

**City of Eden Valley  
Enterprise Funds  
Meeker and Stearns Counties, Minnesota**

**Financial Statements**

**December 31, 2015**



**City of Eden Valley  
Enterprise Funds  
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**City of Eden Valley  
Enterprise Funds  
Elected Officials and Administration**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Brent Bengtson	Mayor	December 31, 2016
Janice Sheets	Council Member	December 31, 2018
Dan Thielen	Council Member	December 31, 2018
Jeff Bradshaw	Council Member	December 31, 2016
Mark Kern	Council Member	December 31, 2016
<u>Administration</u>		
Mona Haag	City Clerk/Treasurer	Appointed



## Independent Auditor's Report

BerganKDV, Ltd.

Honorable Mayor and Members  
of the City Council  
City of Eden Valley  
Eden Valley, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Water, Sewer and Senior Housing Enterprise Funds (Enterprise Funds) of the City of Eden Valley, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, as listed in the Table of Contents.

As discussed in Note 1, the financial statements referred to above present only the City's Enterprise Funds and are not intended to present fairly the financial position of the City as a whole as of December 31, 2015, and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

### 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 in 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 *Governmental 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 from material misstatement.

**Cedar Falls**  
602 Main Street  
Suite 100  
P.O. Box 489  
Cedar Falls, IA  
50613-0026  
T 319.268.1715  
F 319.268.1720

**Cedar Rapids**  
2720 1st Avenue NE  
Suite 300  
P.O. Box 10200  
Cedar Rapids, IA  
52402-0200  
T 319.294.8000  
F 319.294.9003

**Coralville**  
2530 Corridor Way  
Suite 301  
P.O. Box 5267  
Coralville, IA  
52241-0267  
T 319.248.0367  
F 319.248.0582

**Des Moines**  
9207 Northpark Drive  
Johnston, IA  
50131-2933  
T 515.727.5700  
F 515.727.5800

**Minneapolis**  
3800 American Blvd W  
Suite 1000  
Bloomington, MN  
55431-4420  
T 952.563.6800  
F 952.563.6801

**St. Cloud**  
220 Park Avenue S  
P.O. Box 1304  
St. Cloud, MN  
56302-3713  
T 320.251.7010  
F 320.251.1784

**Waterloo**  
100 East Park Avenue  
Suite 300  
P.O. Box 2100  
Waterloo, IA  
50704-2100  
T 319.234.6885  
F 319.234.6287

bergankdv.com



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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Funds of the City of Eden Valley, Minnesota, as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Implementation of GASB 68 and GASB 71**

As discussed in Note 8 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### **Other Matters – Required Supplementary Information**

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.



Accounting principles generally accepted in the United States of America require that the schedule of enterprise funds proportionate share of net pension liability GERS retirement fund on page 26 and schedule of enterprise funds contributions GERS retirement fund on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2016, on our consideration of the City of Eden 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 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 of Eden Valley's internal control over financial reporting and compliance.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
March 25, 2016

