Net Position - December 31	\$ 244,627	\$ 102,031	\$ 1,664,345	\$ 977,512	\$ 498,303	\$ 3,486,818

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

	Liquor Enterprise	Sanitation Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Utility Enterprise	Total
Cash Flows from Operating Activities						
Receipts from customers	\$ 511,357	\$ 74,790	\$ 92,843	\$ 155,680	\$ 24,863	\$ 859,533
Payments to employees	(120,923)	-	(31,085)	(61,844)	-	(213,852)
Payments to suppliers	(351,188)	(66,240)	(33,849)	(35,975)	(14)	(487,266)
Net cash provided by (used in) operating activities	\$ 39,246	\$ 8,550	\$ 27,909	\$ 57,861	\$ 24,849	\$ 158,415
Cash Flows from Noncapital Financing Activities						
Miscellaneous receipts	\$ 1,151	\$ -	\$ -	\$ -	\$ -	\$ 1,151
Cash Flows from Capital and Related Financing Activities						
Property taxes received	\$ -	\$ -	\$ 20,582	\$ 1,296	\$ -	\$ 21,878
Special assessments received	-	-	36,879	63,170	94	100,143
Principal paid on debt	-	-	(31,547)	(7,223)	(13,230)	(52,000)
Interest paid on debt	-	-	(18,585)	(24,073)	(2,665)	(45,323)
Transfers in	-	-	1,143	137	136	1,416
Transfers out	(15,000)	-	-	(1,416)	-	(16,416)
Net cash provided by (used in) capital and related financing activities	\$ (15,000)	\$ -	\$ 8,472	\$ 31,891	\$ (15,665)	\$ 9,698
Cash Flows from Investing Activities						
Investment earnings received	\$ 212	\$ -	\$ 72	\$ 9	\$ -	\$ 293
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 25,609	\$ 8,550	\$ 36,453	\$ 89,761	\$ 9,184	\$ 169,557
Cash and Cash Equivalents at January 1	182,194	96,050	523,623	346,472	49,982	1,198,321
Cash and Cash Equivalents at December 31	\$ 207,803	\$ 104,600	\$ 560,076	\$ 436,233	\$ 59,166	\$ 1,367,878

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

	Liquor Enterprise	Sanitation Enterprise	Sewer Enterprise	Water Enterprise	Nonmajor Storm Utility Enterprise	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 40,545	\$ (358)	\$ (65,156)	\$ (47,354)	\$ 7,203	\$ (65,120)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation expense	\$ 11,603	\$ 158	\$ 83,426	\$ 88,761	\$ 13,067	\$ 197,015
(Increase) decrease in assets						
Accounts receivable	(2,945)	8,548	8,358	14,932	4,579	33,472
Special assessments receivable	-	255	-	-	-	255
Inventories	(4,794)	-	-	-	-	(4,794)
Prepaid items	(10)	-	-	-	-	(10)
Increase (decrease) in liabilities						
Accounts payable	(5,513)	12	55	308	-	(5,138)
Salaries payable	246	-	318	318	-	882
Compensated absences payable	(1,189)	-	397	397	-	(395)
Due to other governments	286	(65)	-	(12)	-	209
Net pension liability	1,017	-	511	511	-	2,039
Total adjustments	\$ (1,299)	\$ 8,908	\$ 93,065	\$ 105,215	\$ 17,646	\$ 223,535
Net cash provided by (used in) operating activities	\$ 39,246	\$ 8,550	\$ 27,909	\$ 57,861	\$ 24,849	\$ 158,415

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

I. Summary of Significant Accounting Policies

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The City of Twin Valley has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, culture and recreation, conservation of natural resources, economic development, a municipal liquor dispensary, and sanitation, sewer, storm drainage, and water utilities, as authorized by its charter.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The City reports the following major enterprise funds:

The Liquor Enterprise Fund is used to account for operations of the municipal liquor dispensary.

The Sewer Enterprise Fund is used to account for operations of the sewer utility.

The Water Enterprise Fund is used to account for operations of the water utility.

The Sanitation Enterprise Fund is used to account for operations of the sanitation utility.

