

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

YEAR ENDED DECEMBER 31, 2018



Hoffman, Philipp, & Knutson, PLLC

**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, 2018**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Benjamin Fall	Mayor	December 31, 2020
Joel Pearson	Vice-Mayor	December 31, 2020
Michael Bolton	Councilmember	December 31, 2022
Nathan Dobmeyer	Councilmember	December 31, 2020
Mike Lampton	Councilmember	December 31, 2022
Appointed		
Rachel L. Johnson	Clerk/Treasurer	Indefinite

FINANCIAL SECTION



Hoffman, Philipp, & Knutson, PLLC

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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, 2018, 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 over financial reporting 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 over financial reporting 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 over financial reporting. 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, 2018, 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.

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, combining and individual fund financial statements and schedules are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, 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, PLLC
May 31, 2019



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, 2018. 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

The total net position of governmental activities is \$1,166,618 of which \$428,925 is the net investment in capital assets, \$149,461 is restricted for specific purposes, and \$588,232 is unrestricted. The total net position of governmental activities increased by \$106,528 for the year ended December 31, 2018. This is attributed primarily to decreased costs in general government and highways and streets.

The total net position of business-type activities is \$3,507,393 of which \$1,078,279 is the net investment in capital assets, \$805,350 is restricted for debt service, and \$1,623,764 is unrestricted. The total net position of business-type activities increased by \$45,190 in 2018, primarily due to the proprietary funds collecting fees at rates consistent with costs.

At the close of 2018, the City's governmental funds reported combined ending fund balances of \$847,120, an increase of \$113,920, from the prior year. Of the total fund balance amount, \$149,461 is legally or contractually restricted, and \$697,659 is assigned for specific purposes. There is no 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 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. 5) 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. 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 26 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 \$4,674,011 at the close of 2018. Approximately 32 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 20 percent of the City's net position is restricted for specific purposes and 48 percent of the City's net position is unrestricted. The unrestricted net position amount of \$2,211,996 as of December 31, 2018, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position increased from last year. Total assets and deferred outflows of resources decreased by \$159,693 from the prior year, primarily due to capital asset depreciation and a decrease in deferred outflows or resources related to pensions. Total liabilities and deferred inflows of resources decreased by \$311,411 from the prior year, primarily due to decreased net pension liability and deferred inflows of resources related to pensions. This resulted in an increased net position of \$151,718 from the prior year.

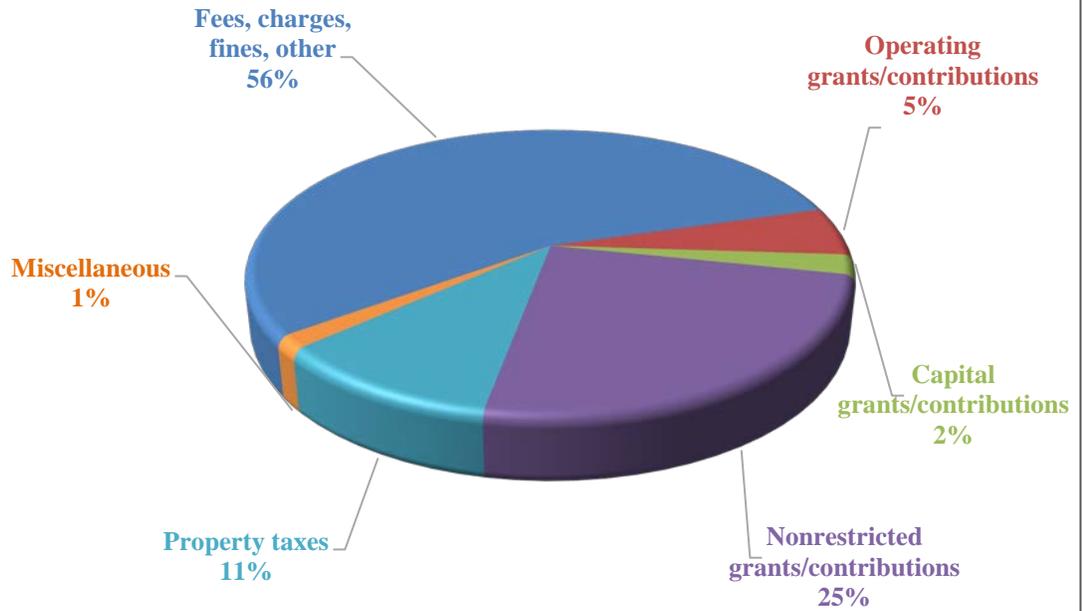
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,015,510	\$ 976,947	\$ 2,599,760	\$ 2,558,467	\$ 3,615,270	\$ 3,535,414
Capital assets	435,953	442,866	3,454,279	3,609,371	3,890,232	4,052,237
Total assets	\$ 1,451,463	\$ 1,419,813	\$ 6,054,039	\$ 6,167,838	\$ 7,505,502	\$ 7,587,651
Deferred Outflows - pensions	\$ 250,484	\$ 301,737	\$ 37,864	\$ 64,155	\$ 288,348	\$ 365,892
Other liabilities	\$ 28,769	\$ 40,265	\$ 22,159	\$ 2,577,569	\$ 50,928	\$ 2,617,834
Long-term liabilities outstanding	226,208	235,517	2,506,600	119,468	2,732,808	354,985
Total liabilities	\$ 254,977	\$ 275,782	\$ 2,528,759	\$ 2,697,037	\$ 2,783,736	\$ 2,972,819
Deferred Inflows - pensions	\$ 280,352	\$ 385,678	\$ 55,751	\$ 72,753	\$ 336,103	\$ 458,431
Net position						
Net investment in capital assets	\$ 428,925	\$ 434,068	\$ 1,078,279	\$ 1,118,371	\$ 1,507,204	\$ 1,552,439
Restricted	149,461	69,444	805,350	870,204	954,811	939,648
Unrestricted amounts	588,232	556,578	1,623,764	1,473,628	2,211,996	2,030,206
Total net position	\$ 1,166,618	\$ 1,060,090	\$ 3,507,393	\$ 3,462,203	\$ 4,674,011	\$ 4,522,293

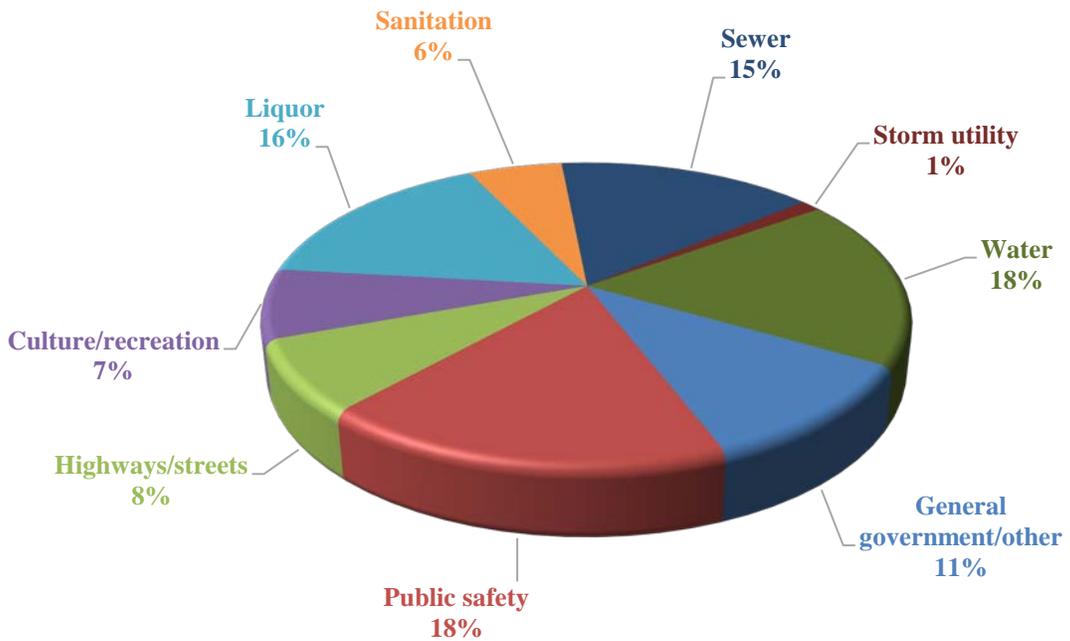
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 73,746	\$ 120,436	\$ 701,959	\$ 653,181	\$ 775,705	\$ 773,617
Operating grants and contributions	76,346	39,383	-	-	76,346	39,383
Capital grants and contributions	2,020	6,563	29,347	31,508	31,367	38,071
General Revenues and Transfers						
Property taxes	147,476	136,655	-	-	147,476	136,655
Grants and contributions not restricted to specific programs	327,549	318,415	17,847	27,363	345,396	345,778
Investment earnings	4,393	1,418	440	221	4,833	1,639
Miscellaneous	13,176	12,210	2,527	847	15,703	13,057
Transfers	5,000	12,362	(5,000)	(12,362)	-	-
Total revenues	\$ 649,706	\$ 647,442	\$ 747,120	\$ 700,758	\$ 1,396,826	\$ 1,348,200
Expenses						
General government	\$ 134,391	\$ 194,241	\$ -	\$ -	\$ 134,391	\$ 194,241
Public safety	218,489	207,178	-	-	218,489	207,178
Highways and streets	95,159	187,929	-	-	95,159	187,929
Culture and recreation	92,419	66,103	-	-	92,419	66,103
Conservation of natural resources	1,541	3,810	-	-	1,541	3,810
Economic development	1,179	4,862	-	-	1,179	4,862
Interest	-	462	-	-	-	462
Liquor	-	-	199,346	207,398	199,346	207,398
Sanitation	-	-	69,410	68,789	69,410	68,789
Sewer	-	-	191,752	187,219	191,752	187,219
Storm utility	-	-	14,920	15,192	14,920	15,192
Water	-	-	226,502	236,884	226,502	236,884
Total expenses	\$ 543,178	\$ 664,585	\$ 701,930	\$ 715,482	\$ 1,245,108	\$ 1,380,067
Increase (decrease) in net position	\$ 106,528	\$ (17,143)	\$ 45,190	\$ (14,724)	\$ 151,718	\$ (31,867)
Net position, January 1	1,060,090	1,077,233	3,462,203	3,476,927	4,522,293	4,554,160
Net position, December 31	\$ 1,166,618	\$ 1,060,090	\$ 3,507,393	\$ 3,462,203	\$ 4,674,011	\$ 4,522,293

