

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

YEAR ENDED DECEMBER 31, 2017



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, 2017**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
<b>Elected</b>		
Benjamin Fall	Mayor	December 31, 2018
Joel D. Pearson	Vice-Mayor	December 31, 2020
Michael Bolton	Councilmember	December 31, 2018
Nathan Dobmeyer	Councilmember	December 31, 2020
Mike Lampton	Councilmember	December 31, 2018
<b>Appointed</b>		
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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

## **Unmodified Opinions**

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley, Minnesota, as of December 31, 2017, 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, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018, 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 11, 2018



# 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, 2017. 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 \$1,060,090 of which \$434,068 is the net investment in capital assets, \$69,444 is restricted for specific purposes, and \$556,578 is unrestricted. The total net position of governmental activities decreased by \$17,143 for the year ended December 31, 2017. This is attributed primarily to depreciation of capital assets.

The total net position of business-type activities is \$3,462,203, of which \$1,118,371 is the net investment in capital assets, \$870,204 is restricted for debt service, and \$1,473,628 is unrestricted. The total net position of business-type activities decreased by \$14,724 in 2017, primarily due to depreciation of capital assets.

At the close of 2017, the City's governmental funds reported combined ending fund balances of \$733,200 a decrease of \$98,056, from the prior year. Of the total fund balance amount, \$69,444 is legally or contractually restricted, and \$663,756 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 Storm Utility Enterprise Fund is used to account for the operations of the City's storm drainage utility. Financing is provided by charges to residents for services. 5) The Water Enterprise Fund is used to account for the operations of the City's water system. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. All of the enterprise funds are considered to be major funds except the Storm Utility Enterprise Fund.

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 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 \$4,522,293 at the close of 2017. Approximately 34 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 21 percent of the City's net position is restricted for specific purposes and 45 percent of the City's net position is unrestricted. The unrestricted net position amount of \$2,030,206 as of December 31, 2017, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position decreased from last year. Total assets and deferred outflows of resources decreased by \$165,063, from the prior year, primarily due to depreciation of capital assets. Total liabilities and deferred inflows of resources increased by \$133,196, from the prior year, primarily due to recognition of net pension liability. This resulted in a decreased net position of \$31,867 from the prior year.

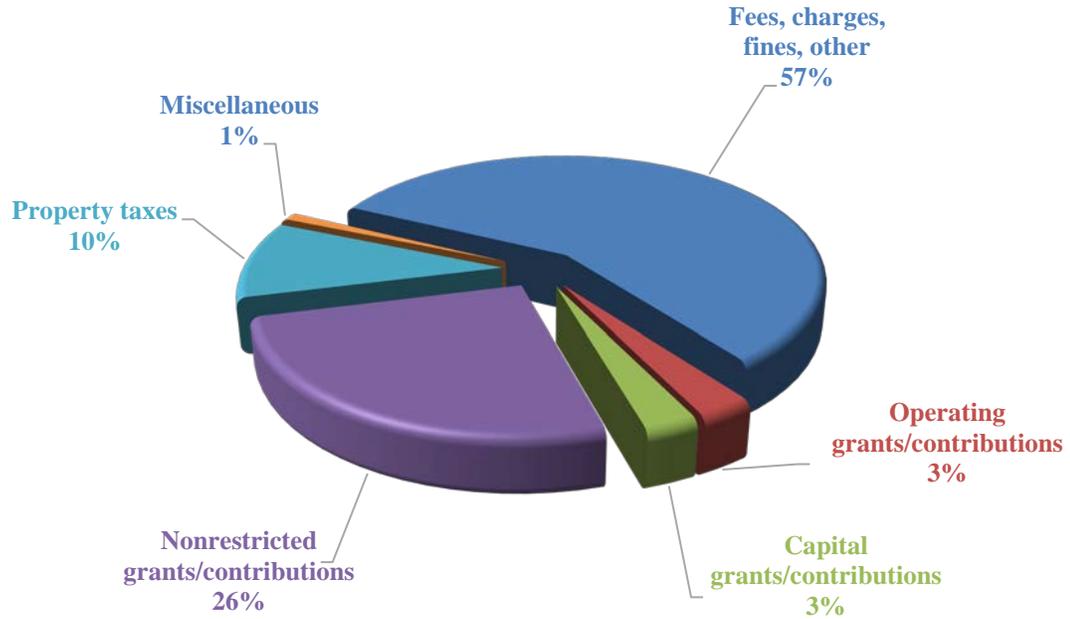
## NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 976,947	\$ 1,040,816	\$ 2,558,467	\$ 2,485,455	\$ 3,535,414	\$ 3,526,271
Capital assets	442,866	405,343	3,609,371	3,790,408	4,052,237	4,195,751
Total assets	\$ 1,419,813	\$ 1,446,159	\$ 6,167,838	\$ 6,275,863	\$ 7,587,651	\$ 7,722,022
Deferred Outflows - pensions	\$ 301,737	\$ 315,822	\$ 64,155	\$ 80,762	\$ 365,892	\$ 396,584
Other liabilities	\$ 40,265	\$ 33,462	\$ 2,577,569	\$ 27,461	\$ 2,617,834	\$ 60,923
Long-term liabilities outstanding	235,517	579,320	119,468	2,819,017	354,985	3,398,337
Total liabilities	\$ 275,782	\$ 612,782	\$ 2,697,037	\$ 2,846,478	\$ 2,972,819	\$ 3,459,260
Deferred Inflows - pensions	\$ 385,678	\$ 71,966	\$ 72,753	\$ 33,220	\$ 458,431	\$ 105,186
Net position						
Net investment in capital assets	\$ 434,068	\$ 396,545	\$ 1,118,371	\$ 1,185,408	\$ 1,552,439	\$ 1,581,953
Restricted	69,444	214,987	870,204	907,392	939,648	1,122,379
Unrestricted amounts	556,578	465,701	1,473,628	1,384,127	2,030,206	1,849,828
Total net position	\$ 1,060,090	\$ 1,077,233	\$ 3,462,203	\$ 3,476,927	\$ 4,522,293	\$ 4,554,160

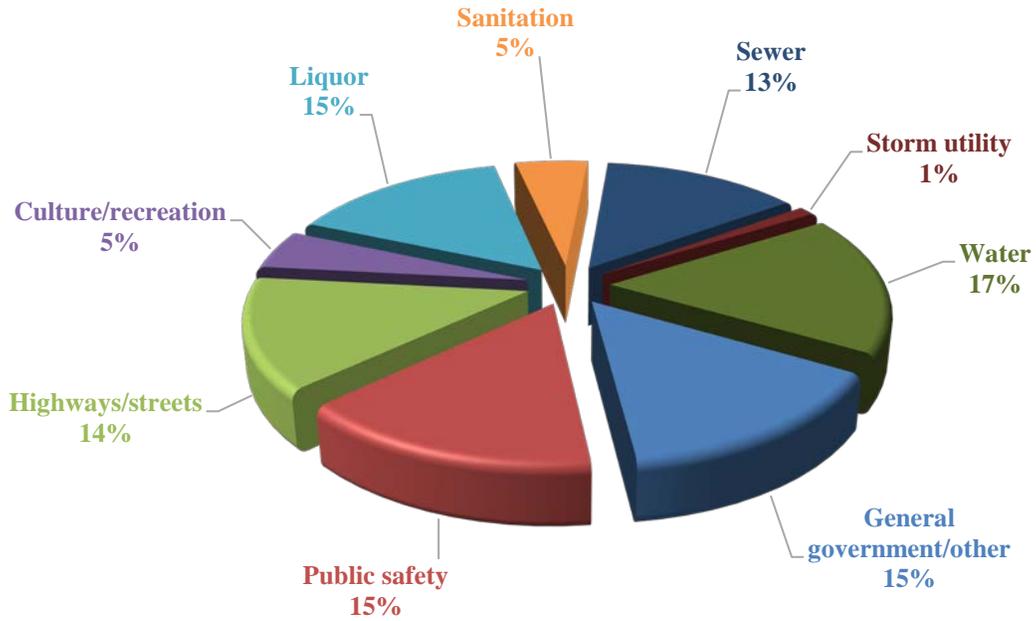
## CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 120,436	\$ 131,577	\$ 653,181	\$ 646,967	\$ 773,617	\$ 778,544
Operating grants and contributions	39,383	117,000	-	-	39,383	117,000
Capital grants and contributions	6,563	7,310	31,508	56,248	38,071	63,558
General Revenues and Transfers						
Property taxes	136,655	143,512	-	-	136,655	143,512
Grants and contributions not restricted to specific programs	318,415	306,364	27,363	22,358	345,778	328,722
Investment earnings	1,418	1,591	221	278	1,639	1,869
Miscellaneous	12,210	7,000	847	1,485	13,057	8,485
Transfers	12,362	-	(12,362)	-	-	-
Total revenues	\$ 647,442	\$ 714,354	\$ 700,758	\$ 727,336	\$ 1,348,200	\$ 1,441,690
Expenses						
General government	\$ 194,241	\$ 186,304	\$ -	\$ -	\$ 194,241	\$ 186,304
Public safety	207,178	375,893	-	-	207,178	375,893
Highways and streets	187,929	138,200	-	-	187,929	138,200
Culture and recreation	66,103	80,901	-	-	66,103	80,901
Conservation of natural resources	3,810	6,351	-	-	3,810	6,351
Economic development	4,862	14,983	-	-	4,862	14,983
Interest	462	898	-	-	462	898
Liquor	-	-	207,398	218,325	207,398	218,325
Sanitation	-	-	68,789	66,313	68,789	66,313
Sewer	-	-	187,219	182,663	187,219	182,663
Storm utility	-	-	15,192	15,548	15,192	15,548
Water	-	-	236,884	254,378	236,884	254,378
Total expenses	\$ 664,585	\$ 803,530	\$ 715,482	\$ 737,227	\$ 1,380,067	\$ 1,540,757
Increase (decrease) in net position	\$ (17,143)	\$ (89,176)	\$ (14,724)	\$ (9,891)	\$ (31,867)	\$ (99,067)
Net position, January 1, as previously reported	\$ 1,077,233	\$ 1,182,344	\$ 3,476,927	\$ 3,486,818	\$ 4,554,160	\$ 4,669,162
Prior period adjustment	-	(15,935)	-	-	-	(15,935)
Net position, January 1, as restated	\$ 1,077,233	\$ 1,166,409	\$ 3,476,927	\$ 3,486,818	\$ 4,554,160	\$ 4,653,227
Net position, December 31	\$ 1,060,090	\$ 1,077,233	\$ 3,462,203	\$ 3,476,927	\$ 4,522,293	\$ 4,554,160