The City also reports the following nonmajor enterprise fund:

The Storm Utility Enterprise Fund is used to account for operations of the storm drainage utility.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand and demand deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of the funds are invested by the City Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. City funds also participate in a pooled checking account for operating purposes. There were no investment earnings on the pooled checking account for 2015. Total investment earnings for 2015 were \$2,531.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Norman County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 1994 through 2015 and noncurrent special assessments collectible in 2016 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

Accounts receivable consist primarily of charges for services for sanitation, sewer, storm utility, and water.

Loans receivable consist of rehabilitation and business loans. Loans receivable are offset by deferred inflows of resources for the balance outstanding as of year-end.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in the proprietary fund and at the government-wide level are recorded as expenses when consumed.

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.

5. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, land improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column 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 and an estimated useful life in excess of two years, except land and construction in progress which is capitalized regardless of cost.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

5. Capital Assets (Continued)

Capital assets are recorded at historical cost or estimated historical cost when 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 extended the life of the asset 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. During the current period, the City did not have any capitalized interest.

The City of Twin Valley has elected to report infrastructure acquired prior to periods ending after June 30, 1980.

Infrastructure, buildings and improvements, land improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	15-50
Buildings and improvements	5-40
Land improvements	10-15
Machinery and equipment	5-25

6. Deferred Outflow and Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes levied for subsequent years as deferred inflows of resources in both the government-wide and governmental fund financial statements. The City reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of the unpaid, accumulated annual vacation and compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. Bond premiums and discounts 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 are immediately expensed. In the fund financial statements, governmental fund types recognize the face amount of debt as other financing sources when issued.

9. Pensions

For purposes of measuring the net pension liability, or asset if applicable, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Net Position and Fund Balance

Certain funds of the City are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial statements, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City does not have any non-spendable fund balance as of December 31, 2015.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Net Position and Fund Balance (Continued)

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Clerk/Treasurer.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds. The City will strive to maintain a minimum unassigned general fund balance of six months of operating expenses.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely, such as resources as a reserve for delinquent taxes; a reserve against economic uncertainties leading to overestimates in revenue forecasts; resources to provide for unpredictable changes in state law; and monies for unforeseen expenditures such as natural disasters, for which no other government resources are made available or there is a delay in receiving those funds from other government entities. As of December 31, 2015, the City had no amount set aside for stabilization.

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. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

11. Use of Estimates

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 the reported amounts of assets, liabilities, and deferred inflows and disclosure of contingent amounts at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City's total deposits and investments to the basic financial statements, as of December 31, 2015, are as follows:

Government-wide Statement of Net Position	
Governmental Activities	
Cash and pooled investments	\$ 503,744
Investments	283,254
Business-type Activities	
Cash and pooled investments	1,302,807
Investments	<u>65,071</u>
Total Cash and Investments	<u>\$ 2,154,876</u>
Deposits	\$ 2,152,371
Cash on hand	<u>2,505</u>
Total Deposits and Cash on Hand	<u>\$ 2,154,876</u>

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. However, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2015, the City's deposits were not exposed to custodial credit risk.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the City's governmental and business-type activities, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 14,385	\$ -
Special assessments	494	-
Accounts	23,584	-
Accrued interest	208	-
Loans	69,314	65,349
Notes	35,000	30,000
	<u>142,985</u>	<u>95,349</u>
Total Governmental Activities	<u>\$ 142,985</u>	<u>\$ 95,349</u>
Business-Type Activities		
Taxes	\$ 2,057	\$ -
Special assessments	976,443	942,539
Accounts	19,920	-
Accrued interest	14	-
	<u>998,434</u>	<u>942,539</u>
Total Business-Type Activities	<u>\$ 998,434</u>	<u>\$ 942,539</u>