## **BASIC FINANCIAL STATEMENTS**

**City of Eden Valley**  
**Enterprise Funds**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2015**

	Water (510)	Sewer (520)	Senior Housing (530)	Total
<b>Assets and Deferred Outflows of Resources</b>				
Current assets				
Cash and investments (including cash equivalents)	\$ 304,753	\$ 332,483	\$ 27,948	\$ 665,184
Special assessments receivable				
Delinquent	4,137	9,652	-	13,789
Deferred	16,685	33,485	-	50,170
Accounts receivable	44,150	30,058	-	74,208
Loan receivable	73,500	-	-	73,500
Due from other governments	7,076	3,538	-	10,614
Total current assets	<u>450,301</u>	<u>409,216</u>	<u>27,948</u>	<u>887,465</u>
Noncurrent assets				
Loan receivable	336,500	-	-	336,500
Capital assets:				
Land and land improvements	12,399	230,739	25,666	268,804
Buildings	19,247	136,127	785,708	941,082
Systems and other improvements	2,845,693	4,151,273	-	6,996,966
Furniture, machinery, and equipment	38,363	7,436	7,205	53,004
Total capital assets	<u>2,915,702</u>	<u>4,525,575</u>	<u>818,579</u>	<u>8,259,856</u>
Less accumulated depreciation	<u>(652,871)</u>	<u>(2,712,465)</u>	<u>(330,972)</u>	<u>(3,696,308)</u>
Net capital assets	<u>2,262,831</u>	<u>1,813,110</u>	<u>487,607</u>	<u>4,563,548</u>
Total noncurrent assets	<u>2,599,331</u>	<u>1,813,110</u>	<u>487,607</u>	<u>4,900,048</u>
Total assets	<u>3,049,632</u>	<u>2,222,326</u>	<u>515,555</u>	<u>5,787,513</u>
Deferred outflows of resources				
Deferred outflows of resources Related to pension activity	<u>4,283</u>	<u>3,032</u>	<u>18</u>	<u>7,333</u>
Total assets and deferred outflows of resources	<u><u>\$ 3,053,915</u></u>	<u><u>\$ 2,225,358</u></u>	<u><u>\$ 515,573</u></u>	<u><u>\$ 5,794,846</u></u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
Current liabilities				
Accounts payable	\$ 4,252	\$ 6,103	\$ 2,436	\$ 12,791
Deposits payable	-	-	12,898	12,898
Salaries and benefits payable	999	188	-	1,187
Interest payable	8,906	3,654	676	13,236
Compensated absences payable - current	2,803	2,803	-	5,606
PFA loans payable - due within 1 year	169,000	52,000	-	221,000
Bonds payable - due within 1 year	-	-	49,000	49,000
Total current liabilities	<u>185,960</u>	<u>64,748</u>	<u>65,010</u>	<u>315,718</u>
Noncurrent liabilities				
Bonds payable - due within more than 1 year	-	-	263,000	263,000
PFA loans payable - due within more than 1 year	1,714,316	861,000	-	2,575,316
Net pension liability	30,875	21,857	133	52,865
Total noncurrent liabilities	<u>1,745,191</u>	<u>882,857</u>	<u>263,133</u>	<u>2,891,181</u>
Total liabilities	<u>1,931,151</u>	<u>947,605</u>	<u>328,143</u>	<u>3,206,899</u>
Deferred inflows of resources				
Deferred inflows of resources related To pension activity	<u>4,452</u>	<u>3,151</u>	<u>19</u>	<u>7,622</u>
Net position				
Net investment in capital assets	789,515	900,110	175,607	1,865,232
Unrestricted	328,797	374,492	11,804	715,093
Total net position	<u>1,118,312</u>	<u>1,274,602</u>	<u>187,411</u>	<u>2,580,325</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 3,053,915</u></u>	<u><u>\$ 2,225,358</u></u>	<u><u>\$ 515,573</u></u>	<u><u>\$ 5,794,846</u></u>
See notes to financial statements.				6



**City of Eden Valley**  
**Enterprise Funds**  
**Statement of Revenues, Expenses, and Changes**  
**in Net Position - Proprietary Funds**  
**Year Ended December 31, 2015**

	Water (510)	Sewer (520)	Senior Housing (530)	Total
<b>Operating revenues</b>				
Charges for services	\$ 253,582	\$ 145,888	\$ 122,794	\$ 522,264
Connection fees	4,745	-	-	4,745
Special assessments	6,986	16,299	-	23,285
Total operating revenues	<u>265,313</u>	<u>162,187</u>	<u>122,794</u>	<u>550,294</u>
<b>Operating expenses</b>				
Salaries and benefits	60,277	45,128	6,423	111,828
Operating supplies	14,180	2,848	1,822	18,850
Repairs and maintenance	10,433	11,275	17,944	39,652
Professional services	8,804	19,482	16,214	44,500
Utilities	18,778	8,195	13,499	40,472
Depreciation	47,834	60,076	19,643	127,553
Miscellaneous expenses	16,690	6,709	8,281	31,680
Total operating expenses	<u>176,996</u>	<u>153,713</u>	<u>83,826</u>	<u>414,535</u>
Operating income	88,317	8,474	38,968	135,759
<b>Nonoperating revenues</b>				
<b>(expenses)</b>				
Investment income	1,827	4,219	14	6,060
Miscellaneous revenue	2,020	8,737	2,447	13,204
Interest expense	(16,476)	(15,160)	(9,621)	(41,257)
Total nonoperating revenues				
(expenses)	<u>(12,629)</u>	<u>(2,204)</u>	<u>(7,160)</u>	<u>(21,993)</u>
Income before transfers				
and capital contributions	75,688	6,270	31,808	113,766
Capital contributions to				
Governmental activities	(493)	(11,073)	-	(11,566)
Transfers out	<u>-</u>	<u>(9,500)</u>	<u>-</u>	<u>(9,500)</u>
Change in net position	75,195	(14,303)	31,808	92,700
<b>Net position</b>				
Beginning of year	1,073,718	1,310,567	155,735	2,540,020
Change in accounting principle (Note 11)	(30,601)	(21,662)	(132)	(52,395)
Beginning of year as restated	<u>1,043,117</u>	<u>1,288,905</u>	<u>155,603</u>	<u>2,487,625</u>
End of year	<u>\$ 1,118,312</u>	<u>\$ 1,274,602</u>	<u>\$ 187,411</u>	<u>\$ 2,580,325</u>

See notes to financial statements.