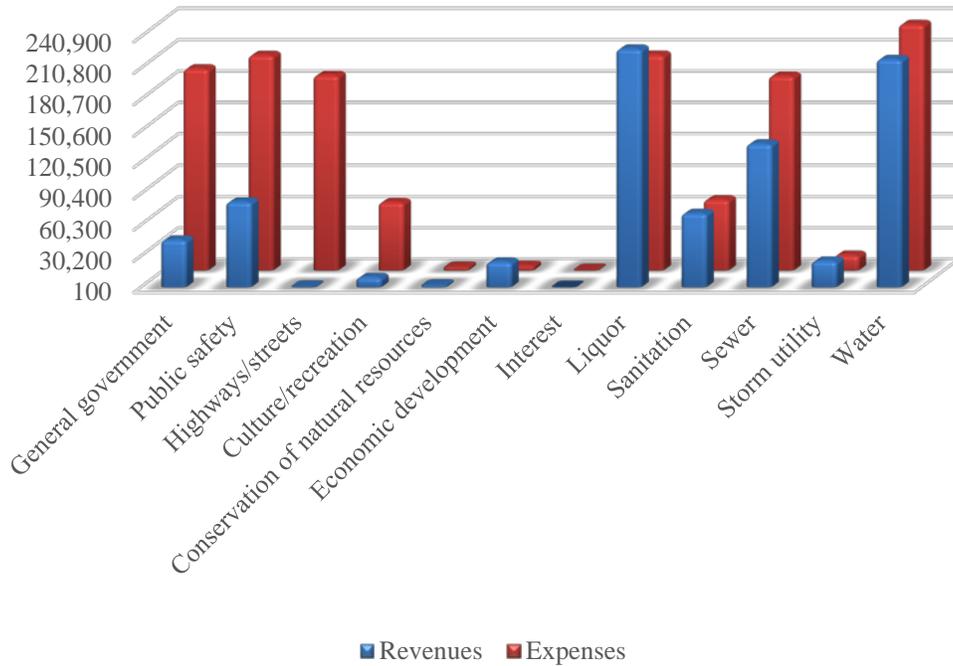
## Revenues by Source



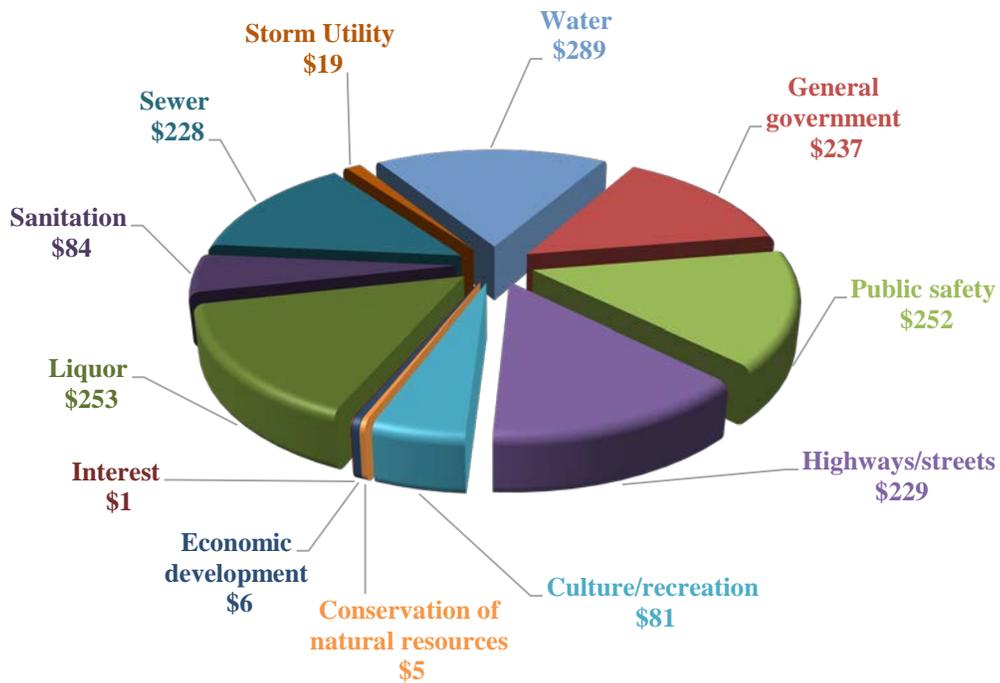
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 821 Population as of 2017



## **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 2017, the City's governmental funds reported combined ending fund balances of \$733,200. Of this amount, ten percent constitutes legally or contractually restricted fund balance, and 90 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 \$476,421. The General Fund's restricted fund balance was \$666, and the assigned fund balance was \$475,755. 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 2017. Both unrestricted fund balance and total fund balance represents approximately 64 percent of total General Fund expenditures.

In 2017, the fund balance amount in the General Fund decreased by \$126,602, due to unbudgeted capital outlay.

### **Proprietary Funds**

The Liquor Enterprise Fund reported an operating income in 2017 of \$19,560, 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 2017 of \$34,028, as a result of depreciation of sewer projects.

The Water Enterprise Fund reported an operating income in 2017 of \$12,744, indicating that the fund is collecting fees at a rate consistent with costs.

The Sanitation Enterprise Fund reported an operating income in 2017 of \$2,905, 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 2017.

Actual revenues were less than overall budgeted revenues by \$41,312, with the largest variance in intergovernmental revenue. Actual expenditures were more than overall final budgeted expenditures by \$76,252, with the largest variance in capital outlay.

## **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, 2017, amounted to \$4,052,237 (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	
	2017	2016	2017	2016	2017	2016
Land	\$ 55,673	\$ 38,673	\$ 46,816	\$ 46,816	\$ 102,489	\$ 85,489
Construction in progress	-	26,134	-	-	-	26,134
Infrastructure	74,134	52,000	3,376,419	3,543,357	3,450,553	3,595,357
Buildings and improvements	44,211	48,993	180,455	195,102	224,666	244,095
Land improvements	6,720	7,980	-	-	6,720	7,980
Machinery and equipment	262,128	231,563	5,681	5,133	267,809	236,696
Total capital assets	\$ 442,866	\$ 405,343	\$ 3,609,371	\$ 3,790,408	\$ 4,052,237	\$ 4,195,751

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 \$2,491,000 which is backed by the full faith and credit of the government.