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2015, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 41,376	\$ -	\$ 2,703	\$ 38,673
Construction in progress	26,134	-	-	26,134
	<u>67,510</u>	<u>-</u>	<u>2,703</u>	<u>64,807</u>
Total capital assets not depreciated	<u>\$ 67,510</u>	<u>\$ -</u>	<u>\$ 2,703</u>	<u>\$ 64,807</u>
Capital assets being depreciated				
Infrastructure	\$ 120,000	\$ -	\$ -	\$ 120,000
Buildings and improvements	295,406	-	-	295,406
Land improvements	15,600	-	-	15,600
Machinery and equipment	582,371	13,956	-	596,327
	<u>1,013,377</u>	<u>13,956</u>	<u>-</u>	<u>1,027,333</u>
Total capital assets being depreciated	<u>\$ 1,013,377</u>	<u>\$ 13,956</u>	<u>\$ -</u>	<u>\$ 1,027,333</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Infrastructure	\$ 60,000	\$ 4,000	\$ -	\$ 64,000
Buildings and improvements	245,316	4,927	-	250,243
Land improvements	5,100	1,260	-	6,360
Machinery and equipment	320,735	35,388	-	356,123
	<u>\$ 631,151</u>	<u>\$ 45,575</u>	<u>\$ -</u>	<u>\$ 676,726</u>
Total accumulated depreciation				
Total capital assets, depreciated, net	<u>\$ 382,226</u>	<u>\$ (31,619)</u>	<u>\$ -</u>	<u>\$ 350,607</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 449,736</u>	<u>\$ (31,619)</u>	<u>\$ 2,703</u>	<u>\$ 415,414</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 46,816	\$ -	\$ -	\$ 46,816
Capital assets being depreciated				
Infrastructure	\$ 6,155,074	\$ -	\$ -	\$ 6,155,074
Buildings and improvements	483,863	-	-	483,863
Land improvements	11,082	-	-	11,082
Machinery and equipment	98,020	-	-	98,020
	<u>\$ 6,748,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,748,039</u>
Total capital assets being depreciated				
Less: accumulated depreciation for				
Infrastructure	\$ 2,256,497	\$ 177,714	\$ -	\$ 2,434,211
Buildings and improvements	295,223	12,953	-	308,176
Land improvements	11,082	-	-	11,082
Machinery and equipment	80,688	6,348	-	87,036
	<u>\$ 2,643,490</u>	<u>\$ 197,015</u>	<u>\$ -</u>	<u>\$ 2,840,505</u>
Total accumulated depreciation				
Total capital assets, depreciated, net	<u>\$ 4,104,549</u>	<u>\$ (197,015)</u>	<u>\$ -</u>	<u>\$ 3,907,534</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 4,151,365</u>	<u>\$ (197,015)</u>	<u>\$ -</u>	<u>\$ 3,954,350</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Depreciation Expense

Depreciation expense was charged to functions of the City as follows:

Governmental Activities		
General government	\$	1,164
Public safety		33,322
Highways and streets		7,288
Culture and recreation		3,801
Total Depreciation Expense - Governmental Activities	\$	45,575
Business-Type Activities		
Liquor Store	\$	11,603
Sanitation		158
Sewer		83,426
Storm Drainage		13,067
Water		88,761
Total Depreciation Expense - Business-Type Activities	\$	197,015

B. Due To/From Other Funds

The composition of due to/from other funds as of December 31, 2015, is as follows:

Receivable Fund	Payable Fund	Amount	
Sewer Enterprise Fund	Water Enterprise Fund	\$ 378	to correct tax settlement error

C. Liabilities

Compensated Absences

Under the City's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 5 to 25 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 25 days of vacation with 50 percent carryover to the following year, which must be used within the first six months of the following year, and 120 days sick leave under the City's employment policy. Employees are eligible to vest one-third of unused sick leave upon termination in good standing. Unvested sick leave, approximately \$39,670 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination. Compensated absences are generally liquidated from the General Fund and the Liquor, Sewer and Water Enterprise Funds.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities (Continued)

Operating Lease

The City leases a Case Articulated Wheel Loader from Kinetic Leasing on a yearly basis. Total expenditures for this lease were \$6,580 for the year ended December 31, 2015.

Long-Term Debt

Governmental Activities

City of Twin Valley capital lease with Kinetic Lease represents debt incurred for the lease of a Police Interceptor. This lease has an original issue amount of \$34,366. They carry a net interest rate of 5 percent and are due in annual installments of \$9,260 through June 15, 2017. The balance due on this lease at December 31, 2015, is \$17,160.

