

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

Financial Statements

December 31, 2016



**City of Eden Valley
Enterprise Funds
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**City of Eden Valley
Enterprise Funds
Elected Officials and Administration
December 31, 2016**

<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

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, 2016, and the related notes to 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 *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.

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 in the first paragraph 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, 2016, 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.

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 Governmental Accounting Standards Board 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 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 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.

Emphasis of Matter

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, 2016, and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, 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 17, 2017

BASIC FINANCIAL STATEMENTS

City of Eden Valley
Enterprise Funds
Statement of Net Position - Proprietary Funds
December 31, 2016

	Water (510)	Sewer (520)	Senior Housing (530)	Total
Assets				
Current assets				
Cash and investments (including cash equivalents)	\$ 316,824	\$ 334,156	\$ 31,767	\$ 682,747
Special assessments receivable				
Delinquent	5,906	13,781	-	19,687
Deferred	10,656	24,442	-	35,098
Accounts receivable	43,382	28,445	-	71,827
Loan receivable	76,000	-	-	76,000
Due from other governments	185	123	3,150	3,458
Total current assets	<u>452,953</u>	<u>400,947</u>	<u>34,917</u>	<u>888,817</u>
Noncurrent assets				
Loan receivable	260,500	-	-	260,500
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	2,853,801	4,151,273	-	7,005,074
Furniture, machinery, and equipment	38,363	7,436	7,205	53,004
Total capital assets	<u>2,923,810</u>	<u>4,525,575</u>	<u>818,579</u>	<u>8,267,964</u>
Less accumulated depreciation	<u>(700,724)</u>	<u>(2,772,310)</u>	<u>(350,615)</u>	<u>(3,823,649)</u>
Net capital assets	<u>2,223,086</u>	<u>1,753,265</u>	<u>467,964</u>	<u>4,444,315</u>
Total noncurrent assets	<u>2,483,586</u>	<u>1,753,265</u>	<u>467,964</u>	<u>4,704,815</u>
Total assets	<u>2,936,539</u>	<u>2,154,212</u>	<u>502,881</u>	<u>5,593,632</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension activity	<u>25,626</u>	<u>16,492</u>	<u>1,103</u>	<u>43,221</u>
Total assets and deferred outflows of resources	<u>\$ 2,962,165</u>	<u>\$ 2,170,704</u>	<u>\$ 503,984</u>	<u>\$ 5,636,853</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 6,866	\$ 896	\$ 1,891	\$ 9,653
Deposits payable	-	-	13,727	13,727
Salaries and benefits payable	1,618	708	-	2,326
Interest payable	7,401	3,432	570	11,403
Compensated absences payable - current	2,954	2,954	-	5,908
PFA loans payable - due within one year	174,000	53,000	-	227,000
Bonds payable - due within one year	-	-	50,000	50,000
Total current liabilities	<u>192,839</u>	<u>60,990</u>	<u>66,188</u>	<u>320,017</u>
Noncurrent liabilities				
Bonds payable - due within more than one year	-	-	213,000	213,000
PFA loans payable - due within more than one year	1,540,316	808,000	-	2,348,316
Net pension liability	57,075	36,730	2,456	96,261
Total noncurrent liabilities	<u>1,597,391</u>	<u>844,730</u>	<u>215,456</u>	<u>2,657,577</u>
Total liabilities	<u>1,790,230</u>	<u>905,720</u>	<u>281,644</u>	<u>2,977,594</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pension activity	<u>6,914</u>	<u>4,449</u>	<u>297</u>	<u>11,660</u>
Net Position				
Net investment in capital assets	845,270	892,265	204,964	1,942,499
Unrestricted	319,751	368,270	17,079	705,100
Total net position	<u>1,165,021</u>	<u>1,260,535</u>	<u>222,043</u>	<u>2,647,599</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,962,165</u>	<u>\$ 2,170,704</u>	<u>\$ 503,984</u>	<u>\$ 5,636,853</u>

See notes to financial statements.