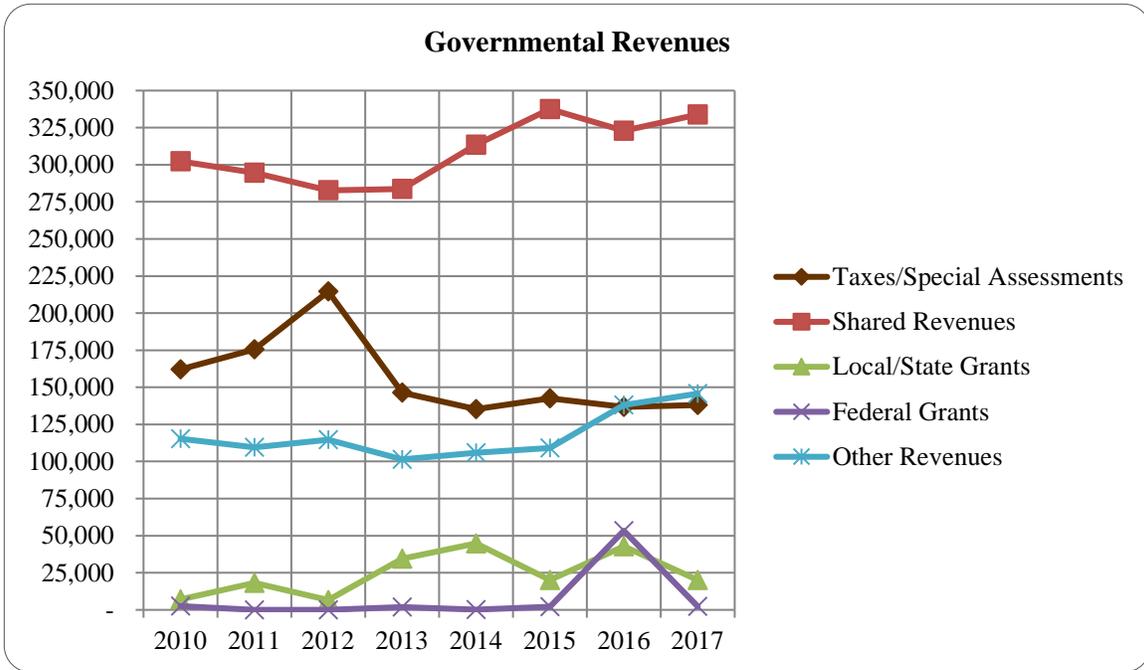
	Business-Type Activities	
	2017	2016
Police Interceptor Lease	\$ -	\$ 8,798
G.O. Utility Revenue and Refunding Bonds, Series 2012A	341,000	395,000
G.O. Utility Revenue and Refunding Bonds, Series 2013A	2,150,000	2,210,000
Less: Bond discount	-	(36,736)
	<u>\$ 2,491,000</u>	<u>\$ 2,577,062</u>

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 2017, 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 5.0 percent as of December 31, 2017. This is higher than the statewide rate of 3.4 percent and lower than the national average rate of 3.9 percent.
- Twin Valley's 2017 population was 821, unchanged since the 2010 census of 821.
- On December 11, 2017, the City of Twin Valley set its 2018 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, 2017**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 411,462	\$ 1,488,336	\$ 1,899,798
Investments	286,910	115,428	402,338
Taxes receivable			
Current	4,186	4,088	8,274
Prior	14,624	2,185	16,809
Special assessments receivable			
Current	-	2,189	2,189
Prior	186	23,573	23,759
Accounts receivable	40,135	11,333	51,468
Loans receivable	62,920	-	62,920
Inventories	-	45,171	45,171
Prepaid items	772	1,496	2,268
Notes receivable	30,000	-	30,000
Special assessments receivable - noncurrent	-	864,668	864,668
Net pension asset	125,752	-	125,752
Capital assets			
Non-depreciable	55,673	46,816	102,489
Depreciable - net of accumulated depreciation	387,193	3,562,555	3,949,748
<b>Total Assets</b>	<b>\$ 1,419,813</b>	<b>\$ 6,167,838</b>	<b>\$ 7,587,651</b>
<b><u>Deferred Outflows of Resources</u></b>			
Related to pensions	<b>\$ 301,737</b>	<b>\$ 64,155</b>	<b>\$ 365,892</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 7,822	\$ 31,472	\$ 39,294
Salaries payable	30,268	8,649	38,917
Due to other governments	-	4,864	4,864
Customer deposits	2,175	-	2,175
Long-term liabilities			
Due within one year	4,879	119,468	124,347
Due in more than one year	230,638	2,532,584	2,763,222
<b>Total Liabilities</b>	<b>\$ 275,782</b>	<b>\$ 2,697,037</b>	<b>\$ 2,972,819</b>
<b><u>Deferred Inflows of Resources</u></b>			
Related to pensions	<b>\$ 385,678</b>	<b>\$ 72,753</b>	<b>\$ 458,431</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 434,068	\$ 1,118,371	\$ 1,552,439
Amounts restricted for			
Debt service	-	870,204	870,204
Culture and recreation	666	-	666
Economic development	68,778	-	68,778
Unrestricted amounts	556,578	1,473,628	2,030,206
<b>Total Net Position</b>	<b>\$ 1,060,090</b>	<b>\$ 3,462,203</b>	<b>\$ 4,522,293</b>

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

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Operating Grants and Contributions</u>
<b><u>Functions/Programs</u></b>			
<b>Governmental activities</b>			
General government	\$ 194,241	\$ 44,313	\$ 1,750
Public safety	207,178	47,429	35,333
Highways and streets	187,929	-	-
Culture and recreation	66,103	3,859	-
Conservation of natural resources	3,810	-	2,300
Economic development	4,862	24,835	-
Interest	462	-	-
<b>Total governmental activities</b>	<b>\$ 664,585</b>	<b>\$ 120,436</b>	<b>\$ 39,383</b>
<b>Business-type activities</b>			
Liquor	\$ 207,398	\$ 229,430	\$ -
Sanitation	68,789	71,694	-
Sewer	187,219	123,453	-
Storm utility	15,192	25,731	-
Water	236,884	202,873	-
<b>Total business-type activities</b>	<b>\$ 715,482</b>	<b>\$ 653,181</b>	<b>\$ -</b>
<b>Total</b>	<b>\$ 1,380,067</b>	<b>\$ 773,617</b>	<b>\$ 39,383</b>

**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
\$ -	\$ (148,178)	\$ -	\$ (148,178)
-	(124,416)	-	(124,416)
563	(187,366)	-	(187,366)
6,000	(56,244)	-	(56,244)
-	(1,510)	-	(1,510)
-	19,973	-	19,973
-	(462)	-	(462)
<b>\$ 6,563</b>	<b>\$ (498,203)</b>	<b>\$ -</b>	<b>\$ (498,203)</b>
\$ -	\$ -	\$ 22,032	\$ 22,032
-	-	2,905	2,905
14,919	-	(48,847)	(48,847)
-	-	10,539	10,539
16,589	-	(17,422)	(17,422)
<b>\$ 31,508</b>	<b>\$ -</b>	<b>\$ (30,793)</b>	<b>\$ (30,793)</b>
<b>\$ 38,071</b>	<b>\$ (498,203)</b>	<b>\$ (30,793)</b>	<b>\$ (528,996)</b>
	\$ 136,655	\$ -	\$ 136,655
	318,415	27,363	345,778
	1,418	221	1,639
	12,210	847	13,057
	12,362	(12,362)	-
	<b>\$ 481,060</b>	<b>\$ 16,069</b>	<b>\$ 497,129</b>
	<b>\$ (17,143)</b>	<b>\$ (14,724)</b>	<b>\$ (31,867)</b>
	<b>1,077,233</b>	<b>3,476,927</b>	<b>4,554,160</b>
	<b>\$ 1,060,090</b>	<b>\$ 3,462,203</b>	<b>\$ 4,522,293</b>

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

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Other Governmental Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 185,811	\$ 225,651	\$ 411,462
Investments	256,075	30,835	286,910
Taxes receivable			
Current	3,893	293	4,186
Prior	13,574	1,050	14,624
Special assessments receivable - prior	186	-	186
Accounts receivable	40,135	-	40,135
Loans receivable	-	62,920	62,920
Notes receivable	30,000	-	30,000
Prepaid items	772	-	772
<b>Total Assets</b>	<b>\$ 530,446</b>	<b>\$ 320,749</b>	<b>\$ 851,195</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 7,822	\$ -	\$ 7,822
Salaries payable	30,268	-	30,268
Customer deposits	2,175	-	2,175
<b>Total Liabilities</b>	<b>\$ 40,265</b>	<b>\$ -</b>	<b>\$ 40,265</b>
<b>Deferred Inflows of Resources</b>			
Taxes	\$ 13,574	\$ 1,050	\$ 14,624
Loans	-	62,920	62,920
Special assessments	186	-	186
<b>Total Deferred Inflows of Resources</b>	<b>\$ 13,760</b>	<b>\$ 63,970</b>	<b>\$ 77,730</b>
<b>Fund Balances</b>			
Restricted for			
Economic development	\$ -	\$ 68,778	\$ 68,778
Parks and recreation	666	-	666
Assigned to			
General government	190,645	-	190,645
Public safety	31,977	-	31,977
Highways and streets	253,133	-	253,133
Economic development	-	78,420	78,420
Capital outlay	-	109,581	109,581
<b>Total Fund Balances</b>	<b>\$ 476,421</b>	<b>\$ 256,779</b>	<b>\$ 733,200</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 530,446</b>	<b>\$ 320,749</b>	<b>\$ 851,195</b>

**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, 2017**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>733,200</b>
<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>		442,866
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		77,730
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable		(14,705)
<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	\$	125,752
Net pension liability		(220,812)
Deferred outflows related to pensions		301,737
Deferred inflows related to pensions		(385,678)
		(179,001)
<b>Net position of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>1,060,090</u></b>