**City of Eden Valley  
Enterprise Funds  
Statement of Cash Flows - Proprietary Funds  
Year Ended December 31, 2015**

	Water (510)	Sewer (520)	Senior Housing (530)	Total
<b>Cash flows - operating activities</b>				
Receipts from customers and users	\$ 261,622	\$ 163,838	\$ 122,794	\$ 548,254
Payments to suppliers	(78,849)	(43,082)	(58,129)	(180,060)
Payments to employees	(58,334)	(43,715)	(6,421)	(108,470)
Net cash flows - operating activities	<u>124,439</u>	<u>77,041</u>	<u>58,244</u>	<u>259,724</u>
<b>Cash flows - noncapital financing activities</b>				
Miscellaneous revenue	2,020	8,737	4,882	15,639
Transfer to other funds	-	(9,500)	-	(9,500)
Net cash flows - noncapital financing activities	<u>2,020</u>	<u>(763)</u>	<u>4,882</u>	<u>6,139</u>
<b>Cash flows - capital and related financing activities</b>				
Principal paid on debt	(165,000)	(51,000)	(47,000)	(263,000)
Loan repayment proceeds	71,500	-	-	71,500
Interest paid on debt	(17,923)	(15,338)	(9,334)	(42,595)
Net cash flows - capital and related financing activities	<u>(111,423)</u>	<u>(66,338)</u>	<u>(56,334)</u>	<u>(234,095)</u>
<b>Cash flows - investing activities</b>				
Interest and dividends received	<u>1,827</u>	<u>4,219</u>	<u>14</u>	<u>6,060</u>
Net change in cash and cash equivalents	16,863	14,159	6,806	37,828
<b>Cash and Cash Equivalents</b>				
Beginning of year	<u>287,890</u>	<u>318,324</u>	<u>21,142</u>	<u>627,356</u>
End of year	<u><u>\$ 304,753</u></u>	<u><u>\$ 332,483</u></u>	<u><u>\$ 27,948</u></u>	<u><u>\$ 665,184</u></u>
<b>Reconciliation of Operating Income (loss) to Net Cash Flows - Operating Activities</b>				
Operating income (loss)	\$ 88,317	\$ 8,474	\$ 38,968	\$ 135,759
Adjustments to reconcile operating income (loss) To net cash flows - operating activities:				
Depreciation expense	47,834	60,076	19,643	127,553
Net pension liability expense	443	314	2	759
Accounts receivable	(7,950)	1,294	-	(6,656)
Special assessments receivable	3,005	3,895	-	6,900
Due from other governments	1,254	(3,538)	-	(2,284)
Accounts payable	(9,621)	5,386	(369)	(4,604)
Salaries payable	205	188	-	393
Compensated absences payable	952	952	-	1,904
Total adjustments	<u>36,122</u>	<u>68,567</u>	<u>19,276</u>	<u>123,965</u>
Net cash flows - operating activities	<u><u>\$ 124,439</u></u>	<u><u>\$ 77,041</u></u>	<u><u>\$ 58,244</u></u>	<u><u>\$ 259,724</u></u>

See notes to financial statements.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Eden Valley is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The accounting policies of the enterprise funds activities conform to accounting principles generally accepted in the United States of America

**B. Basis of Reporting**

These financial statements are those of the Enterprise Funds activities only. The Water, Sewer, and Senior Housing Enterprise Funds are enterprises of the City.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets, including capital assets, deferred outflows of resources and all liabilities, including long-term liabilities, and deferred inflows of resources associated with their activity are included on their Balance Sheets. The reported fund equity is segregated into restricted, unrestricted, and net investment on capital assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expense generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The City's Enterprise Funds are accounted for using the accrual basis of accounting; revenues are recognized when they are earned and expenses are recognized when they are incurred.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Description of Funds:**

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City's water utility.