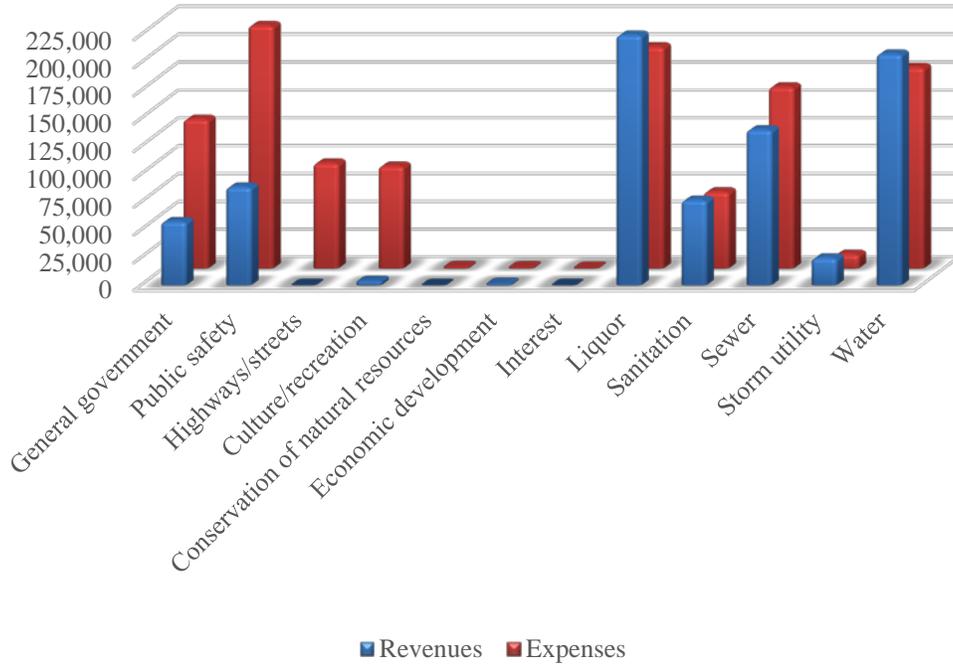
Revenues by Source



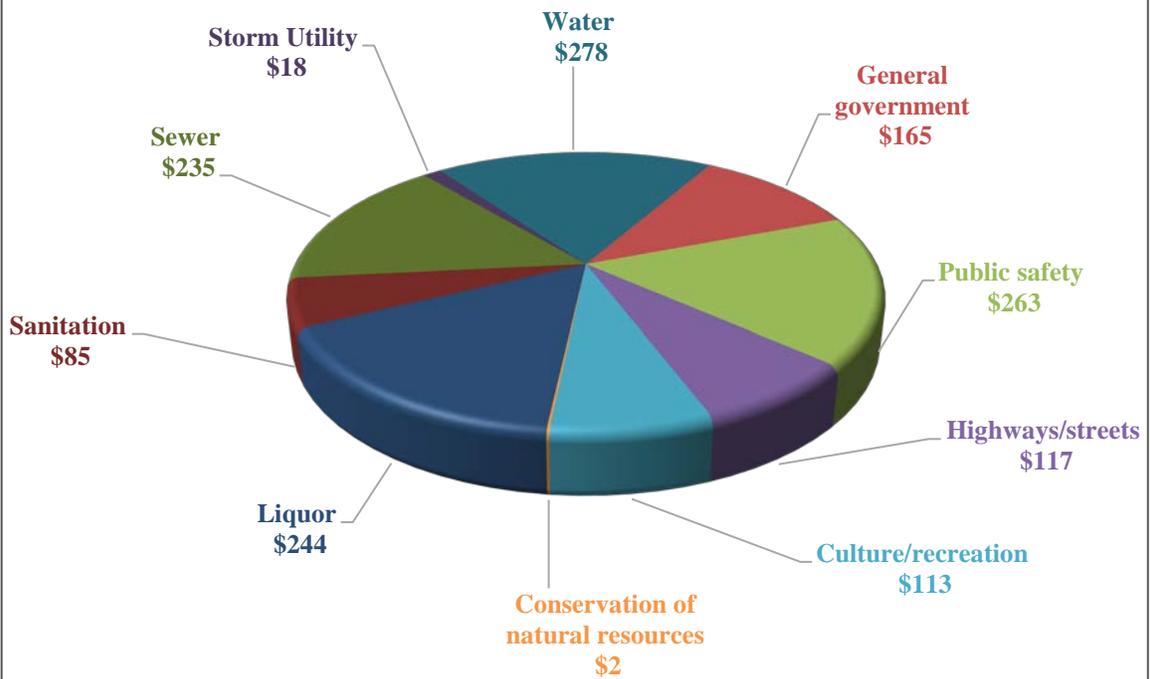
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 816 Population as of 2018



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 2018, the City's governmental funds reported combined ending fund balances of \$847,120. Of this amount, 18 percent constitutes legally or contractually restricted fund balance, and 82 percent constitutes specifically assigned 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 \$578,956. The General Fund's restricted fund balance was \$597, and the assigned fund balance was \$578,359. 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 2018. Both unrestricted fund balance and total fund balance represents approximately 101 percent of total General Fund expenditures.

In 2018, the fund balance amount in the General Fund increased by \$102,535, due to decreased general government and highway and streets expenditures.

Proprietary Funds

The Liquor Enterprise Fund reported an operating income in 2018 of \$49,869, indicating that it is charging for products and services at a normal margin for this type of business.

The Sewer Enterprise Fund reported an operating loss in 2018 of \$23,272, as a result of depreciation of capital assets.

The Water Enterprise Fund reported an operating income in 2018 of \$27,136, indicating that the fund is collecting fees at a rate consistent with costs.

The Sanitation Enterprise Fund reported an operating income in 2018 of \$7,557, indicating that the fund is collecting fees at a rate consistent with costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2018.

Actual revenues were less than overall budgeted revenues by \$39,453, with the largest variance in miscellaneous revenue. Actual expenditures were less than overall final budgeted expenditures by \$122,043, with the largest variance in highways and street expenditures.

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, 2018, amounted to \$3,890,232 (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	
	2018	2017	2018	2017	2018	2017
Land	\$ 58,376	\$ 55,673	\$ 46,816	\$ 46,816	\$ 105,192	\$ 102,489
Infrastructure	69,263	74,134	3,239,149	3,376,419	3,308,412	3,450,553
Buildings and improvements	39,429	44,211	165,808	180,455	205,237	224,666
Land improvements	5,460	6,720	-	-	5,460	6,720
Machinery and equipment	263,425	262,128	2,506	5,681	265,931	267,809
Total capital assets	\$ 435,953	\$ 442,866	\$ 3,454,279	\$ 3,609,371	\$ 3,890,232	\$ 4,052,237

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 \$2,373,393 which is backed by the full faith and credit of the government.