Business-Type Activities

City of Twin Valley General Obligation Utility Revenue and Refunding Bonds, Series 2012A represent debt incurred to pay off the General Obligation Refunding Bonds of 2003 and the General Obligation Storm Water Revenue Bond, Series 2007A. As a result of the refunding, the City reduced its total debt service payments by \$73,067 and obtained an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$65,390. These bonds have an original issue amount of \$599,000, carry an interest rate of 2.1 percent, and are due in semiannual installments through December 1, 2023. The balance due on these bonds at December 31, 2015, is \$448,000.

City of Twin Valley General Obligation Utility Revenue Refunding Bonds, Series 2013A represent debt incurred to pay off the General Obligation Wastewater and Water Revenue Bond of 2008. As a result of the refunding, the City will reduce its total debt service payments by \$582,355 and obtain an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$165,516. These bonds have an original issue amount of \$2,395,000, carry an interest rate of 1.0 to 3.75 percent, and are due in semiannual installments through February 1, 2043. The balance due on these bonds at December 31, 2015, is \$2,308,149, net of unamortized bond discount of \$38,149.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Debt Service Requirements

Business-Type Activities (Continued)

Debt service requirements for business-type activities at December 31, 2015, are as follows:

Year Ending December 31	General Obligation Utility Revenue and Refunding Bonds, Series 2012A		General Obligation Utility Revenue Refunding Bonds, Series 2013A		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	53,000	9,410	60,000	68,946	113,000	78,356
2017	54,000	8,296	60,000	68,196	114,000	76,492
2018	55,000	7,162	60,000	67,296	115,000	74,458
2019	57,000	6,006	60,000	66,396	117,000	72,402
2020	59,000	4,810	60,000	65,346	119,000	70,156
2021-2025	170,000	6,818	325,000	306,700	495,000	313,518
2026-2030	-	-	365,000	262,169	365,000	262,169
2031-2035	-	-	425,000	201,810	425,000	201,810
2036-2040	-	-	505,000	118,062	505,000	118,062
2041-2043	-	-	350,000	20,007	350,000	20,007
	<u>\$ 448,000</u>	<u>\$ 42,502</u>	<u>\$ 2,270,000</u>	<u>\$ 1,244,928</u>	<u>\$ 2,718,000</u>	<u>\$ 1,287,430</u>
Less: Bond discount	-	-	38,149	-	38,149	-
Total	<u>\$ 448,000</u>	<u>\$ 42,502</u>	<u>\$ 2,308,149</u>	<u>\$ 1,244,928</u>	<u>\$ 2,756,149</u>	<u>\$ 1,287,430</u>

Changes in Long-Term Liabilities

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Police Inceptor Lease	\$ 25,106	\$ -	\$ 7,946	\$ 17,160	\$ 8,362
Compensated Absences	17,804	11,392	14,291	14,905	14,905
Net Pension Liability	-	201,272	-	201,272	-
Governmental Activities Long-Term Liabilities	<u>\$ 42,910</u>	<u>\$ 212,664</u>	<u>\$ 22,237</u>	<u>\$ 233,337</u>	<u>\$ 23,267</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Changes in Long-Term Liabilities

Business-Type Activities (Continued)

Long-term liability activity for the business-type activities for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Utility Revenue and Refunding Bonds, Series 2012A	\$ 500,000	\$ -	\$ 52,000	\$ 448,000	\$ 53,000
G.O. Utility Revenue Refunding Bonds, Series 2013A	2,270,000	-	-	2,270,000	60,000
Less: Bond discount	(39,562)	-	1,413	(38,149)	-
Compensated Absences	10,952	12,860	13,254	10,558	10,558
Net Pension Liability	<u>-</u>	<u>162,110</u>	<u>-</u>	<u>162,110</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 2,741,390</u>	<u>\$ 174,970</u>	<u>\$ 66,667</u>	<u>\$ 2,849,693</u>	<u>\$ 123,558</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

3. Statewide Volunteer Firefighter Retirement Plan (SVF)

The Twin Valley Fire Relief Association participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2015, the plan covered 23 active firefighters and 5 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

The assets of the SVF are invested by the Minnesota State Board of Investment (SBI). The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description

3. Statewide Volunteer Firefighter Retirement Plan (SVF) (Continued)

The SBI made no significant changes to their investment policy during 2015 for the Statewide Volunteer Firefighter Retirement Plan.