**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, 2017**

	General Fund	Other Governmental Funds (Statement 2)	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 127,947	\$ 10,003	\$ 137,950
Licenses and permits	1,465	-	1,465
Intergovernmental	356,222	-	356,222
Charges for services	56,406	-	56,406
Gifts and contributions	9,353	-	9,353
Investment earnings	1,374	44	1,418
Miscellaneous	48,726	28,361	77,087
<b>Total Revenues</b>	<b>\$ 601,493</b>	<b>\$ 38,408</b>	<b>\$ 639,901</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 192,736	\$ -	\$ 192,736
Public safety	211,300	-	211,300
Highways and streets	172,876	-	172,876
Culture and recreation	56,862	-	56,862
Conservation of natural resources	3,810	-	3,810
Economic development	-	4,862	4,862
<b>Debt service</b>			
Principal retirement	8,362	-	8,362
Interest and fees	898	-	898
<b>Capital outlay</b>			
General government	22,500	-	22,500
Public safety	32,366	-	32,366
Culture and recreation	43,747	-	43,747
<b>Total Expenditures</b>	<b>\$ 745,457</b>	<b>\$ 4,862</b>	<b>\$ 750,319</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (143,964)</b>	<b>\$ 33,546</b>	<b>\$ (110,418)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 20,000	\$ -	\$ 20,000
Transfers out	(2,638)	(5,000)	(7,638)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 17,362</b>	<b>\$ (5,000)</b>	<b>\$ 12,362</b>
<b>Net Change in Fund Balance</b>	<b>\$ (126,602)</b>	<b>\$ 28,546</b>	<b>\$ (98,056)</b>
<b>Fund Balance - January 1</b>	<b>603,023</b>	<b>228,233</b>	<b>831,256</b>
<b>Fund Balance - December 31</b>	<b>\$ 476,421</b>	<b>\$ 256,779</b>	<b>\$ 733,200</b>

**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, 2017**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (98,056)**

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	\$ 98,613	
Current year depreciation	(52,260)	
Net book value of assets disposed	(8,830)	37,523

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	\$ (1,153)	
Special assessments receivable	(142)	
Loans receivable	(3,526)	(4,821)

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

Principal repayment		8,798
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Some expenses reported in the Statement of Activities do not require the  
use of current financial resources and, therefore, are not reported as  
expenditures in governmental funds.

Change in compensated absences payable		2,643
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Net pension liability does not represent the impending use of current resources.  
Therefore, the change in the liability and the related deferrals are not  
reported in the governmental funds:

		36,770
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**Change in net position of governmental activities (Exhibit 2) \$ (17,143)**

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

**EXHIBIT 7**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2017**

	<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>
<b><u>Assets</u></b>						
<b>Current Assets</b>						
Cash and pooled investments	\$ 169,583	\$ 123,552	\$ 584,312	\$ 532,894	\$ 77,995	\$ 1,488,336
Investments	74,100	-	36,288	5,040	-	115,428
Taxes receivable						
Current	-	-	992	3,096	-	4,088
Prior	-	-	1,844	341	-	2,185
Special assessments receivable						
Current	-	-	2,055	134	-	2,189
Prior	-	393	10,855	12,180	145	23,573
Accounts receivable	-	1,300	2,565	6,737	731	11,333
Inventories	45,171	-	-	-	-	45,171
Prepaid items	1,496	-	-	-	-	1,496
<b>Total Current Assets</b>	<b>\$ 290,350</b>	<b>\$ 125,245</b>	<b>\$ 638,911</b>	<b>\$ 560,422</b>	<b>\$ 78,871</b>	<b>\$ 1,693,799</b>
<b>Noncurrent Assets</b>						
Special assessments receivable	\$ -	\$ -	\$ 308,078	\$ 556,590	\$ -	\$ 864,668
Capital assets						
Non-depreciable	10,000	-	18,086	7,000	11,730	46,816
Depreciable - net of accumulated depreciation	90,782	-	1,653,576	1,304,156	514,041	3,562,555
<b>Total Noncurrent Assets</b>	<b>\$ 100,782</b>	<b>\$ -</b>	<b>\$ 1,979,740</b>	<b>\$ 1,867,746</b>	<b>\$ 525,771</b>	<b>\$ 4,474,039</b>
<b>Total Assets</b>	<b>\$ 391,132</b>	<b>\$ 125,245</b>	<b>\$ 2,618,651</b>	<b>\$ 2,428,168</b>	<b>\$ 604,642</b>	<b>\$ 6,167,838</b>
<b><u>Deferred Outflows of Resources</u></b>						
Related to pensions	\$ 32,077	\$ -	\$ 16,039	\$ 16,039	\$ -	\$ 64,155

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

**EXHIBIT 7  
(Continued)**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2017**

	<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>
<b><u>Liabilities</u></b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 16,172	\$ 10,665	\$ 874	\$ 3,761	\$ -	\$ 31,472
Salaries payable	4,613	-	2,018	2,018	-	8,649
Compensated absences payable	1,754	-	1,357	1,357	-	4,468
Due to other governments	4,127	653	-	84	-	4,864
2013 Utility Revenue Refunding Bonds payable	-	-	31,886	39,000	-	70,886
2012 Utility Revenue and Refunding Bonds payable	-	-	22,500	7,574	14,040	44,114
<b>Total Current Liabilities</b>	<b>\$ 26,666</b>	<b>\$ 11,318</b>	<b>\$ 58,635</b>	<b>\$ 53,794</b>	<b>\$ 14,040</b>	<b>\$ 164,453</b>
<b>Noncurrent Liabilities</b>						
Compensated absences payable	\$ 4,746	\$ -	\$ 2,418	\$ 2,418	\$ -	\$ 9,582
Net pension liability	91,157	-	45,584	45,584	-	182,325
2013 Utility Revenue Refunding Bonds payable	-	-	731,500	1,358,500	-	2,090,000
2012 Utility Revenue and Refunding Bonds payable	-	-	173,338	40,302	72,360	286,000
Unamortized discounts on revenue bonds	-	-	(12,363)	(22,960)	-	(35,323)
<b>Total Noncurrent Liabilities</b>	<b>\$ 95,903</b>	<b>\$ -</b>	<b>\$ 940,477</b>	<b>\$ 1,423,844</b>	<b>\$ 72,360</b>	<b>\$ 2,532,584</b>
<b>Total Liabilities</b>	<b>\$ 122,569</b>	<b>\$ 11,318</b>	<b>\$ 999,112</b>	<b>\$ 1,477,638</b>	<b>\$ 86,400</b>	<b>\$ 2,697,037</b>
<b><u>Deferred Inflows of Resources</u></b>						
Related to pensions	\$ 36,377	\$ -	\$ 18,188	\$ 18,188	\$ -	\$ 72,753
<b><u>Net Position</u></b>						
Net investment in capital assets	\$ 100,782	\$ -	\$ 712,438	\$ (134,220)	\$ 439,371	\$ 1,118,371
Amounts restricted for debt service	-	-	308,078	562,126	-	870,204
Unrestricted amounts	163,481	113,927	596,874	520,475	78,871	1,473,628
<b>Total Net Position</b>	<b>\$ 264,263</b>	<b>\$ 113,927</b>	<b>\$ 1,617,390</b>	<b>\$ 948,381</b>	<b>\$ 518,242</b>	<b>\$ 3,462,203</b>

**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, 2017**

	<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>
<b>Sales and Cost of Goods Sold</b>						
Sales	\$ 503,586	\$ -	\$ -	\$ -	\$ -	\$ 503,586
Cost of goods sold	(281,857)	-	-	-	-	(281,857)
<b>Gross Profit</b>	<b>\$ 221,729</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 221,729</b>
<b>Operating Revenues</b>						
Charges for services	\$ -	\$ 71,694	\$ 123,453	\$ 202,873	\$ 25,731	\$ 423,751
Vending machine commission	3,099	-	-	-	-	3,099
Rental income	2,130	-	-	-	-	2,130
<b>Total Operating Revenues</b>	<b>\$ 5,229</b>	<b>\$ 71,694</b>	<b>\$ 123,453</b>	<b>\$ 202,873</b>	<b>\$ 25,731</b>	<b>\$ 428,980</b>
<b>Total Gross Profit and Operating Revenues</b>	<b>\$ 226,958</b>	<b>\$ 71,694</b>	<b>\$ 123,453</b>	<b>\$ 202,873</b>	<b>\$ 25,731</b>	<b>\$ 650,709</b>
<b>Operating Expenses</b>						
Personnel services	\$ 128,517	\$ -	\$ 39,891	\$ 64,838	\$ -	\$ 233,246
Professional services	3,348	-	3,001	4,156	-	10,505
Contracted services	-	65,736	12,000	-	-	77,736
Administration	19,204	-	-	-	-	19,204
Advertising	6,719	-	-	-	-	6,719
Fuel	-	-	855	1,417	-	2,272
Insurance	11,249	-	5,747	3,658	-	20,654
Licenses and fees	-	-	-	612	-	612
Operating supplies	5,522	-	5,301	8,180	-	19,003
Other service and charges	-	2,097	-	-	-	2,097
Repairs and maintenance	5,950	-	2,387	13,103	-	21,440
Utilities	10,868	-	1,866	13,712	-	26,446
Miscellaneous	5,158	956	3,884	3,545	22	13,565
Depreciation	10,863	-	82,549	76,908	13,067	183,387
<b>Total Operating Expenses</b>	<b>\$ 207,398</b>	<b>\$ 68,789</b>	<b>\$ 157,481</b>	<b>\$ 190,129</b>	<b>\$ 13,089</b>	<b>\$ 636,886</b>
<b>Operating Income (Loss)</b>	<b>\$ 19,560</b>	<b>\$ 2,905</b>	<b>\$ (34,028)</b>	<b>\$ 12,744</b>	<b>\$ 12,642</b>	<b>\$ 13,823</b>