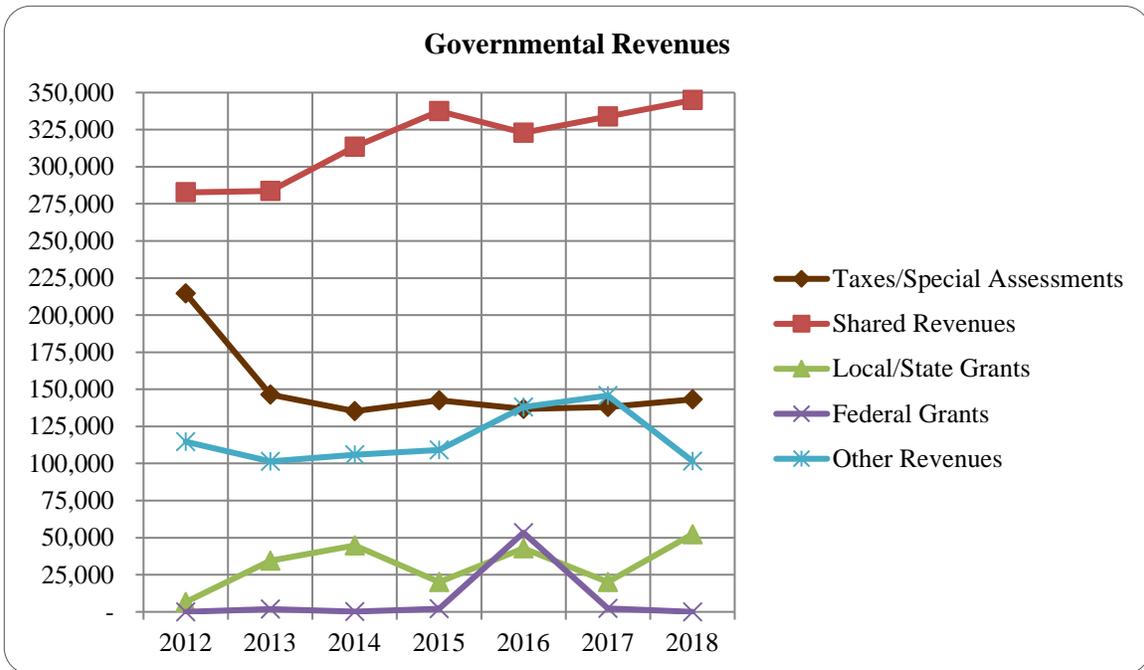
	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Police Interceptor Lease	\$ 29,891	\$ -	\$ -	\$ -	\$ 29,891	\$ -
G.O. Utility Revenue and Refunding Bonds, Series 2012A	-	-	286,000	341,000	286,000	341,000
G.O. Utility Revenue and Refunding Bonds, Series 2013A	-	-	2,090,000	2,150,000	2,090,000	2,150,000
Less: Bond discount	-	-	(33,910)	(35,323)	(33,910)	(35,323)
	\$ 29,891	\$ -	\$ 2,342,090	\$ 2,455,677	\$ 2,371,981	\$ 2,455,677

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 2018, 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 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 5.2 percent as of December 31, 2018. This is higher than the statewide rate of 3.2 percent and higher than the national average rate of 3.7 percent.
- Twin Valley's 2018 population per the League of Minnesota Cities was 816, a decrease of 5 since the 2010 census of 821.
- On December 10, 2018, the City of Twin Valley set its 2019 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, 2018**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 469,739	\$ 1,586,612	\$ 2,056,351
Investments	336,463	115,608	452,071
Taxes receivable			
Current	4,950	647	5,597
Prior	18,853	2,905	21,758
Special assessments receivable			
Current	10	6,157	6,167
Prior	296	25,350	25,646
Accounts receivable	39,015	11,516	50,531
Loans receivable	59,012	-	59,012
Inventories	-	44,105	44,105
Prepaid items	712	1,510	2,222
Notes receivable	25,000	-	25,000
Special assessments receivable - noncurrent	-	805,350	805,350
Net pension asset	61,460	-	61,460
Capital assets			
Non-depreciable	58,376	46,816	105,192
Depreciable - net of accumulated depreciation	377,577	3,407,463	3,785,040
Total Assets	\$ 1,451,463	\$ 6,054,039	\$ 7,505,502
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 250,484	\$ 37,864	\$ 288,348
<u>Liabilities</u>			
Accounts payable	\$ 3,811	\$ 8,383	\$ 12,194
Salaries payable	23,458	8,916	32,374
Due to other governments	-	4,860	4,860
Customer deposits	1,500	-	1,500
Long-term liabilities			
Due within one year	17,871	123,421	141,292
Due in more than one year	208,337	2,383,179	2,591,516
Total Liabilities	\$ 254,977	\$ 2,528,759	\$ 2,783,736
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 280,352	\$ 55,751	\$ 336,103
<u>Net Position</u>			
Net investment in capital assets	\$ 428,925	\$ 1,078,279	\$ 1,507,204
Amounts restricted for			
Debt service	-	805,350	805,350
Culture and recreation	597	-	597
Economic development	148,864	-	148,864
Unrestricted amounts	588,232	1,623,764	2,211,996
Total Net Position	\$ 1,166,618	\$ 3,507,393	\$ 4,674,011

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Revenues		
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 134,391	\$ 55,768	\$ 1,912
Public safety	218,489	15,341	73,484
Highways and streets	95,159	-	-
Culture and recreation	92,419	2,036	-
Conservation of natural resources	1,541	-	-
Economic development	1,179	601	950
Total governmental activities	\$ 543,178	\$ 73,746	\$ 76,346
Business-type activities			
Liquor	\$ 199,346	\$ 252,044	\$ -
Sanitation	69,410	76,967	-
Sewer	191,752	140,092	-
Storm utility	14,920	24,884	-
Water	226,502	207,972	-
Total business-type activities	\$ 701,930	\$ 701,959	\$ -
Total	\$ 1,245,108	\$ 775,705	\$ 76,346

General revenues and transfers

Property taxes
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous
Transfers

Total general revenues and transfers

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (76,711)	\$ -	\$ (76,711)
-	(129,664)	-	(129,664)
-	(95,159)	-	(95,159)
2,020	(88,363)	-	(88,363)
-	(1,541)	-	(1,541)
-	372	-	372
\$ 2,020	\$ (391,066)	\$ -	\$ (391,066)
\$ -	\$ -	\$ 52,698	\$ 52,698
-	-	7,557	7,557
15,493	-	(36,167)	(36,167)
-	-	9,964	9,964
13,854	-	(4,676)	(4,676)
\$ 29,347	\$ -	\$ 29,376	\$ 29,376
\$ 31,367	\$ (391,066)	\$ 29,376	\$ (361,690)
	\$ 147,476	\$ -	\$ 147,476
	327,549	17,847	345,396
	4,393	440	4,833
	13,176	2,527	15,703
	5,000	(5,000)	-
	\$ 497,594	\$ 15,814	\$ 513,408
	\$ 106,528	\$ 45,190	\$ 151,718
	1,060,090	3,462,203	4,522,293
	\$ 1,166,618	\$ 3,507,393	\$ 4,674,011

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Other Governmental Funds (Statement 1)	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 232,799	\$ 236,940	\$ 469,739
Investments	305,539	30,924	336,463
Taxes receivable			
Current	4,650	300	4,950
Prior	17,532	1,321	18,853
Special assessments receivable			
Current	10	-	10
Prior	296	-	296
Accounts receivable	39,015	-	39,015
Loans receivable	-	59,012	59,012
Notes receivable	25,000	-	25,000
Prepaid items	712	-	712
	\$ 625,553	\$ 328,497	\$ 954,050
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 3,811	\$ -	\$ 3,811
Salaries payable	23,458	-	23,458
Customer deposits	1,500	-	1,500
	\$ 28,769	\$ -	\$ 28,769
Deferred Inflows of Resources			
Taxes	\$ 17,532	\$ 1,321	\$ 18,853
Loans	-	59,012	59,012
Special assessments	296	-	296
	\$ 17,828	\$ 60,333	\$ 78,161
Fund Balances			
Restricted for			
Economic development	\$ -	\$ 148,864	\$ 148,864
Parks and recreation	597	-	597
Assigned to			
General government	254,153	-	254,153
Public safety	52,073	-	52,073
Highways and streets	262,133	-	262,133
Culture and recreation	10,000	-	10,000
Capital outlay	-	119,300	119,300
	\$ 578,956	\$ 268,164	\$ 847,120
	\$ 625,553	\$ 328,497	\$ 954,050

**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, 2018**

Fund balances - total governmental funds (Exhibit 3)	\$	847,120
<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>		435,953
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		78,161
<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>		
Capital lease payable	\$ (29,891)	
Compensated absences	(20,494)	(50,385)
<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	\$ 61,460	
Net pension liability	(175,823)	
Deferred outflows related to pensions	250,484	
Deferred inflows related to pensions	(280,352)	(144,231)
Net position of governmental activities (Exhibit 1)	\$	<u>1,166,618</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, 2018**

	General Fund	Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues			
Property taxes	\$ 133,418	\$ 9,719	\$ 143,137
Licenses and permits	2,630	-	2,630
Intergovernmental	397,232	-	397,232
Charges for services	36,610	-	36,610
Gifts and contributions	7,733	950	8,683
Investment earnings	4,304	89	4,393
Miscellaneous	44,826	4,509	49,335
Total Revenues	\$ 626,753	\$ 15,267	\$ 642,020
Expenditures			
Current			
General government	\$ 141,336	\$ -	\$ 141,336
Public safety	201,617	-	201,617
Highways and streets	81,163	-	81,163
Culture and recreation	76,665	-	76,665
Conservation of natural resources	1,541	-	1,541
Economic development	-	3,882	3,882
Debt service			
Principal retirement	10,954	-	10,954
Capital outlay			
Public safety	45,463	-	45,463
Highways and streets	6,024	-	6,024
Culture and recreation	5,300	-	5,300
Total Expenditures	\$ 570,063	\$ 3,882	\$ 573,945
Excess of Revenues Over (Under) Expenditures	\$ 56,690	\$ 11,385	\$ 68,075
Other Financing Sources (Uses)			
Transfers in	\$ 5,000	\$ -	\$ 5,000
Proceeds from loan	40,845	-	40,845
Total Other Financing Sources (Uses)	\$ 45,845	\$ -	\$ 45,845
Net Change in Fund Balance	\$ 102,535	\$ 11,385	\$ 113,920
Fund Balance - January 1	476,421	256,779	733,200
Fund Balance - December 31	\$ 578,956	\$ 268,164	\$ 847,120

**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, 2018**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 113,920

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	\$	59,490	
Current year depreciation		(64,264)	
Net book value of assets disposed		(2,139)	(6,913)

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	\$	4,229	
Special assessments receivable		(3,908)	
Loans receivable		110	431

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.