Benefits Provided

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

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

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

1. GERF Benefits

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

2. PEPFF Benefits

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

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description

Benefits Provided (Continued)

3. SVF Benefits

Benefits for the SVF provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City of Twin Valley. Members are eligible for a lump-sum retirement benefit at 50 years of age with 5 years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

B. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Twin Valley was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Twin Valley's contributions to the GERF for the year ended December 31, 2015, were \$21,198. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City of Twin Valley was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City of Twin Valley's contributions to the PEPFF for the year ended December 31, 2015, were \$16,597. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

3. SVF Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City of Twin Valley contributions. The State of Minnesota contributed \$10,040 in fire state aid to the plan for the year ended December 31, 2015. The City of Twin Valley was not required to contribute to the plan for the year ended December 31, 2015, and did not make a voluntary contribution.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans (Continued)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City of Twin Valley reported a liability of \$238,396 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of that date. The City of Twin Valley proportion of the net pension liability was based on the City of Twin Valley's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, the City of Twin Valley's proportion share was .0046% which was a decrease of .0007% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City of Twin Valley recognized pension expense of \$23,557 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 12,019
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	22,568	-
Changes in proportion	-	24,662
Contributions paid to PERA subsequent to the measurement date	-	-
Total	\$ 22,568	\$ 36,681

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Pension Costs

1. GERF Pension Costs (Continued)

\$10,284 reported as deferred outflows of resources related to pensions resulting from the City of Twin Valley's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ (6,585)
2017	(6,585)
2018	(6,585)
2019	5,642
2020	-

2. PEPFF Pension Costs

At December 31, 2015, The City of Twin Valley reported a liability of \$124,986 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Twin Valley's proportion of the net pension liability was based on the City of Twin Valley's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, the City of Twin Valley's proportion was .011% which was an increase of .001% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City of Twin Valley recognized pension expense of \$23,338 for its proportionate share of the PEPFF's pension expense.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Pension Costs

2. PEPPF Pension Costs (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 20,269
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	21,777	-
Changes in proportion	9,000	-
Contributions paid to PERA subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 30,777</u>	<u>\$ 20,269</u>

\$8,498 reported as deferred outflows of resources related to pensions resulting from the City of Twin Valley's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2016	\$ 1,688
2017	1,688
2018	1,688
2019	5,444
2020	-

3. SVF Pension Costs

At December 31, 2015, the City of Twin Valley reported a net pension asset of \$91,008 for the SVF plan. The net pension asset was measured as of December 31, 2015. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City of Twin Valley recognized pension expense of \$55 for its proportionate share of the SVF's pension expense.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Pension Costs

2. SVF Pension Costs (Continued)

At December 31, 2015 The City of Twin Valley reported deferred inflows of resources related to pension for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gains/Losses	\$ -	\$ 16,446
Difference between projected and actual investment earnings	14,479	-
Contributions paid to PERA subsequent to the measurement date	-	-
Total	\$ 14,479	\$ 16,446

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ (491)
2017	(491)
2018	(491)
2019	(494)
2020	-

D. Actuarial Assumptions

1. GERF and PEPFF

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2026, then 2.5% for GERF and PEPFF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

There were no changes in actuarial assumptions in 2015.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Actuarial Assumptions

1. GERF and PEPFF (Continued)

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

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

2. SVF

The total pension liability at December 31, 2015, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at the later age of 50 or 20 years of service
Investment Rate of Return 6.00%
Inflation 3.00% per year

There were no changes in actuarial assumptions in 2015.