**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, 2017**

	<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>
<b>Nonoperating Revenues (Expenses)</b>						
Property taxes	\$ -	\$ -	\$ 24,286	\$ 3,077	\$ -	\$ 27,363
Special assessments	-	-	14,919	16,589	-	31,508
Miscellaneous	2,472	-	369	478	-	3,319
Investment earnings	150	-	62	9	-	221
Interest expense	-	-	(29,738)	(46,755)	(2,103)	(78,596)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 2,622</b>	<b>\$ -</b>	<b>\$ 9,898</b>	<b>\$ (26,602)</b>	<b>\$ (2,103)</b>	<b>\$ (16,185)</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ 22,182</b>	<b>\$ 2,905</b>	<b>\$ (24,130)</b>	<b>\$ (13,858)</b>	<b>\$ 10,539</b>	<b>\$ (2,362)</b>
Transfers in	813	-	885	940	-	2,638
Transfers out	(10,000)	-	(2,500)	(2,500)	-	(15,000)
<b>Total Transfers</b>	<b>\$ (9,187)</b>	<b>\$ -</b>	<b>\$ (1,615)</b>	<b>\$ (1,560)</b>	<b>\$ -</b>	<b>\$ (12,362)</b>
<b>Change in Net Position</b>	<b>\$ 12,995</b>	<b>\$ 2,905</b>	<b>\$ (25,745)</b>	<b>\$ (15,418)</b>	<b>\$ 10,539</b>	<b>\$ (14,724)</b>
<b>Net Position - January 1</b>	<b>251,268</b>	<b>111,022</b>	<b>1,643,135</b>	<b>963,799</b>	<b>507,703</b>	<b>3,476,927</b>
<b>Net Position - December 31</b>	<b>\$ 264,263</b>	<b>\$ 113,927</b>	<b>\$ 1,617,390</b>	<b>\$ 948,381</b>	<b>\$ 518,242</b>	<b>\$ 3,462,203</b>

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

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
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>
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ 508,748	\$ 73,783	\$ 127,189	\$ 208,751	\$ 25,930	\$ 944,401
Payments to employees	(128,160)	-	(39,663)	(64,610)	-	(232,433)
Payments to suppliers	(340,848)	(63,240)	(34,661)	(46,171)	(22)	(484,942)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 39,740</b>	<b>\$ 10,543</b>	<b>\$ 52,865</b>	<b>\$ 97,970</b>	<b>\$ 25,908</b>	<b>\$ 227,026</b>
<b>Cash Flows from Noncapital Financing Activities</b>						
Miscellaneous receipts	\$ 2,472	\$ -	\$ 369	\$ 478	\$ -	\$ 3,319
Transfer in	813	-	12,984	940	-	14,737
Transfer out	(10,000)	-	(2,500)	(14,599)	-	(27,099)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ (6,715)</b>	<b>\$ -</b>	<b>\$ 10,853</b>	<b>\$ (13,181)</b>	<b>\$ -</b>	<b>\$ (9,043)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Property taxes received	\$ -	\$ -	\$ 22,091	\$ 75	\$ -	\$ 22,166
Special assessments received	-	-	37,741	49,590	231	87,562
Acquisition and construction of capital assets	(5,681)	-	-	-	-	(5,681)
Principal paid on debt	-	-	(53,773)	(46,457)	(13,770)	(114,000)
Interest paid on debt	-	-	(29,244)	(45,836)	(2,103)	(77,183)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (5,681)</b>	<b>\$ -</b>	<b>\$ (23,185)</b>	<b>\$ (42,628)</b>	<b>\$ (15,642)</b>	<b>\$ (87,136)</b>
<b>Cash Flows from Investing Activities</b>						
Investment earnings received	\$ 150	\$ -	\$ 62	\$ 9	\$ -	\$ 221
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 27,494</b>	<b>\$ 10,543</b>	<b>\$ 40,595</b>	<b>\$ 42,170</b>	<b>\$ 10,266</b>	<b>\$ 131,068</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>216,189</b>	<b>113,009</b>	<b>580,005</b>	<b>495,764</b>	<b>67,729</b>	<b>1,472,696</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 243,683</b>	<b>\$ 123,552</b>	<b>\$ 620,600</b>	<b>\$ 537,934</b>	<b>\$ 77,995</b>	<b>\$ 1,603,764</b>

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

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
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>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 19,560	\$ 2,905	\$ (34,028)	\$ 12,744	\$ 12,642	\$ 13,823
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>						
Depreciation expense	\$ 10,863	\$ 956	\$ 82,549	\$ 76,908	\$ 13,067	\$ 184,343
(Increase) decrease in assets						
Accounts receivable	-	1,138	3,753	5,902	319	11,112
Special assessments receivable	-	298	-	-	(120)	178
Inventories	(4,091)	-	-	-	-	(4,091)
Prepaid items	(15)	-	-	-	-	(15)
Increase (decrease) in liabilities						
Accounts payable	10,754	5,440	370	2,211	-	18,775
Salaries payable	(659)	-	(179)	(179)	-	(1,017)
Compensated absences payable	462	-	127	127	-	716
Due to other governments	(33)	(194)	-	(7)	-	(234)
Net pension liability	2,899	-	273	264	-	3,436
<b>Total adjustments</b>	<b>\$ 20,180</b>	<b>\$ 7,638</b>	<b>\$ 86,893</b>	<b>\$ 85,226</b>	<b>\$ 13,266</b>	<b>\$ 213,203</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 39,740</b>	<b>\$ 10,543</b>	<b>\$ 52,865</b>	<b>\$ 97,970</b>	<b>\$ 25,908</b>	<b>\$ 227,026</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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 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. Property and other taxes, 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, 2017, 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 2017 were \$1,113. Total investment earnings for 2017 were \$1,639.

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 2017 and noncurrent special assessments collectible in 2018 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

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

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

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

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

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

4. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**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, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, land improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at fair value on date of acquisition.

Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

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

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

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

6. Deferred 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.

**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

6. Deferred Outflows/Inflows of Resources (Continued)

The City reports delinquent property taxes, special assessments, and loans 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.

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.

10. Net Position and Fund Balance

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

**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)

10. Net Position and Fund Balance

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

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. The City does not have any non-spendable fund balance as of December 31, 2017.

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

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the City Council shall pass a resolution. The City does not have any committed fund balance as of December 31, 2017.

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

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds. The City does not have any unassigned fund balance as of December 31, 2017

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, 2017, 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, 2017, are as follows:

Government-wide Statement of Net Position	
Governmental Activities	
Cash and pooled investments	\$ 411,462
Investments	286,910
Business-type Activities	
Cash and pooled investments	1,488,336
Investments	<u>115,428</u>
Total Cash and Investments	<u><u>\$ 2,302,136</u></u>
Cash on hand	\$ 7,085
Checking	1,896,771
Savings	50,050
Certificates of deposit	<u>348,230</u>
Total Deposits and Cash on Hand	<u><u>\$ 2,302,136</u></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. However, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2017, the City’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2017, for the City’s governmental and business-type activities, are as follows:

Governmental Activities			
Taxes	\$	18,810	\$ -
Special assessments		186	-
Accounts		40,135	-
Loans		62,920	60,052
Notes		30,000	-
		<hr/>	<hr/>
Total Governmental Activities	\$	152,051	\$ 60,052
		<hr/> <hr/>	<hr/> <hr/>
Business-Type Activities			
Taxes	\$	6,273	
Special assessments		890,430	864,668
Accounts		11,333	-
		<hr/>	<hr/>
Total Business-Type Activities	\$	908,036	\$ 864,668
		<hr/> <hr/>	<hr/> <hr/>

**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, 2017, was as follows:

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 38,673	\$ 22,500	\$ 5,500	\$ 55,673
Construction in progress	26,134	-	26,134	-
<b>Total capital assets not being depreciated</b>	<b>\$ 64,807</b>	<b>\$ 22,500</b>	<b>\$ 31,634</b>	<b>\$ 55,673</b>
Capital assets being depreciated				
Infrastructure	\$ 120,000	\$ 26,134	-	\$ 146,134
Buildings and improvements	304,006	-	-	304,006
Land improvements	15,600	-	-	15,600
Machinery and equipment	621,280	76,113	11,086	686,307
<b>Total capital assets being depreciated</b>	<b>\$ 1,060,886</b>	<b>\$ 102,247</b>	<b>\$ 11,086</b>	<b>\$ 1,152,047</b>
Less: accumulated depreciation for				
Infrastructure	\$ 68,000	\$ 4,000	-	\$ 72,000
Buildings and improvements	255,013	4,782	-	259,795
Land improvements	7,620	1,260	-	8,880
Machinery and equipment	389,717	42,218	7,756	424,179
<b>Total accumulated depreciation</b>	<b>\$ 720,350</b>	<b>\$ 52,260</b>	<b>\$ 7,756</b>	<b>\$ 764,854</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 340,536</b>	<b>\$ 49,987</b>	<b>\$ 3,330</b>	<b>\$ 387,193</b>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<b>\$ 405,343</b>	<b>\$ 72,487</b>	<b>\$ 34,964</b>	<b>\$ 442,866</b>