Proceeds from issuance of debt	\$	(40,845)	
Principal repayment		10,954	(29,891)

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			(5,789)
--	--	--	---------

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:

			34,770
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Change in net position of governmental activities (Exhibit 2)

	\$		106,528
			106,528

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

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	<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	\$ 207,776	\$ 124,887	\$ 581,180	\$ 585,653	\$ 87,116	\$ 1,586,612
Investments	74,197	-	36,361	5,050	-	115,608
Taxes receivable						
Current	-	-	291	356	-	647
Prior	-	-	2,447	458	-	2,905
Special assessments receivable						
Current	-	-	2,490	3,667	-	6,157
Prior	-	624	12,225	12,272	229	25,350
Accounts receivable	-	1,312	2,529	7,158	517	11,516
Inventories	44,105	-	-	-	-	44,105
Prepaid items	1,510	-	-	-	-	1,510
Total Current Assets	\$ 327,588	\$ 126,823	\$ 637,523	\$ 614,614	\$ 87,862	\$ 1,794,410
Noncurrent Assets						
Special assessments receivable	\$ -	\$ -	\$ 286,149	\$ 519,201	\$ -	\$ 805,350
Capital assets						
Non-depreciable	10,000	-	18,086	7,000	11,730	46,816
Depreciable - net of accumulated depreciation	76,744	-	1,590,989	1,238,756	500,974	3,407,463
Total Noncurrent Assets	\$ 86,744	\$ -	\$ 1,895,224	\$ 1,764,957	\$ 512,704	\$ 4,259,629
Total Assets	\$ 414,332	\$ 126,823	\$ 2,532,747	\$ 2,379,571	\$ 600,566	\$ 6,054,039
<u>Deferred Outflows of Resources</u>						
Related to pensions	\$ 18,932	\$ -	\$ 9,466	\$ 9,466	\$ -	\$ 37,864

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

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	<u>Liquor</u> <u>Enterprise</u>	<u>Sanitation</u> <u>Enterprise</u>	<u>Sewer</u> <u>Enterprise</u>	<u>Water</u> <u>Enterprise</u>	<u>Nonmajor</u> <u>Storm Utility</u> <u>Enterprise</u>	<u>Total</u>
<u>Liabilities</u>						
Current Liabilities						
Accounts payable	\$ 3,094	\$ 4,631	\$ 282	\$ 376	\$ -	\$ 8,383
Salaries payable	4,664	-	2,126	2,126	-	8,916
Compensated absences payable	2,505	-	1,958	1,958	-	6,421
Due to other governments	4,052	708	-	100	-	4,860
2013 Utility Revenue Refunding Bonds payable	-	-	33,113	39,000	-	72,113
2012 Utility Revenue and Refunding Bonds payable	-	-	22,500	7,807	14,580	44,887
Total Current Liabilities	\$ 14,315	\$ 5,339	\$ 59,979	\$ 51,367	\$ 14,580	\$ 145,580
Noncurrent Liabilities						
Compensated absences payable	\$ 5,311	\$ -	\$ 2,828	\$ 2,828	\$ -	\$ 10,967
Net pension liability	73,561	-	36,781	36,781	-	147,123
2013 Utility Revenue Refunding Bonds payable	-	-	710,500	1,319,500	-	2,030,000
2012 Utility Revenue and Refunding Bonds payable	-	-	138,725	32,495	57,780	229,000
Unamortized discounts on revenue bonds	-	-	(11,869)	(22,042)	-	(33,911)
Total Noncurrent Liabilities	\$ 78,872	\$ -	\$ 876,965	\$ 1,369,562	\$ 57,780	\$ 2,383,179
Total Liabilities	\$ 93,187	\$ 5,339	\$ 936,944	\$ 1,420,929	\$ 72,360	\$ 2,528,759
<u>Deferred Inflows of Resources</u>						
Related to pensions	\$ 27,875	\$ -	\$ 13,938	\$ 13,938	\$ -	\$ 55,751
<u>Net Position</u>						
Net investment in capital assets	\$ 86,744	\$ -	\$ 704,237	\$ (153,046)	\$ 440,344	\$ 1,078,279
Amounts restricted for debt service	-	-	286,149	519,201	-	805,350
Unrestricted amounts	225,458	121,484	600,945	588,015	87,862	1,623,764
Total Net Position	\$ 312,202	\$ 121,484	\$ 1,591,331	\$ 954,170	\$ 528,206	\$ 3,507,393

**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, 2018**

	<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>
Sales and Cost of Goods Sold						
Sales	\$ 533,896	\$ -	\$ -	\$ -	\$ -	\$ 533,896
Cost of goods sold	(290,991)	-	-	-	-	(290,991)
Gross Profit	\$ 242,905	\$ -	\$ -	\$ -	\$ -	\$ 242,905
Operating Revenues						
Charges for services	\$ -	\$ 76,967	\$ 140,092	\$ 207,972	\$ 24,800	\$ 449,831
Special assessments	-	-	-	-	84	84
Vending machine commission	4,067	-	-	-	-	4,067
Rental income	2,243	-	-	-	-	2,243
Total Operating Revenues	\$ 6,310	\$ 76,967	\$ 140,092	\$ 207,972	\$ 24,884	\$ 456,225
Total Gross Profit and Operating Revenues	\$ 249,215	\$ 76,967	\$ 140,092	\$ 207,972	\$ 24,884	\$ 699,130
Operating Expenses						
Personnel services	\$ 116,395	\$ -	\$ 57,651	\$ 61,327	\$ -	\$ 235,373
Professional services	12,210	-	2,958	8,997	-	24,165
Contracted services	-	67,511	2,635	-	-	70,146
Administration	2,096	-	-	-	-	2,096
Advertising	4,576	-	-	-	-	4,576
Fuel	-	-	1,031	2,540	-	3,571
Insurance	11,211	-	4,813	5,178	-	21,202
Licenses and fees	-	-	-	587	-	587
Operating supplies	6,427	-	2,989	7,927	-	17,343
Other service and charges	-	1,899	-	-	-	1,899
Repairs and maintenance	1,586	-	5,043	4,661	-	11,290
Utilities	24,456	-	3,705	22,589	-	50,750
Miscellaneous	6,351	-	891	1,630	39	8,911
Depreciation	14,038	-	81,648	65,400	13,067	174,153
Total Operating Expenses	\$ 199,346	\$ 69,410	\$ 163,364	\$ 180,836	\$ 13,106	\$ 626,062
Operating Income (Loss)	\$ 49,869	\$ 7,557	\$ (23,272)	\$ 27,136	\$ 11,778	\$ 73,068

**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, 2018**

	<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>
Nonoperating Revenues (Expenses)						
Property taxes	\$ -	\$ -	\$ 8,721	\$ 9,126	\$ -	\$ 17,847
Special assessments	-	-	15,493	13,854	-	29,347
Miscellaneous	2,829	-	1,198	1,329	-	5,356
Investment earnings	241	-	189	10	-	440
Interest expense	-	-	(28,388)	(45,666)	(1,814)	(75,868)
Total Nonoperating Revenues (Expenses)	\$ 3,070	\$ -	\$ (2,787)	\$ (21,347)	\$ (1,814)	\$ (22,878)
Income (Loss) Before Transfers	\$ 52,939	\$ 7,557	\$ (26,059)	\$ 5,789	\$ 9,964	\$ 50,190
Transfers out	(5,000)	-	-	-	-	(5,000)
Change in Net Position	\$ 47,939	\$ 7,557	\$ (26,059)	\$ 5,789	\$ 9,964	\$ 45,190
Net Position - January 1	264,263	113,927	1,617,390	948,381	518,242	3,462,203
Net Position - December 31	\$ 312,202	\$ 121,484	\$ 1,591,331	\$ 954,170	\$ 528,206	\$ 3,507,393

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
Increase (Decrease) in Cash and Cash Equivalents**