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6% long-term expected rate of return on pension plans investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return portfolio.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans (Continued)

E. Discount Rate

1. GERF and PEPFF

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

2. SVF

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed the contributions to the SVF plan will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

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

City of Twin Valley's	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the GERF net pension liability	\$ 374,843	\$ 238,396	\$ 125,711
Proportionate share of the PEPFF net pension liability	\$ 243,599	\$ 124,986	\$ 26,991
Proportionate share of the SVF net pension liability Asset	\$ (86,174)	\$ (91,008)	\$ (95,688)

G. Pension Plan Fiduciary Net Position

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

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

IV. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years. The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

C. Conduit Debt

The City has issued \$550,000 Assisted Living Facility Revenue Bonds to provide for the construction of the Lutheran Memorial Home Project. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of rental to be received from a lease agreement between the City and Lutheran Memorial Homes. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At December 31, 2015, the outstanding balance on the Assisted Living Facility Bonds is \$270,299.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 142,195	\$ 142,195	\$ 132,566	\$ (9,629)
Licenses and permits	2,100	2,100	2,315	215
Intergovernmental	358,047	358,047	359,698	1,651
Charges for services	48,792	48,792	52,251	3,459
Fines and forfeitures	4,000	4,000	2,539	(1,461)
Gifts and contributions	4,900	4,900	3,734	(1,166)
Investment earnings	6,300	6,300	2,161	(4,139)
Miscellaneous	72,885	72,885	40,461	(32,424)
Total Revenues	\$ 639,219	\$ 639,219	\$ 595,725	\$ (43,494)
Expenditures				
Current				
General government				
Mayor/council	\$ 11,360	\$ 11,360	\$ 11,209	\$ 151
Finance/office staff	43,885	43,885	45,826	(1,941)
General administration	93,575	93,575	84,139	9,436
Assessor	3,800	3,800	3,612	188
Elections	200	200	-	200
Professional services	4,560	4,560	4,246	314
Legal	9,000	9,000	9,231	(231)
Airport	1,325	1,325	-	1,325
Buildings and grounds	19,875	19,875	12,754	7,121
Other general government	4,400	4,400	1,878	2,522
Total general government	\$ 191,980	\$ 191,980	\$ 172,895	\$ 19,085
Public safety				
Police	\$ 143,100	\$ 143,100	\$ 137,616	\$ 5,484
Fire	48,000	48,000	41,643	6,357
Rescue services	14,725	14,725	6,203	8,522
Total public safety	\$ 205,825	\$ 205,825	\$ 185,462	\$ 20,363
Highways and streets				
Streets and alleys	\$ 137,670	\$ 137,670	\$ 106,176	\$ 31,494
Snow and ice removal	15,575	15,575	1,881	13,694
Street lighting	21,600	21,600	21,089	511
Total highways and streets	\$ 174,845	\$ 174,845	\$ 129,146	\$ 45,699

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (continued)				
Culture and recreation				
Community Center	\$ 14,580	\$ 14,580	\$ 14,733	\$ (153)
Parks	23,870	23,870	23,211	659
Snowmobile and ski trails	30,762	30,762	9,235	21,527
Wimmer Cabins	16,825	16,825	8,837	7,988
Other culture and recreation	1,425	1,425	102	1,323
Total culture and recreation	\$ 87,462	\$ 87,462	\$ 56,118	\$ 31,344
Conservation of natural resources				
Weed and pest control	\$ 6,045	\$ 6,045	\$ 19,539	\$ (13,494)
Debt service				
Principal retirement	\$ -	\$ -	\$ 7,946	\$ (7,946)
Interest	-	-	1,314	(1,314)
Total debt service	\$ -	\$ -	\$ 9,260	\$ (9,260)
Capital outlay				
Culture and recreation	\$ -	\$ -	\$ 13,956	\$ (13,956)
Total Expenditures	\$ 666,157	\$ 666,157	\$ 586,376	\$ 79,781
Excess of Revenues Over (Under) Expenditures	\$ (26,938)	\$ (26,938)	\$ 9,349	\$ 36,287
Other Financing Sources (Uses)				
Transfers in	20,438	20,438	-	(20,438)
Net Change in Fund Balance	\$ (6,500)	\$ (6,500)	\$ 9,349	\$ 15,849
Fund Balance - January 1	586,861	586,861	586,861	-
Fund Balance - December 31	\$ 580,361	\$ 580,361	\$ 596,210	\$ 15,849

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ 21,198	\$ 21,198	\$ -	\$ 282,649	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ 16,597	\$ 16,597	\$ -	\$ 102,451	16.2%

VOLUNTEER FIREFIGHTER RETIREMENT PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ -	\$ -	\$ -	N/A	N/A