Sewer Fund – This Fund accounts for the operations of the City's sewer utility.

Senior Housing – This Fund accounts for the activities and operation of the City's senior housing facility.

**D. Assets, Liabilities, and Net Position**

**1. Cash and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of 3 months or less from the date of acquisition.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool. Investments are stated at fair value.

The Minnesota Municipal Investment Pool (4M) is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has adopted a deposit policy to address custodial credit risk for deposits that matches *Minnesota Statutes* requirement that deposits are collateralized at 110% of excess over Federal Deposit Insurance Corporation (FDIC) insurance.

Interest Rate Risk: This is the risk that correlates with managing exposure to fair value arising from increasing interest rates. The City's policy manages this by giving guidance on the safety of investing and managing the liquidity of the portfolio.

Interest Rate Risk: This is the risk that correlates with managing exposure to fair value arising from increasing interest rates. The City's policy manages this by giving guidance on the safety of investing and managing the liquidity of the portfolio.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Net Position (Continued)**

**1. Cash and Investments (Continued)**

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The City's policy limits investments to shares of the 4M Fund, direct obligations of the Department of the Treasury of the U.S. Government and federal agency issues which are guaranteed by the U.S. Government or its agencies as to principal and interest and general obligations of the State of Minnesota and local governments with taxing powers, which is rated A or better by a national bond rating service, provided no single issue exceeds \$200,000 with maturities not exceeding 7 years.

Concentration of Credit Risk: This is the risk that limits the amount the City may invest in any one issuer. The City's investment policy states investments shall be diversified to minimize credit risk; specifically, no more than 5% of the investment portfolio will be invested in the securities of a single issuer.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires all investments to be insured.

**2. Loans Receivable**

Loans receivable at December 31, 2015, were due from the City of Watkins, Minnesota, for their share of Public Facilities Authority (PFA) water system improvements. The receivable scheduled maturity is half of the underlying 1999 and 2000 PFA debt obligations listed in Note 5, and totals \$410,000 at December 31, 2015.

**3. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported only for the business-type activities in the Statement of Net Position. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 to \$100,000, depending on the classification, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method for 3 to 50 years depending on the classification.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Net Position (Continued)**

**4. Vacation and Sick Leave**

The City compensates employees who either retire or terminate for their unused vacation time, and 50% of sick leave for this who have been employed for more than 15 years. As of December 31, 2015, the total liability for vacation and sick pay was \$5,606 in the Water and Sewer Funds.

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions results from the net effect of the change in proportionate share and employer contributions paid to PERA subsequent to the measurement date.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions. Deferred inflows of resources related to pensions results from the net difference between projected and actual earnings on plan investments.

**6. Long-Term Obligations**

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

**7. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the government-wide financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Net Position (Continued)**

**8. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

As of December 31, 2015, the City's bank balance was not exposed to custodial credit risk because the balance was insured through the FDIC with collateral pledged by the depository for amounts exceeding FDIC coverage.

As of December 31, 2015, the City's Enterprise Funds had deposits as follows:

Checking	<u><u>\$ 106,946</u></u>
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**B. Investments**

As of December 31, 2015, the City had the following investments:

Investment Type	Fair Value	Investment Maturities				Ratings
		1 Year or Less	1-2 Years	3-5 Years	6-10 Years	
Pooled:						
Brokered certificate of deposits	\$ 1,240,852	\$ 162,229	\$ 300,739	\$ 557,750	\$ 220,134	N/A
Brokered money market	113,444	113,444	-	-	-	AAA
4M money market	416,490	416,490	-	-	-	N/A
Total pooled investments:	1,770,786	692,163	300,739	557,750	220,134	
Capital projects non-pooled:						
4M money market	147,108	147,108	-	-	-	N/A
Total	\$ 1,917,894	\$ 839,271	\$ 300,739	\$ 557,750	\$ 220,134	
	Maturity	Maximum Investments				
	1 Year or Less	44%				
	1-2 Years	16%				
	3-5 Years	29%				
	6-10 Years	11%				

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

The Enterprise Funds' portion of the investments was \$558,238.

Concentration of Credit Risk: The City was exposed to this risk as the following certificates of deposits exceeded 5% of total investments: GE Cap Finl Inc Retail, Capital One Bank Glen Allen, State Bank of India, Midfirst Bank, World Financial Network Bank, Amex Centurion, Goldman Sachs, Sallie Mae, Synchrony BK, Salt Lake City, and JP Morgan Chase Bank.