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

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 46,816	\$ -	\$ -	\$ 46,816
Capital assets being depreciated				
Infrastructure	\$ 6,155,074	\$ -	\$ -	\$ 6,155,074
Buildings and improvements	514,828	-	-	514,828
Land improvements	11,082	-	-	11,082
Machinery and equipment	98,020	5,681	20,589	83,112
Total capital assets being depreciated	\$ 6,779,004	\$ 5,681	\$ 20,589	\$ 6,764,096
Less: accumulated depreciation for				
Infrastructure	\$ 2,611,717	\$ 166,938	\$ -	\$ 2,778,655
Buildings and improvements	319,726	14,647	-	334,373
Land improvements	11,082	-	-	11,082
Machinery and equipment	92,887	1,802	17,258	77,431
Total accumulated depreciation	\$ 3,035,412	\$ 183,387	\$ 17,258	\$ 3,201,541
Total capital assets, depreciated, net	\$ 3,743,592	\$ (177,706)	\$ 3,331	\$ 3,562,555
Business-Type Activities				
Capital Assets, Net	\$ 3,790,408	\$ (177,706)	\$ 3,331	\$ 3,609,371

Depreciation Expense

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

Governmental Activities	
General government	\$ 1,164
Public safety	30,132
Highways and streets	11,723
Culture and recreation	9,241
Total Depreciation Expense - Governmental Activities	\$ 52,260
Business-Type Activities	
Liquor Store	\$ 10,863
Sewer	82,549
Storm Drainage	13,067
Water	76,908
Total Depreciation Expense - Business-Type Activities	\$ 183,387

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

II. Detailed Notes on All Funds (Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following operating transfers:

Transfer to General Fund from Public Housing Special Revenue Fund	\$ 2,500	Mower purchase
Transfer to General Fund from Lot Incentive Capital Projects Fund	2,500	Mower purchase
Transfer to General Fund from Liquor Enterprise Fund	10,000	Operating transfer
Transfer to General Fund from Sewer Enterprise Fund	2,500	Mower purchase
Transfer to General Fund from Water Enterprise Fund	2,500	Mower purchase
Transfer to Liquor Enterprise Fund from General Fund	813	Operating transfer
Transfer to Sewer Enterprise Fund from General Fund	885	Operating transfer
Transfer to Water Enterprise Fund from General Fund	<u>940</u>	Operating transfer
Total Interfund Transfers	<u>\$ 22,638</u>	

C. Liabilities

Compensated Absences

Under the City's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 5 to 25 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 25 days of vacation with 50 percent carryover to the following year, which must be used within the first six months of the following year, and 120 days sick leave under the City's employment policy. Employees are eligible to vest one-third of unused sick leave upon termination in good standing. Unvested sick leave, approximately \$37,961 at December 31, 2017, 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)

Long-Term Debt

Governmental Activities

City of Twin Valley capital lease with Kinetic Lease represents debt incurred for the lease of a Police Interceptor. This lease has an original issue amount of \$34,366. They carry a net interest rate of 5 percent and are due in annual installments from the General Fund of \$9,260 through June 15, 2017. The final payment of \$8,362 was made in June, 2017 and this loan was closed out with zero balance remaining as of December 31, 2017.

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, 2017, is \$341,000.

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, 2017, is \$2,150,000, net of unamortized bond discount of \$35,323.

Debt service requirements for business-type activities at December 31, 2017, 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
2018	55,000	7,162	60,000	67,296	115,000	74,458
2019	57,000	6,006	60,000	66,396	117,000	72,402
2020	59,000	4,810	60,000	65,346	119,000	70,156
2021	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
2023-2027	46,000	958	340,000	290,699	386,000	291,657
2028-2032	-	-	385,000	240,272	385,000	240,272
2033-2037	-	-	455,000	171,317	455,000	171,317
2038-2042	-	-	545,000	77,179	545,000	77,179
2043	-	-	120,000	2,239	120,000	2,239
	\$ 341,000	\$ 24,796	\$ 2,150,000	\$ 1,107,786	\$ 2,491,000	\$ 1,132,582
Less: Bond discount	-	-	(35,323)	-	(35,323)	-
Total	\$ 341,000	\$ 24,796	\$ 2,114,677	\$ 1,107,786	\$ 2,455,677	\$ 1,132,582

**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, 2017, 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	\$ 8,798	\$ -	\$ 8,798	\$ -	\$ -
Compensated Absences	17,348	13,451	16,095	14,704	4,879
Net Pension Liability	<u>553,174</u>	<u>-</u>	<u>332,362</u>	<u>220,812</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u><u>\$ 579,320</u></u>	<u><u>\$ 13,451</u></u>	<u><u>\$ 357,255</u></u>	<u><u>\$ 235,516</u></u>	<u><u>\$ 4,879</u></u>

Business Activities

Long-term liability activity for the business-type activities for the year ended December 31, 2017, 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	\$ 395,000	\$ -	\$ 54,000	\$ 341,000	\$ 55,000
G.O. Utility Revenue Refunding Bonds, Series 2013A	2,210,000	-	60,000	2,150,000	60,000
Less: Bond discount	(36,736)	-	1,413	(35,323)	-
Compensated Absences	13,334	13,908	13,192	14,050	4,468
Net Pension Liability	<u>237,419</u>	<u>-</u>	<u>55,094</u>	<u>182,325</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u><u>\$ 2,819,017</u></u>	<u><u>\$ 13,908</u></u>	<u><u>\$ 183,699</u></u>	<u><u>\$ 2,649,226</u></u>	<u><u>\$ 119,468</u></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.

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 (General Employees Plan (accounted for in the General Employees Fund))

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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (Police and Fire Plan (accounted for in the Police and Fire Fund))

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, 2017, 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.

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

III. Defined Benefit Pension Plans

A. Plan Description

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

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.

The SBI made no significant changes to their investment policy during Fiscal Year 2017 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.

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

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

1. 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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.

**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. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

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. Pension contributions and liabilities are reported in the General Fund, and the Liquor, Sewer, and Water Enterprise Funds.

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City of Twin Valley was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City of Twin Valley's contributions to the General Employees Fund for the year ended December 31, 2017, were \$20,096. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The City of Twin Valley was required to contribute 16.20 percent of pay for members in calendar year 2017. The City of Twin Valley's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$17,360. 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 \$9,847 in fire state aid to the plan for the year ended December 31, 2017.

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

III. Defined Benefit Pension Plans

C. Contributions (Continued)

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

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, 2017, and did not make a voluntary contribution.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City of Twin Valley reported a liability of \$268,125 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 \$6 million to the fund in 2017. 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 \$3,411. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Twin Valley's proportion share was .0042 percent, which was a decrease of .0001 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, the City of Twin Valley recognized pension expense of \$8,968 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Twin Valley recognized an additional \$99 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 8,837	\$ 14,443
Changes in actuarial assumptions	34,180	26,880
Difference between projected and actual investment earnings	41,552	45,526
Changes in proportion	-	20,141
Contributions paid to PERA subsequent to the measurement date	<u>9,777</u>	<u>-</u>
Total	<u>\$ 94,346</u>	<u>\$ 106,990</u>

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

III. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

\$9,777 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, 2017. 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	\$ (6,962)
2019	5,261
2020	(9,336)
2021	(11,383)
2022	-

2. Police and Fire Fund Pension Costs

At December 31, 2017, The City of Twin Valley reported a liability of \$135,012 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Twin Valley's proportion of the net pension liability was based on the City of Twin Valley's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2017, the City of Twin Valley's proportion was .010 percent, which was a .001 percent decrease of .0001 percent from its proportion measured as of June 30, 2016. The City of Twin Valley also recognized \$900 for the year ended December 31, 2017 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, 2017, the City of Twin Valley recognized pension expense of \$24,044 for its proportionate share of the Police and fire Plan's pension expense.