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered- Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0046%	\$ 238,396	\$ 279,866	85.18%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered- Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0110%	\$ 124,986	\$ 99,523	125.59%	86.60%

VOLUNTEER FIREFIGHTER RETIREMENT PLAN

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered- Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	100%	\$ (91,008)	N/A	N/A	154.7%

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 4

**STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Changes for the Year			
Service cost	\$ 7,719	\$ -	\$ 7,719
Investment earnings	14,051	-	14,051
Actuarial experience (gains)/losses	(20,557)	-	(20,557)
Projected investment earnings	-	21,862	(21,862)
Contributions (state)	-	12,497	(12,497)
Asset (gain)/loss	-	(18,099)	18,099
Benefit payments	(122,608)	(122,608)	-
Administrative costs	-	(638)	638
Net Change	\$ (121,395)	\$ (106,986)	\$ (14,409)
Balance - January 1	287,764	364,363	(76,599)
Balance - December 31	\$ 166,369	\$ 257,377	\$ (91,008)
Plan Fiduciary Net Position			
Fire state aid		\$ 10,040	
Fire supplemental aid		2,457	
Net investment earnings		3,763	
Benefit payments		(122,608)	
Administrative expenses		(638)	
Net Change in Fiduciary Net Position		\$ (106,986)	
Fiduciary Net Position - January 1		364,363	
Fiduciary Net Position - December 31		\$ 257,377	
Association's Net Pension Liability (Asset) - December 31		\$ (91,008)	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		154.7%	

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Norman County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

II. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Finance/office staff	\$ 45,826	\$ 43,885	\$ (1,941)
Legal	9,231	9,000	(231)
Culture and recreation			
Community Center	14,733	14,580	(153)
Conservation of natural resources			
Weed and pest control	19,539	6,045	(13,494)
Debt service			
Principal retirement	7,946	-	(7,946)
Interest	1,314	-	(1,314)
Capital outlay			
Culture and recreation	13,956	-	(13,956)

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the City Council.

SUPPLEMENTARY INFORMATION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Loan Pool/EDA Special Revenue Fund is used to account for and report loan transactions committed to economic development.

The Small Cities Development Grant Special Revenue Fund is used to account for and report the financial transactions of projects to repair commercial and residential properties committed to economic development.

Capital Projects Funds

The Long-Term Capital Projects Fund is used to account for and report financial resources committed to capital improvements. Financing is provided by taxes levied for future capital projects.

The Lot Incentive Program Capital Projects Fund is used to account for and report the sale of donated city lots and the related expenses assigned to capital outlay.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>Special Revenue Funds (Statement 3)</u>	<u>Capital Projects Funds (Statement 5)</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Assets</u>			
Cash and pooled investments	\$ 95,603	\$ 90,286	\$ 185,889
Investments	32,616	-	32,616
Taxes receivable			
Current	-	360	360
Prior	-	609	609
Accrued interest receivable	27	-	27
Loans receivable	69,314	-	69,314
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 197,560	\$ 91,255	\$ 288,815
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 324	\$ -	\$ 324
Deferred Inflows of Resources			
Taxes	\$ -	\$ 609	\$ 609
Loans	69,314	-	69,314
	<hr/>	<hr/>	<hr/>
Total Deferred Inflows of Resources	\$ 69,314	\$ 609	\$ 69,923
Fund Balances			
Committed to			
Economic development	\$ 127,922	\$ -	\$ 127,922
Capital improvements	-	76,922	76,922
Assigned to capital outlay	-	13,724	13,724
	<hr/>	<hr/>	<hr/>
Total Fund Balances	\$ 127,922	\$ 90,646	\$ 218,568
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 197,560	\$ 91,255	\$ 288,815

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Special Revenue Funds (Statement 4)	Capital Projects Funds (Statement 6)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Property taxes	\$ -	\$ 10,005	\$ 10,005
Investment earnings	77	-	77
Miscellaneous	4,358	1,296	5,654
Total Revenues	\$ 4,435	\$ 11,301	\$ 15,736
Expenditures			
Current			
Economic development	11,461	-	11,461
Net Change in Fund Balance	\$ (7,026)	\$ 11,301	\$ 4,275
Fund Balance - January 1	134,948	79,345	214,293
Fund Balance - December 31	\$ 127,922	\$ 90,646	\$ 218,568