**C. Deposits and Investments**

Total deposits and investments are as follows:

Deposits	\$ 106,946
Investments (component of pooled investments)	<u>558,238</u>
Total deposits and investments	<u><u>\$ 665,184</u></u>

Deposits and investments are classified in the December 31, 2015 financial statements as follows:

Statement of net position - proprietary funds:

Cash and investments (including cash equivalents)	<u><u>\$ 665,184</u></u>
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**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 268,804	\$ -	\$ -	\$ 268,804
Capital assets being depreciated:				
Buildings	941,082	-	-	941,082
Distribution systems	6,996,966	-	-	6,996,966
Equipment	53,004	-	-	53,004
Total capital assets being depreciated	<u>7,991,052</u>	<u>-</u>	<u>-</u>	<u>7,991,052</u>
Less accumulated depreciation for:				
Buildings	436,780	21,665	-	458,445
Distribution systems	3,098,455	104,251	-	3,202,706
Equipment	33,520	1,637	-	35,157
Total accumulated depreciation	<u>3,568,755</u>	<u>127,553</u>	<u>-</u>	<u>3,696,308</u>
Total capital assets being depreciated, net	<u>4,422,297</u>	<u>(127,553)</u>	<u>-</u>	<u>4,294,744</u>
Capital assets, net	<u>\$ 4,691,101</u>	<u>\$ (127,553)</u>	<u>\$ -</u>	<u>\$ 4,563,548</u>

Depreciation expense was charged to the following Funds:

Water	\$ 47,834
Sewer	60,076
Senior housing	<u>19,643</u>
Total depreciation - enterprise funds	<u>\$ 127,553</u>

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 4 – INTERFUND BALANCES**

**A. Transfers**

During 2015, the Sewer Fund transferred \$9,500 to the 2007 Improvement Bond Fund to assist with debt service payments.

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

The following is a summary of bonds payable transactions of the Enterprise Funds for the year ended December 31, 2015.

	<u>Issue Year</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities						
General Obligation (G.O.) Development						
Revenue Refunding Bonds 2013C	2013	2.60%	\$ 406,000	2021	\$ 312,000	\$ 49,000
PFA G.O. Water Revenue Note/DWRF Loan	1999	3.16%	1,881,057	2020	592,000	111,000
PFA G.O. Water Revenue Note/DWRF Loan	2000	2.32%	644,890	2021	228,000	36,000
PFA G.O. Water Revenue Note/DWRF Loan	2009	1.00%	286,461	2029	207,000	14,000
PFA G.O. Sewer Revenue Note/CWRF Loan	2009	1.74%	660,457	2029	480,000	31,000
PFA Drinking Water Forgivable Grant	2013	0.00%	697,316	2033	697,316	-
PFA G.O. Water Revenue Note/DWRF Loan	2013	1.00%	174,329	2033	159,000	8,000
PFA G.O. Sewer Revenue Note/CWRF Loan	2013	1.46%	470,625	2033	433,000	21,000
Compensated absences					<u>5,606</u>	<u>5,606</u>
Total long-term liabilities					<u>\$3,113,922</u>	<u>\$275,606</u>

On September 11, 2013, the City issued a PFA Drinking Water Forgivable Grant that is not required to be repaid by the City except if conditions of the agreement are not met. At December 31, 2014, the City had expended the full grant. Since the City anticipates that this debt will be forgiven, it is not included in the amortization schedules.

On September 11, 2013, the City issued a \$174,329 G.O. Water Revenue Note through the Minnesota Public Facilities Authority (PFA). At December 31, 2015, the City had fully expended the Note.

On September 11, 2013, the City issued a \$470,625 G.O. Sewer Revenue Note through the Minnesota PFA. At December 31, 2015, the City had fully expended the Note.