	<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>
Cash Flows from Operating Activities						
Receipts from customers	\$ 540,131	\$ 76,779	\$ 140,128	\$ 207,467	\$ 25,014	\$ 989,519
Payments to employees	(125,585)	-	(61,814)	(65,490)	-	(252,889)
Payments to suppliers	(371,930)	(75,444)	(24,657)	(57,394)	(39)	(529,464)
Net cash provided by (used in) operating activities	\$ 42,616	\$ 1,335	\$ 53,657	\$ 84,583	\$ 24,975	\$ 207,166
Cash Flows from Noncapital Financing Activities						
Miscellaneous receipts	\$ 433	-	\$ 157	\$ 131	-	\$ 721
Transfer out	(5,000)	-	-	-	-	(5,000)
Net cash provided by (used in) noncapital financing activities	\$ (4,567)	\$ -	\$ 157	\$ 131	\$ -	\$ (4,279)
Cash Flows from Capital and Related Financing Activities						
Property taxes received	\$ -	\$ -	\$ 9,613	\$ 11,749	-	\$ 21,362
Special assessments received	-	-	34,823	47,618	-	82,441
Acquisition and construction of capital assets	-	-	(19,061)	-	-	(19,061)
Principal paid on debt	-	-	(54,386)	(46,574)	(14,040)	(115,000)
Interest paid on debt	-	-	(27,894)	(44,748)	(1,814)	(74,456)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ (56,905)	\$ (31,955)	\$ (15,854)	\$ (104,714)
Cash Flows from Investing Activities						
Investment earnings received	\$ 241	-	\$ 32	\$ 10	-	\$ 283
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 38,290	\$ 1,335	\$ (3,059)	\$ 52,769	\$ 9,121	\$ 98,456
Cash and Cash Equivalents at January 1	243,683	123,552	620,600	537,934	77,995	1,603,764
Cash and Cash Equivalents at December 31	\$ 281,973	\$ 124,887	\$ 617,541	\$ 590,703	\$ 87,116	\$ 1,702,220

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

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
Increase (Decrease) in Cash and Cash Equivalents**

	<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>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 49,869	\$ 7,557	\$ (23,272)	\$ 27,136	\$ 11,778	\$ 73,068
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation expense	\$ 14,038	\$ -	\$ 81,648	\$ 65,400	\$ 13,067	\$ 174,153
(Increase) decrease in assets						
Accounts receivable	-	(12)	36	(421)	214	(183)
Special assessments receivable	-	(231)	-	-	(84)	(315)
Inventories	1,066	-	-	-	-	1,066
Prepaid items	(15)	-	-	-	-	(15)
Increase (decrease) in liabilities						
Accounts payable	(13,078)	(6,034)	(592)	(3,385)	-	(23,089)
Salaries payable	51	-	108	108	-	267
Compensated absences payable	1,316	-	1,011	1,011	-	3,338
Due to other governments	(75)	55	-	16	-	(4)
Net pension liability	(10,556)	-	(5,282)	(5,282)	-	(21,120)
Total adjustments	\$ (7,253)	\$ (6,222)	\$ 76,929	\$ 57,447	\$ 13,197	\$ 134,098
Net cash provided by (used in) operating activities	\$ 42,616	\$ 1,335	\$ 53,657	\$ 84,583	\$ 24,975	\$ 207,166

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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 utility, 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 property taxes, grants, donations, 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. Financing is provided through the liquor store's sale of on and off-sale liquor.

The Sewer Enterprise Fund is used to account for operations of the sewer utility. Financing is provided by charges to residents for services.

The Water Enterprise Fund is used to account for operations of the water utility. Financing is provided by charges to residents for services.

The Sanitation Enterprise Fund is used to account for operations of the sanitation utility. Financing is provided by charges to residents for services.

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.

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

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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 tax revenues to be available if they are collected within 60 days after the end of the current period. Intergovernmental revenues, charges for services, 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and time 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. Cash and cash equivalents are valued at fair value.

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. City investments consist of certificates of deposit. Pooled and fund investments are reported at their fair value at December 31, 2018, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits.

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

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Deposits and Investments (Continued)

Investment earnings on the pooled checking account for 2018 were \$1,176. Total investment earnings for 2018 were \$4,833.

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 2018 and noncurrent special assessments collectible in 2019 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 the proprietary funds are recorded as expenditures when consumed rather than when purchased.

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.

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

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

5. Capital Assets

Capital assets, which include land, 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 recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition cost value at the date of acquisition.

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:

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

6. Deferred Outflows/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 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 delinquent property taxes, special assessments, loans receivable, and notes receivable 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, Deferred Outflows/Inflows of Resources, 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. In the fund financial statements, governmental fund types recognize the face amount of the debt as other financing sources when issued.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA 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. Pension liability is liquidated by the General Fund and the Electric, Liquor, Sewer, and Water Enterprise Funds.

10. Net Position and Fund Balance

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

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

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Net Position and Fund Balance (Continued)

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. At December 31, 2018, the City reports no non-spendable fund balances.

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 County Board shall pass a resolution. At December 31, 2018, the City reports no committed fund balances.

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 Administrator.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds. At December 31, 2018, the City reports no unassigned fund balances.

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, 2018, 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.

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

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity (Continued)

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.

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, 2018, are as follows:

Government-wide Statement of Net Position	
Governmental Activities	
Cash and pooled investments	\$ 469,739
Investments	336,463
Business-type Activities	
Cash and pooled investments	1,586,612
Investments	<u>115,608</u>
Total Cash and Investments	<u>\$ 2,508,422</u>
Cash on hand	\$ 8,205
Checking	2,048,145
Savings	50,075
Certificates of deposit	<u>401,998</u>
Total Deposits and Cash on Hand	<u>\$ 2,508,422</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.

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

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits (Continued)

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. Generally, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2018, \$218,515 of the City’s deposits were exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2018, 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	\$ 23,803	\$ -
Special assessments	396	-
Accounts	39,015	-
Loans	59,012	56,104
Notes	25,000	-
	<u>\$ 147,226</u>	<u>\$ -</u>
Business-Type Activities		
Taxes	\$ 3,552	\$ 2,905
Special assessments	836,857	801,639
Accounts	11,516	-
	<u>\$ 851,925</u>	<u>\$ 804,544</u>

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

II. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 55,673	\$ 2,703	\$ -	\$ 58,376
Capital assets being depreciated				
Infrastructure	\$ 146,134	\$ -	\$ -	\$ 146,134
Buildings and improvements	304,006	-	-	304,006
Land improvements	15,600	-	-	15,600
Machinery and equipment	686,307	56,787	10,701	732,393
Total capital assets being depreciated	\$ 1,152,047	\$ 56,787	\$ 10,701	\$ 1,198,133
Less: accumulated depreciation for				
Infrastructure	\$ 72,000	\$ 4,871	\$ -	\$ 76,871
Buildings and improvements	259,795	4,782	-	264,577
Land improvements	8,880	1,260	-	10,140
Machinery and equipment	424,179	53,351	8,562	468,968
Total accumulated depreciation	\$ 764,854	\$ 64,264	\$ 8,562	\$ 820,556
Total capital assets, depreciated, net	\$ 387,193	\$ (7,477)	\$ 2,139	\$ 377,577
Governmental Activities Capital Assets, Net	\$ 442,866	\$ (4,774)	\$ 2,139	\$ 435,953

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	\$ 19,061	\$ -	\$ 6,174,135
Buildings and improvements	514,828	-	-	514,828
Land improvements	11,082	-	-	11,082
Machinery and equipment	83,112	-	-	83,112
Total capital assets being depreciated	\$ 6,764,096	\$ 19,061	\$ -	\$ 6,783,157
Less: accumulated depreciation for				
Infrastructure	\$ 2,778,655	\$ 156,331	\$ -	\$ 2,934,986
Buildings and improvements	334,373	14,647	-	349,020
Land improvements	11,082	-	-	11,082
Machinery and equipment	77,431	3,175	-	80,606
Total accumulated depreciation	\$ 3,201,541	\$ 174,153	\$ -	\$ 3,375,694
Total capital assets, depreciated, net	\$ 3,562,555	\$ (155,092)	\$ -	\$ 3,407,463
Business-Type Activities Capital Assets, Net	\$ 3,609,371	\$ (155,092)	\$ -	\$ 3,454,279

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

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation Expense

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

Governmental Activities	
General government	\$ 1,164
Public safety	35,489
Highways and streets	13,996
Culture and recreation	13,615
	13,615
Total Depreciation Expense - Governmental Activities	\$ 64,264
Business-Type Activities	
Liquor Store	\$ 14,038
Sewer	81,648
Storm Drainage	13,067
Water	65,400
	65,400
Total Depreciation Expense - Business-Type Activities	\$ 174,153

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following operating transfers:

Transfer to General Fund from Liquor Enterprise Fund	\$ 5,000	Operating transfer
	5,000	

C. Liabilities

1. 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 \$38,245 at December 31, 2018, 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)

2. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and loans receivable, not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Deferred inflows of resources at December 31, 2018, are summarized below by fund:

	Taxes	Special Assessments	Loans Receivable	Total
<u>Governmental Funds</u>				
General	\$ 17,532	\$ 296	\$ -	\$ 17,828
Long Term Capital Projects	1,321	-	-	1,321
Loan Pool/EDA Special Revenue	-	-	37,193	37,193
Small Cities Development Special Revenue	-	-	21,819	21,819
Total	<u>\$ 18,853</u>	<u>\$ 296</u>	<u>\$ 59,012</u>	<u>\$ 78,161</u>

3. Long-Term Debt

Governmental Activities

City of Twin Valley capital lease issued August 15, 2018 represents debt incurred for a lease with the option to purchase of a Police Interceptor financed through CapFirst Equipment Finance, Inc. This lease has an original issue amount of \$40,585. This carries a net interest rate of 4.80 percent and is due in annual installments from the General Fund of \$10,954 through August 15, 2021. The balance due on this capital lease at December 31, 2018, is \$29,891.