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2015**

	Loan Pool/EDA	Small Cities Development Grant	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 37,649	\$ 57,954	\$ 95,603
Investments	32,616	-	32,616
Accrued interest receivable	27	-	27
Loans receivable	44,609	24,705	69,314
Total Assets	\$ 114,901	\$ 82,659	\$ 197,560
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 324	\$ -	\$ 324
Deferred Inflows of Resources			
Loans	\$ 44,609	\$ 24,705	\$ 69,314
Fund Balances			
Committed to economic development	\$ 69,968	\$ 57,954	\$ 127,922
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 114,901	\$ 82,659	\$ 197,560

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Loan Pool/EDA</u>	<u>Small Cities Development Grant</u>	<u>Total (Statement 2)</u>
Revenues			
Investment earnings	\$ 77	\$ -	\$ 77
Miscellaneous	3,143	1,215	4,358
Total Revenues	\$ 3,220	\$ 1,215	\$ 4,435
Expenditures			
Current			
Economic development	10,439	1,022	11,461
Net Change in Fund Balance	\$ (7,219)	\$ 193	\$ (7,026)
Fund Balance - January 1	77,187	57,761	134,948
Fund Balance - December 31	<u>\$ 69,968</u>	<u>\$ 57,954</u>	<u>\$ 127,922</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
DECEMBER 31, 2015**

	Long-Term Capital Projects	Lot Incentive Program	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 76,562	\$ 13,724	\$ 90,286
Taxes receivable			
Current	360	-	360
Prior	609	-	609
Total Assets	\$ 77,531	\$ 13,724	\$ 91,255
<u>Deferred Inflows of Resources and Fund Balances</u>			
Deferred Inflows of Resources			
Taxes	\$ 609	\$ -	\$ 609
Fund Balances			
Committed to capital improvements	\$ 76,922	\$ -	\$ 76,922
Assigned to capital outlay	-	13,724	13,724
Total Fund Balances	\$ 76,922	\$ 13,724	\$ 90,646
Total Deferred Inflows of Resources and Fund Balances	\$ 77,531	\$ 13,724	\$ 91,255

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 6

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Long-Term Capital Projects</u>	<u>Lot Incentive Program</u>	<u>Total (Statement 2)</u>
Revenues			
Property taxes	\$ 10,005	\$ -	\$ 10,005
Miscellaneous	-	1,296	1,296
Total Revenues	\$ 10,005	\$ 1,296	\$ 11,301
Fund Balance - January 1	66,917	12,428	79,345
Fund Balance - December 31	\$ 76,922	\$ 13,724	\$ 90,646

OTHER SCHEDULES

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

Local government aid	\$ 303,998
Market value credit	201
PERA rate reimbursement	912
Police state aid	14,816
Small cities assistance payment	17,602
	<hr/>

Total Shared Revenue **\$ 337,529**

Grants

State

Minnesota Department/Board of

Natural Resources	\$ 17,731
Peace Officer Standards and Training	1,200
Public Safety	488
Transportation	750
	<hr/>

Total State **\$ 20,169**

Federal

Department of

Agriculture	2,000
	<hr/>

Total Grants **\$ 22,169**

Total Intergovernmental Revenue **\$ 359,698**

MANAGEMENT AND COMPLIANCE SECTION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

2005-001 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Context: The small size and available staffing within the City limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of the City, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the City Council be aware that limited staffing causes inherent risks in safeguarding the City's assets and the proper reporting of financial activity. We recommend the City Council continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

2007-001 Internal Controls

Criteria: The financial statements are the responsibility of the City of Twin Valley's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for monitoring to ensure, effectiveness and efficiency of operations.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**Schedule 6
(Continued)**

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Context: Although the City of Twin Valley has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The City of Twin Valley has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



Hoffman, Philipp, & Knutson, PLLC Governmental Audit Services

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

City Council
City of Twin Valley

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 26, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2005-001 and 2007-001 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except we did not test for compliance with the provisions for tax increment financing because the City of Twin Valley has no tax increment financing districts.

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

Purpose of this Report

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



Hoffman, Philipp, & Knutson, PLLC

May 26, 2016