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

III. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

As of December 31, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,108	\$ 39,703
Changes in actuarial assumptions	194,359	191,683
Difference between projected and actual investment earnings	49,166	42,841
Changes in proportion	5,400	33,443
Contributions paid to PERA subsequent to the measurement date	8,656	-
Total	\$ 260,689	\$ 307,670

\$8,656 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, 2017. 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	\$ 2,539
2019	2,540
2020	(2,904)
2021	(13,410)
2022	(44,402)

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

III. Defined Benefit Pension Plans

D. Pension Costs (Continued)

3. Statewide Volunteer Firefighter (SVF) Plan Pension Costs

At December 31, 2017, the City of Twin Valley reported a net pension asset of \$125,752 for the SVF plan. The net pension asset was measured as of December 31, 2017. 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 <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability (Asset) <u>(a-b)</u>
Beginning Balance 12/31/2016	\$ 197,287	\$ 290,833	\$ (93,546)
Changes for the Year:			
Service Cost	8,626	-	8,626
Interest on Pension Liability	12,355	-	12,355
Actuarial Experience (Gains)/Losses	(3,283)	-	(3,283)
Projected Investment Earnings	-	17,450	(17,450)
State Contributions	-	12,230	(12,230)
Asset (Gain)/Loss	-	21,232	(21,232)
Benefit Payouts	-	-	-
PERA Administrative Fee	-	(1,008)	1,008
	<u>17,698</u>	<u>49,904</u>	<u>(32,206)</u>
Net Changes	\$ 17,698	\$ 49,904	\$ (32,206)
Balance End of Year 12/31/2017	<u>\$ 214,985</u>	<u>\$ 340,737</u>	<u>\$ (125,752)</u>

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City of Twin Valley recognized pension expense of \$8,160 for its proportionate share of the SVF's pension expense.

At December 31, 2017, 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	\$ -	\$ 20,282
Difference between projected and actual investment earnings	<u>10,859</u>	<u>23,488</u>
Total	<u>\$ 10,859</u>	<u>\$ 43,770</u>

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

III. Defined Benefit Pension Plans

D. Pension Costs

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

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
2017	\$ (7,124)
2018	(7,124)
2019	(7,127)
2020	(6,633)
2021	(4,903)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan through 2044 and Police and Fire Plan through 2064, and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

1. 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.
2. 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.

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

III. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

Police and Fire Fund

1. 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.
2. Assumed rates of retirement were changed, resulting in fewer retirements.
3. The Combined Service Annuity (CSA) load was 30 percent vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
4. 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.
5. 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.
6. Assumed percentage of married female members was decreased from 65 percent to 60 percent.
7. 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.
8. The assumed percentage of female members electing Joint and Survivor annuities was increased.
9. 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 2.5 percent thereafter.

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

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

III. Defined Benefit Pension Plans

E. Actuarial Assumptions

Police and Fire Fund (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

Statewide Volunteer Firefighter (SVF) Plan

The total pension liability at December 31, 2017, 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 2017.

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.

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

III. Defined Benefit Pension Plans (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 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. 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.

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

III. Defined Benefit Pension Plans (Continued)

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:

<u>Sensitivity of Net Pension Liability at Current Single Discount Rate</u>			
<u>City of Twin Valley</u>	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
General Employees Fund	\$ 415,882	\$ 268,125	\$ 147,159
	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Police and Fire Fund	\$ 254,267	\$ 135,012	\$ 36,560
	<u>1% Decrease in Discount Rate (5%)</u>	<u>Discount Rate (6%)</u>	<u>1% Increase in Discount Rate (7%)</u>
Firefighter Retirement Plan	\$ (120,249)	\$ (125,752)	\$ (131,168)

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](http://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.

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

IV. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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, 2017, the outstanding balance on the Assisted Living Facility Bonds is \$203,818.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 135,994	\$ 135,994	\$ 127,947	\$ (8,047)
Special assessments	700	700	-	(700)
Licenses and permits	2,085	2,085	1,465	(620)
Intergovernmental	371,246	371,246	356,222	(15,024)
Charges for services	54,950	54,950	56,406	1,456
Gifts and contributions	12,710	12,710	9,353	(3,357)
Investment earnings	3,300	3,300	1,374	(1,926)
Miscellaneous	61,820	61,820	48,726	(13,094)
<b>Total Revenues</b>	<b>\$ 642,805</b>	<b>\$ 642,805</b>	<b>\$ 601,493</b>	<b>\$ (41,312)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Mayor/council	\$ 11,410	\$ 11,410	\$ 10,444	\$ 966
Finance/office staff	41,490	41,490	55,540	(14,050)
General administration	78,485	78,485	78,240	245
Assessor	3,800	3,800	3,122	678
Elections	870	870	16	854
Professional services	4,485	4,485	4,028	457
Legal	9,000	9,000	8,703	297
Airport	1,400	1,400	5,374	(3,974)
Buildings and grounds	29,175	29,175	16,131	13,044
Insurance	100	100	-	100
Other general government	5,215	5,215	11,138	(5,923)
<b>Total general government</b>	<b>\$ 185,430</b>	<b>\$ 185,430</b>	<b>\$ 192,736</b>	<b>\$ (7,306)</b>
<b>Public safety</b>				
Police	\$ 155,390	\$ 155,390	\$ 154,112	\$ 1,278
Fire	40,075	40,075	44,689	(4,614)
Rescue services	17,355	17,355	7,651	9,704
Other public safety	2,200	2,200	4,848	(2,648)
<b>Total public safety</b>	<b>\$ 215,020</b>	<b>\$ 215,020</b>	<b>\$ 211,300</b>	<b>\$ 3,720</b>
<b>Highways and streets</b>				
Streets and alleys	\$ 127,345	\$ 127,345	\$ 149,507	\$ (22,162)
Snow and ice removal	7,775	7,775	2,765	5,010
Street lighting	22,300	22,300	20,604	1,696
<b>Total highways and streets</b>	<b>\$ 157,420</b>	<b>\$ 157,420</b>	<b>\$ 172,876</b>	<b>\$ (15,456)</b>

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

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (continued)</b>				
<b>Culture and recreation</b>				
Community Center	\$ 14,060	\$ 14,060	\$ 8,986	\$ 5,074
Parks	22,590	22,590	12,104	10,486
Snowmobile and ski trails	25,000	25,000	27,351	(2,351)
Wimmer Cabins	13,175	13,175	8,421	4,754
Other culture and recreation	1,525	1,525	-	1,525
<b>Total culture and recreation</b>	<b>\$ 76,350</b>	<b>\$ 76,350</b>	<b>\$ 56,862</b>	<b>\$ 19,488</b>
<b>Conservation of natural resources</b>				
Weed and pest control	\$ 5,725	\$ 5,725	\$ 3,810	\$ 1,915
<b>Debt service</b>				
Principal retirement	\$ 8,362	\$ 8,362	\$ 8,362	\$ -
Interest	898	898	898	-
<b>Total debt service</b>	<b>\$ 9,260</b>	<b>\$ 9,260</b>	<b>\$ 9,260</b>	<b>\$ -</b>
<b>Capital outlay</b>				
General government	\$ -	\$ -	\$ 22,500	\$ (22,500)
Public safety	10,000	10,000	32,366	(22,366)
Culture and recreation	10,000	10,000	43,747	(33,747)
<b>Total capital outlay</b>	<b>\$ 20,000</b>	<b>\$ 20,000</b>	<b>\$ 98,613</b>	<b>\$ (78,613)</b>
<b>Total Expenditures</b>	<b>\$ 669,205</b>	<b>\$ 669,205</b>	<b>\$ 745,457</b>	<b>\$ (76,252)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (26,400)</b>	<b>\$ (26,400)</b>	<b>\$ (143,964)</b>	<b>\$ (117,564)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 26,000	\$ 26,000	\$ 20,000	\$ (6,000)
Transfers out	-	-	(2,638)	(2,638)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 26,000</b>	<b>\$ 26,000</b>	<b>\$ 17,362</b>	<b>\$ (8,638)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (400)</b>	<b>\$ (400)</b>	<b>\$ (126,602)</b>	<b>\$ (126,202)</b>
<b>Fund Balance - January 1</b>	<b>603,023</b>	<b>603,023</b>	<b>603,023</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 602,623</b>	<b>\$ 602,623</b>	<b>\$ 476,421</b>	<b>\$ (126,202)</b>

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

Schedule 2

**SCHEDULE OF CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
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**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
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**

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

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

Schedule 3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<u>Fiscal Year Ending</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>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</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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**

<u>Fiscal Year Ending</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>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</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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**

<u>Fiscal Year Ending</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability</u>	<u>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</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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%

**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, 2017**

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability (Asset)</b>
<b>Changes for the Year</b>			
Service cost	\$ 8,626	\$ -	\$ 8,626
Investment earnings	12,355	-	12,355
Actuarial experience (gains)/losses	(3,283)	-	(3,283)
Projected investment earnings	-	17,450	(17,450)
Contributions (state)	-	12,230	(12,230)
Asset (gain)/loss	-	21,232	(21,232)
Administrative costs	-	(1,008)	1,008
	<b>\$ 17,698</b>	<b>\$ 49,904</b>	<b>\$ (32,206)</b>
<b>Balance - January 1</b>	<b>197,287</b>	<b>290,833</b>	<b>(93,546)</b>
<b>Balance - December 31</b>	<b>\$ 214,985</b>	<b>\$ 340,737</b>	<b>\$ (125,752)</b>
 <b>Plan Fiduciary Net Position</b>			
Fire state aid		\$ 9,847	
Fire supplemental aid		2,383	
Supplemental benefit reimbursement		-	
Net investment earnings		38,682	
Administrative expenses		(1,008)	
		<b>\$ 49,904</b>	
<b>Net Change in Fiduciary Net Position</b>		<b>\$ 49,904</b>	
<b>Fiduciary Net Position - January 1</b>		<b>290,833</b>	
<b>Fiduciary Net Position - December 31</b>		<b>\$ 340,737</b>	
 <b>Association's Net Pension Liability (Asset) - December 31</b>		<b>\$ (125,752)</b>	
 <b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>		<b>158.5%</b>	