CapFirst Equipment Finance, Inc. Police Interceptor			
Year Ending December 31	Principal	Interest	Total
2019	\$ 9,492	\$ 1,462	\$ 10,954
2020	9,956	998	10,954
2021	<u>10,443</u>	<u>511</u>	10,954
	<u>\$ 29,891</u>	<u>\$ 2,971</u>	\$ 32,862

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

II. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

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 which are paid from the Sewer Fund, Water Fund, and Storm Utility Fund through December 1, 2023. The balance due on these bonds at December 31, 2018, is \$286,000.

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 paid from the Sewer Fund and Water Fund through February 1, 2043. The balance due on these bonds at December 31, 2018, is \$2,090,000, net of unamortized bond discount of \$33,910.

Debt service requirements for business-type activities at December 31, 2018, 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
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	61,000	3,570	60,000	64,146	121,000	67,716
2022	63,000	2,290	65,000	62,896	128,000	65,186
2023	46,000	958	65,000	61,466	111,000	62,424
2024-2028	-	-	350,000	281,797	350,000	281,797
2029-2033	-	-	395,000	228,298	395,000	228,298
2034-2038	-	-	470,000	154,614	470,000	154,614
2039-2043	-	-	565,000	55,531	565,000	55,531
	<u>\$ 286,000</u>	<u>\$ 17,634</u>	<u>\$ 2,090,000</u>	<u>\$ 1,040,490</u>	<u>\$ 2,376,000</u>	<u>\$ 1,058,124</u>
Less: Bond discount	-	-	(33,910)	-	(33,910)	-
Total	<u>\$ 286,000</u>	<u>\$ 17,634</u>	<u>\$ 2,056,090</u>	<u>\$ 1,040,490</u>	<u>\$ 2,342,090</u>	<u>\$ 1,058,124</u>

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

II. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt (Continued)

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Police Inceptor Lease	\$ -	\$ 40,845	\$ 10,954	\$ 29,891	\$ 9,492
Compensated Absences	14,704	15,866	10,076	20,494	8,379
Net Pension Liability	<u>220,812</u>	<u>-</u>	<u>44,988</u>	<u>175,824</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 235,516</u>	<u>\$ 56,711</u>	<u>\$ 66,018</u>	<u>\$ 226,209</u>	<u>\$ 17,871</u>

Business Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2018, 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	\$ 341,000	\$ -	\$ 55,000	\$ 286,000	\$ 57,000
G.O. Utility Revenue Refunding Bonds, Series 2013A	2,150,000	-	60,000	2,090,000	60,000
Less: Bond discount	(35,323)	-	1,413	(33,910)	-
Compensated Absences	14,050	15,015	11,677	17,388	6,421
Net Pension Liability	<u>182,325</u>	<u>-</u>	<u>35,203</u>	<u>147,122</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 2,652,052</u>	<u>\$ 15,015</u>	<u>\$ 163,293</u>	<u>\$ 2,506,600</u>	<u>\$ 123,421</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 Plan

All full-time and certain part-time employees of the City of Twin Valley are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Plan

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to local relief associations 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), (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), 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, 2018, the plan covered 24 active firefighters and 6 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

The Minnesota State Board of Investment (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)

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.

The SBI made no significant changes to their investment policy during Fiscal Year 2018 for the Statewide Volunteer Firefighter Retirement Plan.

B. 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. 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. General Employees Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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

III. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to once percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements After May 31, 2014, the first increase will be delayed two years.

3. Statewide Volunteer Firefighter (SVF) Plan Benefits

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 five years of service. Plan provisions include a pro-rated vesting schedule that increases from five years at 40% through 20 years at 100%.

C. Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2018. The City of Twin Valley was required to contribute 7.50 percent for Coordinated Plan members. The City of Twin Valley's contributions to the General Employees Fund for the year ended December 31, 2018, were \$19,450. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

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

III. Defined Benefit Pension Plans

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City of Twin Valley was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City of Twin Valley’s contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$16,752. The City of Twin Valley’s contributions were equal to the required contributions as set by state statute.

3. Statewide Volunteer Firefighter (SVF) Plan 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 \$12,798 in fire state aid to the plan for the year ended December 31, 2018.

Required employer contributions are calculated annually based on statutory provisions. The City of Twin Valley was not required to contribute to the plan for the year ended December 31, 2018, and did not make a voluntary contribution.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City of Twin Valley reported a liability of \$216,356 for its proportionate share of the General Employees Fund’s net pension liability. The net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City of Twin Valley totaled \$1,643. The City of Twin Valley’s net pension liability was measured as of June 30, 2018 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 proportionate share 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, 2017 through June 30, 2018. The City of Twin Valley’s proportionate share was .0039 percent, which was a decrease of .0003 percent from its proportion measured as of June 30, 2017.

Proportionate share of the net pension liability	\$	216,356
State of Minnesota's proportionate share of the net pension liability associated with the City of Twin Valley		1,643
Total	\$	217,999

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

III. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2018, the City of Twin Valley recognized pension expense of \$7,759 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Twin Valley recognized an additional \$7,048 as grant revenue for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City of Twin Valley reported its proportionate share of the General Employees Plan'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	\$ 3,201	\$ 5,218
Changes in actuarial assumptions	17,089	16,630
Net collective difference between projected and actual investment earnings investment earnings	25,821	40,827
Changes in proportion	-	19,311
Contributions paid to PERA subsequent to the measurement date (to be calculated by employer)	9,570	-
Total	\$ 55,681	\$ 81,986

\$9,570 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, 2019. 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
2019	\$ (6,516)
2020	(13,068)
2021	(11,775)
2022	(4,516)

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

III. Defined Benefit Pension Plans

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, The City of Twin Valley reported a liability of \$106,590 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2018, the City of Twin Valley's proportionate share was .010 percent, which remains unchanged from its proportionate share measured as of June 30, 2017. The City of Twin Valley also recognized \$900 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2018, the City of Twin Valley recognized pension expense of \$9,655 for its proportionate share of the Police and Fire Plan's pension expense.

As of December 31, 2018, the City of Twin Valley reported its proportionate share of the Police and Fire Plan'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	\$ 3,312	\$ 28,763
Changes in actuarial assumptions	145,769	117,863
Net collective difference between projected and actual investment earnings investment earnings	30,963	35,177
Changes in proportion	3,600	20,065
Contributions paid to PERA subsequent to the measurement date (to be calculated by employer)	<u>8,568</u>	<u>-</u>
Total	<u><u>\$ 192,212</u></u>	<u><u>\$ 201,868</u></u>

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

III. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

\$8,568 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, 2019. 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
2019	\$ (2,397)
2020	(7,842)
2021	(7,632)
2022	(353)
2023	-

3. Statewide Volunteer Firefighter (SVF) Plan Pension Costs

At December 31, 2018, the City of Twin Valley reported a net pension asset of \$61,460 for the SVF plan. The net pension asset was measured as of December 31, 2018. 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. The following table presents the changes in net pension liability during the year.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a-b)
Beginning Balance 12/31/2017	\$ 214,985	\$ 340,737	\$ (125,752)
Changes for the Year:			
Service Cost	12,798	-	12,798
Interest on Pension Liability	13,277	-	13,277
Actuarial Experience (Gains)/Losses	(19,224)	-	(19,224)
Projected Investment Earnings	-	20,444	(20,444)
Changes in Benefit Level	55,988	-	55,988
State Contributions	-	12,236	(12,236)
Asset (Gain)/Loss	-	(33,214)	33,214
Benefit Payouts	(13,000)	(13,000)	-
PERA Administrative Fee	-	(919)	919
	\$ 49,839	\$ (14,453)	\$ 64,292
Net Changes			
Balance End of Year 12/31/2018	\$ 264,824	\$ 326,284	\$ (61,460)

There were no benefit provision changes during the measurement period.

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

III. Defined Benefit Pension Plans

D. Pension Costs

3. Statewide Volunteer Firefighter (SVF) Plan Pension Costs (Continued)

For the year ended December 31, 2018, the City of Twin Valley recognized pension expense of \$13,000 for its proportionate share of the SVF's pension expense.

At December 31, 2018, 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
Differences between expected and actual economic experience	\$ -	\$ 33,572
Difference between projected and actual investment earnings	40,454	18,676
Total	\$ 40,454	\$ 52,248

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
2018	\$ (4,326)
2019	(4,326)
2020	(3,835)
2021	(2,105)
2022	2,798

Total Pension Expense

The total pension expense for all plans recognized by the City of Twin Valley for the year ended December 31, 2018, was \$30,414.