**City of Eden Valley
Enterprise Funds
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2016**

	Water (510)	Sewer (520)	Senior Housing (530)	Total
Operating revenues				
Charges for services	\$ 253,501	\$ 157,621	\$ 122,180	\$ 533,302
Connection fees	4,324	-	-	4,324
Special assessments	550	1,284	-	1,834
Total operating revenues	<u>258,375</u>	<u>158,905</u>	<u>122,180</u>	<u>539,460</u>
Operating expenses				
Salaries and benefits	79,829	50,618	8,808	139,255
Operating supplies	7,115	7,028	4,090	18,233
Repairs and maintenance	22,858	8,831	14,706	46,395
Professional services	9,918	23,018	18,622	51,558
Utilities	17,068	9,107	12,642	38,817
Depreciation	47,853	59,845	19,643	127,341
Miscellaneous expenses	10,265	6,090	8,934	25,289
Total operating expenses	<u>194,906</u>	<u>164,537</u>	<u>87,445</u>	<u>446,888</u>
Operating income (loss)	63,469	(5,632)	34,735	92,572
Nonoperating revenues (expenses)				
Investment income	(2,897)	6,488	64	3,655
Intergovernmental	227	146	10	383
Miscellaneous revenue	64	8,915	7,700	16,679
Interest expense	<u>(14,154)</u>	<u>(14,484)</u>	<u>(7,877)</u>	<u>(36,515)</u>
Total nonoperating revenues (expenses)	<u>(16,760)</u>	<u>1,065</u>	<u>(103)</u>	<u>(15,798)</u>
Income (loss) before transfers and capital contributions	46,709	(4,567)	34,632	76,774
Transfers out	<u>-</u>	<u>(9,500)</u>	<u>-</u>	<u>(9,500)</u>
Change in net position	46,709	(14,067)	34,632	67,274
Net position				
Beginning of year	<u>1,118,312</u>	<u>1,274,602</u>	<u>187,411</u>	<u>2,580,325</u>
End of year	<u>\$ 1,165,021</u>	<u>\$ 1,260,535</u>	<u>\$ 222,043</u>	<u>\$ 2,647,599</u>

**City of Eden Valley
Enterprise Funds
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016**

	Water (510)	Sewer (520)	Senior Housing (530)	Total
Cash Flows - Operating Activities				
Receipts from customers and users	\$ 270,294	\$ 168,847	\$ 122,180	\$ 561,321
Payments to suppliers	(65,053)	(59,281)	(59,539)	(183,873)
Payments to employees	(71,070)	(47,090)	(7,282)	(125,442)
Net cash flows - operating activities	<u>134,171</u>	<u>62,476</u>	<u>55,359</u>	<u>252,006</u>
Cash Flows - Noncapital Financing Activities				
Miscellaneous revenue	64	8,915	5,508	14,487
Transfer to other funds	-	(9,500)	-	(9,500)
Net cash flows - noncapital financing activities	<u>64</u>	<u>(585)</u>	<u>5,508</u>	<u>4,987</u>
Cash Flows - Capital and Related financing activities				
Principal paid on debt	(169,000)	(52,000)	(49,000)	(270,000)
Loan repayment proceeds	73,500	-	-	73,500
Interest paid on debt	(15,659)	(14,706)	(8,112)	(38,477)
Acquisition of capital assets	(8,108)	-	-	(8,108)
Net cash flows - capital and related financing activities	<u>(119,267)</u>	<u>(66,706)</u>	<u>(57,112)</u>	<u>(243,085)</u>
Cash Flows - Investing Activities				
Interest and dividends received	<u>(2,897)</u>	<u>6,488</u>	<u>64</u>	<u>3,655</u>
Net change in cash and cash equivalents	12,071	1,673	3,819	17,563
Cash and Cash Equivalents				
Beginning of year	<u>304,753</u>	<u>332,483</u>	<u>27,948</u>	<u>665,184</u>
End of year	<u>\$ 316,824</u>	<u>\$ 334,156</u>	<u>\$ 31,767</u>	<u>\$ 682,747</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities				
Operating income (loss)	\$ 63,469	\$ (5,632)	\$ 34,735	\$ 92,572
Adjustments to reconcile operating income (loss) to net cash flows - operating activities				
Depreciation expense	47,853	59,845	19,643	127,341
Net pension liability expense	7,546	2,857	1,526	11,929
Accounts receivable	768	1,613	-	2,381
Special assessments receivable	4,260	4,914	-	9,174
Due from other governments	6,891	3,415	-	10,306
Accounts payable	2,614	(5,207)	(545)	(3,138)
Salaries payable	619	520	-	1,139
Compensated absences payable	151	151	-	302
Total adjustments	<u>70,702</u>	<u>68,108</u>	<u>20,624</u>	<u>159,434</u>
Net cash flows - operating activities	<u>\$ 134,171</u>	<u>\$ 62,476</u>	<u>\$ 55,359</u>	<u>\$ 252,006</u>

**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

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three 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.