The Water Fund is responsible for payment of the PFA Drinking Water Revolving Loans, the Sewer Fund is responsible for payment of the PFA Clean Water Revolving Loan, and the Senior Housing Fund is responsible for paying the revenue bond liability.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continued)**

The following is a summary of bonds payable transactions of the business-type activities for the year ended December 31, 2015.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
G.O. revenue bonds	\$ 359,000	\$ -	\$ (47,000)	\$ 312,000
PFA G.O. forgivable grant	697,316	-	-	697,316
PFA G.O. revenue notes/loans	2,303,434	11,566	(216,000)	2,099,000
Compensated absences	3,702	5,606	(3,702)	5,606
	<u>3,702</u>	<u>5,606</u>	<u>(3,702)</u>	<u>5,606</u>
Total long-term liabilities	<u>\$ 3,363,452</u>	<u>\$ 17,172</u>	<u>\$ (266,702)</u>	<u>\$ 3,113,922</u>

The annual requirements to amortize all long-term debt outstanding are as follows:

Year Ending December 31,	Revenue Bonds		
	Principal	Interest	Total
2016	\$ 49,000	\$ 8,112	\$ 57,112
2017	50,000	6,838	56,838
2018	51,000	5,538	56,538
2019	53,000	4,212	57,212
2020	54,000	2,834	56,834
2021	55,000	1,430	56,430
	<u>55,000</u>	<u>1,430</u>	<u>56,430</u>
Total	<u>\$ 312,000</u>	<u>\$ 28,964</u>	<u>\$ 340,964</u>

Year Ending December 31,	PFA Note		
	Principal	Interest	Total
2016	\$ 221,000	\$ 42,484	\$ 263,484
2017	227,000	37,074	264,074
2018	232,000	31,483	263,483
2019	236,000	25,771	261,771
2020	242,000	19,917	261,917
2021-2025	449,000	54,077	503,077
2026-2030	383,000	22,464	405,464
2031-2033	109,000	2,946	111,946
	<u>109,000</u>	<u>2,946</u>	<u>111,946</u>
Total	<u>\$ 2,099,000</u>	<u>\$ 236,216</u>	<u>\$ 2,335,216</u>

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 –PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 ad 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Data presented within this footnote relates to the Enterprise Funds.

**General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the City are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated 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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

**GERF Benefits**

Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age and years of credit at termination of service. 2 methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**C. Contributions**

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

**GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Enterprise Funds were required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Enterprise Funds' contributions to the GERF for the year ended December 31, 2015, were \$4,656. The Enterprise Funds' contributions were equal to the required contributions as set by state statute.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

GERF Pension Costs

At December 31, 2015, the Enterprise Funds reported a liability of \$52,865 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Enterprise Funds' proportion of the net pension liability was based on the Enterprise Funds contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Enterprise Funds' proportion was 0.0010%.

For the year ended December 31, 2015, the Enterprise Funds recognized pension expense of \$5,395 for its proportionate share of GERF's pension expense.

At December 31, 2015, the Enterprise Funds reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 2,665
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	5,005	-
Changes in proportion	-	4,957
Contributions paid to PERA subsequent to the measurement date	2,328	-
	<hr/>	<hr/>
Total	<u>\$ 7,333</u>	<u>\$ 7,622</u>

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 – PENSION PLANS**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

\$2,328 reported as deferred outflows of resources related to pensions resulting from Enterprise Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
	<hr/>
2016	\$ (1,290)
2017	(1,290)
2018	(1,289)
2019	1,252

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	<u>100%</u>	



**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Discount Rate**

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

**G. Pension Liability Sensitivity**

The following table presents the Enterprise Funds' 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 Enterprise Funds' proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	6.9%	7.9%	8.9%
Enterprise funds proportionate share of the GERP net pension liability	\$ 83,122	\$ 52,865	\$ 27,877

**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); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 7 – RISK MANAGEMENT**

The City is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets, errors, and omissions, injuries to employees and natural disasters. In order to protect against these risks of loss, the City purchases commercial insurance through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool. This pool currently operates common risk management and insurance programs for municipal entities. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported; however, retains risk for the deductible portion of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

**City of Eden Valley  
Enterprise Funds  
Notes to Financial Statements**

**NOTE 7 – RISK MANAGEMENT (CONTINUED)**

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers' compensation rates and salaries are known for the year. The final premium adjustment was recorded in the year the adjustment was made.

During the year ended December 31, 2015, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the City's commercial coverage in any of the past three years.

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds of \$52,395 to add the beginning net pension liability.

**NOTE 9 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Eden Valley**  
**Schedule of Enterprise Funds Proportionate Share**  
**of Net Pension Liability**  
**Last Ten Years GERS Retirement Fund**

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0010%	\$ 52,865	\$ 59,467	88.90%	78.19%

**City of Eden Valley**  
**Schedule of Enterprise Funds Contributions**  
**GERF Retirement Fund**  
**Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 4,460	\$ 4,460	\$ -	\$ 59,467	7.50%