E. Actuarial Assumptions

General Fund and Police and Fire Fund

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

	<u>General Employees Plan</u>	<u>Police & Fire Plan</u>
Inflation	2.50% per year	2.50% per year
Salary Growth	3.25% per year	3.25% per year
Investment Rate of Return	7.50%	7.50%

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

III. Defined Benefit Pension Plans

E. Actuarial Assumptions

General Fund and Police and Fire Fund (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the result of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

1. The mortality projection scale was changed from MP-2015 to MP-2017.
2. The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

Police and Fire Fund

1. The mortality projection scale was changed from MP-2016 to MP-2017.
2. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

General Fund and Police and Fire Fund

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 geometric real rates of return for each major asset class are summarized in the following table:

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

III. Defined Benefit Pension Plans

E. Actuarial Assumptions

General Fund and Police and Fire Fund (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

Statewide Volunteer Firefighter (SVF) Plan

The total pension liability at December 31, 2018, 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 6.0%
- Inflation 3.0% per year

There were no changes in actuarial assumptions in 2018.

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%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

The 6 percent 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 for the portfolio.

F. Discount Rate

General Fund and Police and Fire Fund

The discount rate used to measure the total pension liability in 2018 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current pan members.

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

III. Defined Benefit Pension Plans

F. Discount Rate

General Fund and Police and Fire Fund (Continued)

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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and fire Fund, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date.

An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% thereafter.

Statewide Volunteer Firefighter (SVF) Plan

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 and considering the funding ratio of the plan, the 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.

G. 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:

Sensitivity Analysis (in Thousands)
*Net Pension Liability (Asset) at
Different Discount Rates*

	General Employees Fund		Police and Fire Fund		Firefighter Retirement Plan	
1% Lower	6.50%	\$ 351,606	6.50%	\$ 228,535	5.00%	\$ (54,316)
Current Discount Rate	7.50%	\$ 216,356	7.50%	\$ 106,590	6.00%	\$ (61,460)
1% Higher	8.50%	\$ 104,711	8.50%	\$ 5,746	7.00%	\$ (68,419)

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

III. Defined Benefit Pension Plans (Continued)

H. 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.

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, 2018, the outstanding balance on the Assisted Living Facility Bonds is \$167,600.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 144,121	\$ 144,121	\$ 133,418	\$ (10,703)
Special assessments	700	700	-	(700)
Licenses and permits	2,935	2,935	2,630	(305)
Intergovernmental	380,480	380,480	397,232	16,752
Charges for services	48,600	48,600	36,610	(11,990)
Gifts and contributions	13,500	13,500	7,733	(5,767)
Investment earnings	3,300	3,300	4,304	1,004
Miscellaneous	72,570	72,570	44,826	(27,744)
Total Revenues	\$ 666,206	\$ 666,206	\$ 626,753	\$ (39,453)
Expenditures				
Current				
General government				
Mayor/council	\$ 11,250	\$ 11,250	\$ 10,879	\$ 371
Finance/office staff	34,375	34,375	25,577	8,798
General administration	78,150	78,150	66,643	11,507
Assessor	3,800	3,800	3,115	685
Elections	3,900	3,900	2,370	1,530
Professional services	4,400	4,400	3,136	1,264
Legal	11,000	11,000	7,263	3,737
Airport	1,400	1,400	1,344	56
Buildings and grounds	28,025	28,025	18,567	9,458
Other general government	2,950	2,950	2,442	508
Total general government	\$ 179,250	\$ 179,250	\$ 141,336	\$ 37,914
Public safety				
Police	\$ 146,050	\$ 146,050	\$ 147,161	\$ (1,111)
Fire	44,200	44,200	41,485	2,715
Rescue services	16,075	16,075	12,601	3,474
Other public safety	2,200	2,200	370	1,830
Total public safety	\$ 208,525	\$ 208,525	\$ 201,617	\$ 6,908
Highways and streets				
Streets and alleys	\$ 135,546	\$ 135,546	\$ 48,256	\$ 87,290
Snow and ice removal	6,000	6,000	10,452	(4,452)
Street lighting	22,100	22,100	22,455	(355)
Total highways and streets	\$ 163,646	\$ 163,646	\$ 81,163	\$ 82,483

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

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Culture and recreation				
Community Center	\$ -	\$ -	\$ 3,022	\$ (3,022)
Parks	56,385	56,385	30,038	26,347
Snowmobile and ski trails	25,000	25,000	29,306	(4,306)
Wimmer Cabins	15,900	15,900	14,299	1,601
Other culture and recreation	1,000	1,000	-	1,000
Total culture and recreation	\$ 98,285	\$ 98,285	\$ 76,665	\$ 21,620
Conservation of natural resources				
Weed and pest control	\$ 5,800	\$ 5,800	\$ 1,541	\$ 4,259
Debt service				
Principal retirement	\$ -	\$ -	\$ 10,954	\$ (10,954)
Capital outlay				
Public safety	\$ 20,000	\$ 20,000	\$ 45,463	\$ (25,463)
Highways and streets	10,000	10,000	6,024	3,976
Culture and recreation	6,600	6,600	5,300	1,300
Total capital outlay	\$ 36,600	\$ 36,600	\$ 56,787	\$ (20,187)
Total Expenditures	\$ 692,106	\$ 692,106	\$ 570,063	\$ 122,043
Excess of Revenues Over (Under)				
Expenditures	\$ (25,900)	\$ (25,900)	\$ 56,690	\$ 82,590
Other Financing Sources (Uses)				
Transfers in	\$ 26,300	\$ 26,300	\$ 5,000	\$ (21,300)
Transfers out	(800)	(800)	-	800
Proceeds from loan	-	-	40,845	40,845
Total Other Financing Sources (Uses)	\$ 25,500	\$ 25,500	\$ 45,845	\$ 20,345
Net Change in Fund Balance	\$ (400)	\$ (400)	\$ 102,535	\$ 102,935
Fund Balance - January 1	476,421	476,421	476,421	-
Fund Balance - December 31	\$ 476,021	\$ 476,021	\$ 578,956	\$ 102,935

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

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2018**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2018	\$ 19,450	\$ 19,450	\$ -	\$ 259,309	7.5%
December 31, 2017	\$ 20,096	\$ 20,096	\$ -	\$ 267,947	7.5%
December 31, 2016	\$ 20,169	\$ 20,169	\$ -	\$ 268,920	7.5%
December 31, 2015	\$ 21,198	\$ 21,198	\$ -	\$ 282,649	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2018	\$ 16,752	\$ 16,752	\$ -	\$ 103,406	16.2%
December 31, 2017	\$ 17,360	\$ 17,360	\$ -	\$ 107,160	16.2%
December 31, 2016	\$ 17,068	\$ 17,068	\$ -	\$ 105,358	16.2%
December 31, 2015	\$ 16,597	\$ 16,597	\$ -	\$ 102,451	16.2%

FIRE RELIEF ASSOCIATION PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
December 31, 2018	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2017	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2016	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2015	\$ -	\$ -	\$ -	N/A	N/A

Note: These schedules are intended to present 10 years and will be completed as available.

**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, 2018**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.0039%	\$ 216,356	\$ 1,643	\$ 217,999	\$ 262,393	88.07%	79.53%
June 30, 2017	0.0042%	\$ 268,125	\$ 99	\$ 268,224	\$ 288,218	93.03%	75.90%
June 30, 2016	0.0043%	\$ 349,139	\$ 1,342	\$ 350,481	\$ 269,882	129.37%	68.90%
June 30, 2015	0.0046%	\$ 238,396	\$ -	\$ 238,396	\$ 279,866	85.18%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.0100%	\$ 106,590	\$ 900	\$ 107,490	\$ 104,682	101.82%	88.80%
June 30, 2017	0.0100%	\$ 135,012	\$ 900	\$ 135,912	\$ 109,122	123.73%	85.40%
June 30, 2016	0.0110%	\$ 441,449	\$ 990	\$ 442,439	\$ 109,467	403.27%	63.90%
June 30, 2015	0.0110%	\$ 124,986	\$ 900	\$ 125,886	\$ 99,523	125.59%	86.60%

FIRE RELIEF ASSOCIATION PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	100%	\$ (61,460)	\$ -	\$ (61,460)	N/A	N/A	123.20%
June 30, 2017	100%	\$ (125,752)	\$ -	\$ (125,752)	N/A	N/A	158.50%
June 30, 2016	100%	\$ (93,547)	\$ -	\$ (93,547)	N/A	N/A	147.40%
June 30, 2015	100%	\$ (91,008)	\$ -	\$ (91,008)	N/A	N/A	154.70%

Note: These schedules are intended to present 10 years and will be completed as available.