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
City clerk/treasurer	\$ 55,540	\$ 41,490	\$ (14,050)
Airport	5,374	1,400	(3,974)
Other general government	11,138	5,215	(5,923)
Public safety			
Fire	44,689	40,075	(4,614)
Other public safety	4,848	2,200	(2,648)
Highways and streets			
Streets and alleys	149,507	127,345	(22,162)
Culture and recreation			
Snowmobile and ski trails	27,351	25,000	(2,351)
Capital outlay			
General government	22,500	-	(22,500)
Public safety	32,366	10,000	(22,366)
Culture and recreation	43,747	10,000	(33,747)

### 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. 2017 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.

##### 2. 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.

##### 3. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

##### 4. 2015 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.

### III. Net Pension Liability (Continued)

#### B. Police and Fire Fund

##### 1. 2017 Changes in Actuarial Assumptions

- Assumed salary increases were changes 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.
- 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 year through 2064 and 2.50 percent thereafter.

##### 2. 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 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 changed from 7.9 percent to 5.6 percent.

### III. Net Pension Liability

#### B. Police and Fire Fund

##### 3. 2016 Changes in Actuarial Assumptions (Continued)

- 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 in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

##### 5. 2015 Changes in Plan Provisions

- The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

**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, 2017**

	Special Revenue Funds (Statement 3)	Capital Projects Funds (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 3)
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 116,363	\$ 109,288	\$ 225,651
Investments	30,835	-	30,835
Taxes receivable			
Current	-	293	293
Prior	-	1,050	1,050
Loans receivable	62,920	-	62,920
<b>Total Assets</b>	<b>\$ 210,118</b>	<b>\$ 110,631</b>	<b>\$ 320,749</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Deferred Inflows of Resources</b>			
Taxes	\$ -	\$ 1,050	\$ 1,050
Loans	62,920	-	62,920
<b>Total Deferred Inflows of Resources</b>	<b>\$ 62,920</b>	<b>\$ 1,050</b>	<b>\$ 63,970</b>
<b>Fund Balances</b>			
Restricted for economic development	\$ 68,778	\$ -	\$ 68,778
Assigned to			
Economic development	78,420	-	78,420
Capital outlay	-	109,581	109,581
<b>Total Fund Balances</b>	<b>\$ 147,198</b>	<b>\$ 109,581</b>	<b>\$ 256,779</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 210,118</b>	<b>\$ 110,631</b>	<b>\$ 320,749</b>

**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, 2017**

	<b>Special Revenue Funds (Statement 4)</b>	<b>Capital Projects Funds (Statement 6)</b>	<b>Total Nonmajor Governmental Funds (Exhibit 5)</b>
<b>Revenues</b>			
Property taxes	\$ -	\$ 10,003	\$ 10,003
Investment earnings	44	-	44
Miscellaneous	26,611	1,750	28,361
<b>Total Revenues</b>	<b>\$ 26,655</b>	<b>\$ 11,753</b>	<b>\$ 38,408</b>
<b>Expenditures</b>			
<b>Current</b>			
Economic development	4,862	-	4,862
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 21,793</b>	<b>\$ 11,753</b>	<b>\$ 33,546</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out	(2,500)	(2,500)	(5,000)
<b>Net Change in Fund Balance</b>	<b>\$ 19,293</b>	<b>\$ 9,253</b>	<b>\$ 28,546</b>
<b>Fund Balance - January 1</b>	<b>127,905</b>	<b>100,328</b>	<b>228,233</b>
<b>Fund Balance - December 31</b>	<b>\$ 147,198</b>	<b>\$ 109,581</b>	<b>\$ 256,779</b>

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

*Statement 3*

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2017**

	<u>Loan Pool/EDA</u>	<u>Small Cities Development Grant</u>	<u>Total (Statement 1)</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 47,585	\$ 68,778	\$ 116,363
Investments	30,835	-	30,835
Loans receivable	<u>40,402</u>	<u>22,518</u>	<u>62,920</u>
<b>Total Assets</b>	<b><u>\$ 118,822</u></b>	<b><u>\$ 91,296</u></b>	<b><u>\$ 210,118</u></b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Deferred Inflows of Resources</b>			
Loans	<u>\$ 40,402</u>	<u>\$ 22,518</u>	<u>\$ 62,920</u>
<b>Fund Balances</b>			
Restricted for economic development	\$ -	\$ 68,778	\$ 68,778
Assigned to economic development	<u>78,420</u>	<u>-</u>	<u>78,420</u>
<b>Total Fund Balance</b>	<b><u>\$ 78,420</u></b>	<b><u>\$ 68,778</u></b>	<b><u>\$ 147,198</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 118,822</u></b>	<b><u>\$ 91,296</u></b>	<b><u>\$ 210,118</u></b>

**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, 2017**

	Loan Pool/EDA	Small Cities Development Grant	Total (Statement 2)
<b>Revenues</b>			
Investment earnings	\$ 44	\$ -	\$ 44
Miscellaneous	14,400	12,211	26,611
<b>Total Revenues</b>	<b>\$ 14,444</b>	<b>\$ 12,211</b>	<b>\$ 26,655</b>
<b>Expenditures</b>			
<b>Current</b>			
Economic development	4,862	-	4,862
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 9,582</b>	<b>\$ 12,211</b>	<b>\$ 21,793</b>
<b>Other Financing Sources</b>			
Transfers out	-	(2,500)	(2,500)
<b>Net Change in Fund Balance</b>	<b>\$ 9,582</b>	<b>\$ 9,711</b>	<b>\$ 19,293</b>
<b>Fund Balance - January 1</b>	<b>68,838</b>	<b>59,067</b>	<b>127,905</b>
<b>Fund Balance - December 31</b>	<b>\$ 78,420</b>	<b>\$ 68,778</b>	<b>\$ 147,198</b>

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

*Statement 5*

**COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS  
DECEMBER 31, 2017**

	<b>Long-Term Capital Projects</b>	<b>Lot Incentive Program</b>	<b>Total (Statement 1)</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 96,314	\$ 12,974	\$ 109,288
Taxes receivable			
Current	293	-	293
Prior	1,050	-	1,050
	<b>\$ 97,657</b>	<b>\$ 12,974</b>	<b>\$ 110,631</b>
 <b><u>Deferred Inflows of Resources and Fund Balances</u></b>			
<b>Deferred Inflows of Resources</b>			
Taxes	\$ 1,050	\$ -	\$ 1,050
 <b>Fund Balances</b>			
Assigned to capital outlay	96,607	12,974	109,581
	<b>\$ 97,657</b>	<b>\$ 12,974</b>	<b>\$ 110,631</b>

**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, 2017**

	<u>Long-Term Capital Projects</u>	<u>Lot Incentive Program</u>	<u>Total (Statement 2)</u>
<b>Revenues</b>			
Property taxes	\$ 10,003	\$ -	\$ 10,003
Miscellaneous	-	1,750	1,750
<b>Total Revenues</b>	<b>\$ 10,003</b>	<b>\$ 1,750</b>	<b>\$ 11,753</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out	-	(2,500)	(2,500)
<b>Net Change in Fund Balance</b>	<b>\$ 10,003</b>	<b>\$ (750)</b>	<b>\$ 9,253</b>
<b>Fund Balance - January 1</b>	<b>86,604</b>	<b>13,724</b>	<b>100,328</b>
<b>Fund Balance - December 31</b>	<b>\$ 96,607</b>	<b>\$ 12,974</b>	<b>\$ 109,581</b>

## **OTHER SCHEDULES**

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

**Schedule 5**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Shared Revenue**

**State**

Local government aid	\$	306,034
Market value credit		80
PERA rate reimbursement		912
Police state aid		15,395
Small cities assistance payment		11,389
		<hr/>
<b>Total Shared Revenue</b>	<b>\$</b>	<b>333,810</b>

**Grants**

**State**

**Minnesota Department/Board of**

Natural Resources	\$	14,395
Public Safety		3,404
Transportation		563
Trial Courts		1,750
		<hr/>

**Total State** **\$** **20,112**

**Federal**

Department of Agriculture 

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2,300

**Total Grants** **\$** **22,412**

**Total Intergovernmental Revenue** **\$** **356,222**

## **MANAGEMENT AND COMPLIANCE SECTION**

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

Schedule 6

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

2005-001 Segregation of Duties

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

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

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

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

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

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

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)

2007-001 Internal Controls

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

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.

**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, 2016, 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 11, 2018.

**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, except we did not test for compliance with the provisions for tax increment financing because the City of Twin Valley has no tax increment financing districts.

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

### **City's Response to Findings**

The City's response to the findings 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 11, 2018