Certain investments for the City are reported at fair value as disclosed in Note 2. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**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)

2. Loans Receivable

Loans receivable at December 31, 2016, 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 \$336,500 at December 31, 2016.

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.

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, 2016, the total liability for vacation and sick pay was \$5,908 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 for various estimate differences that will be amortized and recognized over future years.

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 for various estimate differences that will be amortized and recognized over future years.

**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)

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, deferred outflows, 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.

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

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed on the financial statements as cash and cash equivalents or investments. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below and on the following page.

A. Deposits

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. As of December 31, 2016, 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, 2016, the City had deposits as follows:

Checking	<u><u>\$ 227,225</u></u>
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**City of Eden Valley
Enterprise Funds
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2016, 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	\$ 1,365,851	\$ 297,896	\$ 135,670	\$ 654,160	\$ 278,125	N/A
Brokered money market	12,256	12,256	-	-	-	AAA
4M money market	417,358	417,358	-	-	-	N/A
Total pooled investments	1,795,465	727,510	135,670	654,160	278,125	
Capital projects non-pooled						
4M money market	27,298	27,298	-	-	-	N/A
Total	<u>\$ 1,822,763</u>	<u>\$ 754,808</u>	<u>\$ 135,670</u>	<u>\$ 654,160</u>	<u>\$ 278,125</u>	
	Maturity	Maximum Investments				
	1 Year or Less	42%				
	1-2 Years	7%				
	3-5 Years	36%				
	6-10 Years	15%				

The City has a formal deposit and investment policy to address the following risks:

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.

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 seven years.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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. The City was exposed to this risk as all 12 of the brokered certificates of deposits exceeded 5% of total investments.

The City has the following recurring fair value measurements as of December 31, 2016:

- Investments of \$1,378,107 are valued using a quoted market prices (Level 1 inputs)

C. Deposits and Investments

Total deposits and investments are as follows:

Petty cash	\$ 300
Total deposits	227,225
Total investments	<u>1,822,763</u>
 Total deposits and investments	 <u><u>\$ 2,050,288</u></u>

Deposits and investments are classified in the December 31, 2016, financial statements as follows:

Statement of balances arising from cash transactions - governmental funds	
Cash and investments	\$ 1,135,814

Statement of balances arising from cash transactions - proprietary funds	
Cash and investments - Water Fund	316,824
Cash and investments - Sewer Fund	334,156
Cash and investments - Senior Housing Fund	31,767

Statement of fiduciary net position	
Cash and investments	<u>231,727</u>
	<u><u>\$ 2,050,288</u></u>

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

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, 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	8,108	-	7,005,074
Equipment	53,004	-	-	53,004
Total capital assets being depreciated	<u>7,991,052</u>	<u>8,108</u>	<u>-</u>	<u>7,999,160</u>
Less accumulated depreciation for				
Buildings	458,445	21,665	-	480,110
Distribution systems	3,202,706	104,302	-	3,307,008
Equipment	35,157	1,374	-	36,531
Total accumulated depreciation	<u>3,696,308</u>	<u>127,341</u>	<u>-</u>	<u>3,823,649</u>
Total capital assets being depreciated, net	<u>4,294,744</u>	<u>(119,233)</u>	<u>-</u>	<u>4,175,511</u>
Capital assets, net	<u><u>\$ 4,563,548</u></u>	<u><u>\$ (119,233)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,444,315</u></u>

Depreciation expense was charged to the following funds:

Water	\$ 47,853
Sewer	59,845
Senior housing	<u>19,643</u>
Total depreciation - enterprise funds	<u><u>\$ 127,341</u></u>

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

NOTE 4 – INTERFUND BALANCES

A. Transfers

During 2016, 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, 2016.