**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, 2018**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Changes for the Year			
Service cost	\$ 12,798	\$ -	\$ 12,798
Investment earnings	13,277	-	13,277
Actuarial experience (gains)/losses	(19,224)	-	(19,224)
Projected investment earnings	-	20,444	(20,444)
Changes in benefit level	55,988		55,988
Contributions (state)	-	12,236	(12,236)
Asset (gain)/loss	-	(33,214)	33,214
Benefit payments	(13,000)	(13,000)	-
Administrative costs	-	(919)	919
Net Change	\$ 49,839	\$ (14,453)	\$ 64,292
Balance - January 1	214,985	340,737	(125,752)
Balance - December 31	\$ 264,824	\$ 326,284	\$ (61,460)
 Plan Fiduciary Net Position			
Fire state aid		\$ 9,884	
Fire supplemental aid		2,352	
Net investment earnings		(12,770)	
Administrative expenses		(919)	
Benefit payments		(13,000)	
Net Change in Fiduciary Net Position		\$ (14,453)	
Fiduciary Net Position - January 1		340,737	
Fiduciary Net Position - December 31		\$ 326,284	
 Association's Net Pension Liability (Asset) - December 31		\$ (61,460)	
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		123.2%	

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
Public safety			
Police	\$ 147,161	\$ 146,050	\$ (1,111)
Highways and streets			
Snow an ice removal	10,452	6,000	(4,452)
Street lighting	22,455	22,100	(355)
Culture and recreation			
Community Center	3,022	-	(3,022)
Snowmobile and ski trails	29,306	25,000	(4,306)
Debt service			
Principal retirement	10,954	-	(10,954)
Capital outlay			
General government	-	-	-
Public safety	45,463	20,000	(25,463)

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.

A. General Employees Fund

1. 2018 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit rate increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter to 1.25 percent per year.

2. 2017 Changes

a. Changes in Plan Provisions

- The State's special funding contribution increased from \$6 million to \$16 million.

b. Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

3. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

4. 2015 Changes

a. Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

b. Changes in Plan Provisions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

B. Police and Fire Fund

1. 2018 Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

2. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

3. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

4. 2015 Changes

a. Changes in Plan Provisions:

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

b. Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

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, 2018**

	Special Revenue Funds (Statement 3)	Capital Projects Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 117,940	\$ 119,000	\$ 236,940
Investments	30,924	-	30,924
Taxes receivable			
Current	-	300	300
Prior	-	1,321	1,321
Loans receivable	59,012	-	59,012
Total Assets	\$ 207,876	\$ 120,621	\$ 328,497
<u>Deferred Inflows of Resources, and Fund Balances</u>			
Deferred Inflows of Resources			
Taxes	\$ -	\$ 1,321	\$ 1,321
Loans	59,012	-	59,012
Total Deferred Inflows of Resources	\$ 59,012	\$ 1,321	\$ 60,333
Fund Balances			
Restricted for economic development	\$ 148,864	\$ -	\$ 148,864
Assigned to capital outlay	-	119,300	119,300
Total Fund Balances	\$ 148,864	\$ 119,300	\$ 268,164
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 207,876	\$ 120,621	\$ 328,497

**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, 2018**

	Special Revenue Funds (Statement 4)	Capital Projects Funds (Statement 6)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Property taxes	\$ -	\$ 9,719	\$ 9,719
Investment earnings	89	-	89
Gifts and contributions	950	-	950
Miscellaneous	4,509	-	4,509
Total Revenues	\$ 5,548	\$ 9,719	\$ 15,267
Expenditures			
Current			
Economic development	3,882	-	3,882
Net Change in Fund Balance	\$ 1,666	\$ 9,719	\$ 11,385
Fund Balance - January 1	147,198	109,581	256,779
Fund Balance - December 31	\$ 148,864	\$ 119,300	\$ 268,164

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

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2018**

	Loan Pool/EDA	Small Cities Development Grant	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 48,554	\$ 69,386	\$ 117,940
Investments	30,924	-	30,924
Loans receivable	37,193	21,819	59,012
Total Assets	\$ 116,671	\$ 91,205	\$ 207,876
<u>Deferred Inflows of Resources, and Fund Balances</u>			
Deferred Inflows of Resources			
Loans	\$ 37,193	\$ 21,819	\$ 59,012
Fund Balances			
Restricted for economic development	79,478	69,386	148,864
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 116,671	\$ 91,205	\$ 207,876

**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, 2018**

	<u>Loan Pool/EDA</u>	<u>Small Cities Development Grant</u>	<u>Total (Statement 2)</u>
Revenues			
Investment earnings	\$ 89	\$ -	\$ 89
Gifts and contributions	950	-	950
Miscellaneous	3,901	608	4,509
Total Revenues	\$ 4,940	\$ 608	\$ 5,548
Expenditures			
Current			
Economic development	3,882	-	3,882
Net Change in Fund Balance	\$ 1,058	\$ 608	\$ 1,666
Fund Balance - January 1	78,420	68,778	147,198
Fund Balance - December 31	\$ 79,478	\$ 69,386	\$ 148,864

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

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
DECEMBER 31, 2018**

	Long-Term Capital Projects	Lot Incentive Program	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 106,026	\$ 12,974	\$ 119,000
Taxes receivable			
Current	300	-	300
Prior	1,321	-	1,321
	\$ 107,647	\$ 12,974	\$ 120,621
 <u>Deferred Inflows of Resources and Fund Balances</u>			
Deferred Inflows of Resources			
Taxes	\$ 1,321	\$ -	\$ 1,321
 Fund Balances			
Assigned to capital outlay	106,326	12,974	119,300
	\$ 107,647	\$ 12,974	\$ 120,621

**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, 2018**

	Long-Term Capital Projects	Lot Incentive Program	Total (Statement 2)
Revenues			
Property taxes	\$ 9,719	\$ -	\$ 9,719
Fund Balance - January 1	96,607	12,974	109,581
Fund Balance - December 31	\$ 106,326	\$ 12,974	\$ 119,300

OTHER SCHEDULES

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

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

Shared Revenue

State

Local government aid	\$ 315,468
Market value credit	70
PERA rate reimbursement	912
Police state aid	17,359
Small cities assistance payment	11,099

Total Shared Revenue **\$ 344,908**

Grants

State

Minnesota Department/Board of

Natural Resources	\$ 45,146
Public Safety	5,266
Trial Courts	1,912

Total Grants **\$ 52,324**

Total Intergovernmental Revenue **\$ 397,232**

MANAGEMENT AND COMPLIANCE SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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**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***

Independent Auditor's Report

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, 2018, 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 31, 2019.

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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency* in internal control over financial reporting 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 over financial reporting 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting 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 over financial reporting, 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 Cities*, 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.

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 Cities*, except for item 2018-001 described in the accompanying Schedule of Findings and Responses. 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.

City of Twin Valley's Response to Findings

The City's response to the finding identified in our audit has been included in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC

May 31, 2019

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

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2005-001

Finding Title: 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.

City's Response: *The Council reviews the claims listings at monthly meetings and approves bills to be paid. All checks require three original signatures, the Mayor, the Clerk/Treasurer, and the Vice Mayor. The Council also approves all transfers, selling and purchasing of investments and reserves. The local financial institution requires written documentation of the Council action approving these transactions.*

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

Schedule 6
(Continued)

Finding Number: 2007-001

Finding Title: 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.

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.

City's Response: The City Council along with the City Clerk-Treasurer will work to create a formalized document in regards to internal controls and the monitoring process used to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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

Schedule 6
(Continued)

III. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number: 2018-001

Finding Title: Deposits in Excess of Collateral

Criteria: City bank deposits are required to be secured by insurance and/or pledged collateral. Minn. Stat. § 118A.03 requires that "...the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day."

Condition: At December 31, 2018, the City deposits with the United Valley Bank of Cavalier, ND, exceeded the amount of insurance and collateral pledged by \$218,515.

Context: City bank deposit balances fluctuate from day to day and pledges of collateral are amended only periodically.

Effect: Unsecured City deposits expose the City to a loss if the financial institution develops difficulties.

Cause: The City does not have formal policies and procedures for monitoring collateral levels compared to amounts on deposits.

Recommendation: We recommend the City obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis.

City's Response: *The City of Twin Valley is aware and has already corrected the amount of pledged collateral towards the balance at our banking institution.*

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

Schedule 7

Finding Number: 2005-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: City Council and management.

Corrective Action Planned: The City of Twin Valley is aware of the segregation of duties issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: *Ongoing. As of December 31, 2018, City Council and management are aware of the limited ability to segregate duties to an optimal level; however, oversight procedures have been implemented to provide compensating controls and continue to be improved whenever possible.*

Finding Number: 2007-001

Finding Title: Internal Controls

Name of Contact Person Responsible for Corrective Action: Rachel Johnson, City Clerk/Treasurer

Corrective Action Planned: The City will 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.

Anticipated Completion Date: *Ongoing. The City strives to remedy this issue at every opportunity, however, at this time, this issue is expected to continue indefinitely.*

Finding Number: 2018-001

Finding Title: Deposits in Excess of Collateral

Name of Contact Person Responsible for Corrective Action: Rachel Johnson, City Clerk/Treasurer

Corrective Action Planned: The City will obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis.

Anticipated Completion Date: *This finding was corrected as of the end of audit on May 31, 2019.*

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

Schedule 8

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2005-001

Finding Title: Segregation of Duties

Summary of 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.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not fully corrected.

Finding Number: 2007-001

Finding Title: Internal Controls

Summary of 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.

Summary of Corrective Action: The City has begun to 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.

Status: Not fully corrected.