	<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	\$ 263,000	\$ 50,000
PFA G.O. Water Revenue Note/DWRF Loan	1999	3.16%	1,881,057	2020	481,000	115,000
PFA G.O. Water Revenue Note/DWRF Loan	2000	2.32%	644,890	2021	192,000	37,000
PFA G.O. Water Revenue Note/DWRF Loan	2009	1.00%	286,461	2029	193,000	14,000
PFA G.O. Sewer Revenue Note/CWRF Loan	2009	1.74%	660,457	2029	449,000	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	151,000	8,000
PFA G.O. Sewer Revenue Note/CWRF Loan	2013	1.46%	470,625	2033	412,000	22,000
Compensated absences					<u>5,908</u>	<u>5,908</u>
Total long-term liabilities					<u>\$2,844,224</u>	<u>\$282,908</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, 2016, 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.

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, 2016.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
G.O. revenue bonds	\$ 312,000	\$ -	\$ (49,000)	\$ 263,000
PFA G.O. forgivable grant	697,316	-	-	697,316
PFA G.O. revenue notes/loans	2,099,000	-	(221,000)	1,878,000
Compensated absences	5,606	5,907	(5,605)	5,908
	<u>5,606</u>	<u>5,907</u>	<u>(5,605)</u>	<u>5,908</u>
Total long-term liabilities	<u>\$ 3,113,922</u>	<u>\$ 5,907</u>	<u>\$ (275,605)</u>	<u>\$ 2,844,224</u>

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

Year Ending December 31,	Revenue Bonds		
	Principal	Interest	Total
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>\$ 263,000</u>	<u>\$ 20,852</u>	<u>\$ 283,852</u>

Year Ending December 31,	PFA Note		
	Principal	Interest	Total
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	120,000	13,913	133,913
2022-2026	414,000	47,185	461,185
2027-2031	333,000	16,903	349,903
2032-2033	74,000	1,486	75,486
	<u>74,000</u>	<u>1,486</u>	<u>75,486</u>
Total	<u>\$ 1,878,000</u>	<u>\$ 193,732</u>	<u>\$ 2,071,732</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 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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 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.

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.

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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Enterprise Funds' contributions to the General Employees Fund for the year ended December 31, 2016, were \$5,962. The Enterprise Funds' contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the Enterprise Funds' reported a liability of \$96,261 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 Enterprise Funds' totaled \$1,281. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Enterprise Funds' proportion share was 0.00119%, which was an increase of 0.00019% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Enterprise Funds' recognized pension expense of \$14,333 for its proportionate share of General Employees Plan's pension expense. In addition, the Enterprise Funds' recognized an additional \$383 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.

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

At December 31, 2016, the Enterprise Funds' reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 7,820
Changes in actuarial assumptions	18,849	-
Difference between projected and actual investment earnings	18,271	-
Changes in proportion	3,120	3,840
Contributions paid to PERA subsequent to the measurement date	2,981	-
	<hr/>	<hr/>
Total	\$ 43,221	\$ 11,660
	<hr/>	<hr/>

\$2,981 reported as deferred outflows of resources related to pensions resulting from the 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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
	<hr/>
2017	\$ 7,383
2018	7,383
2019	10,336
2020	3,478

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and 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 the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, 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 following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

<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>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, 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 those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan 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.

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Enterprise Funds' proprionate share of the General Employees Fund net pension liability	\$ 136,720	\$ 96,261	\$ 62,935

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.

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.

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, 2016, 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.

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

NOTE 8 – 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
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0010%	\$ 52,865	\$ -	\$ -	\$ 59,467	88.90%	78.19%
2016	0.0012%	96,261	3,350	56,215	79,493	121.09%	68.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

City of Eden Valley
Schedule of Enterprise Funds' Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of
2015	\$ 4,460	\$ 4,460	\$ -	\$ 59,467	7.50%
2016	5,962	5,962	-	79,493	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Eden Valley
Enterprise Funds
Notes to Required Supplementary Information**

GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

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.

Changes in Actuarial Assumptions

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