

**CITY OF HAWLEY  
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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**CITY OF HAWLEY, MINNESOTA**  
CITY OFFICIALS  
DECEMBER 31, 2013

Mayor	Gary E. Johnson
Council Member	Stacey Riedberger
Council Member	C.J. Holl
Council Member	Ben Gunkelman
Council Member	John Young, Jr.
Clerk Treasurer	Lisa Jetvig



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Hawley, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's 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 the regulatory basis of accounting described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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 entity'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 entity'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.

## **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statements, the financial statements are prepared on the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Minnesota Statute 471.698. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Hawley, as of December 31, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

## **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of each major governmental fund and the aggregate remaining governmental fund information and the financial position of each major proprietary fund of the City of Hawley, as of December 31, 2013, and the revenues it received and expenditures it paid for each major governmental fund and the aggregate remaining governmental fund information and the respective changes in financial position and cash flows for each major proprietary fund for the year then ended on the basis of accounting described in Note 1.

## ***Other Matters***

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawley’s financial statements as a whole. The budgetary comparison schedule, combining statements and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The budgetary comparison schedule, combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical information and schedules as listed in the table of contents as other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the City of Hawley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Brady Martz*

**BRADY, MARTZ & ASSOCIATES, P. C.  
Thief River Falls, Minnesota**

March 20, 2014

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2013**

	General Fund	Cretex Industrial Park	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS				
Cash and Investments	\$ 1,965,376	\$ 164,124	\$ 1,375,846	\$ 3,505,346
Cash with Fiscal Agent			72,121	72,121
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 1,965,376</u>	<u>\$ 164,124</u>	<u>\$ 1,447,967</u>	<u>\$ 3,577,467</u>
FUND BALANCES				
Restricted for:				
Revolving Loan	\$	\$	\$ 72,121	\$ 72,121
Debt Service			1,071,407	1,071,407
Committed for:				
Seal Coat/Crack Fill	105,450			105,450
Hwy 10 31/33 Project	130,000			130,000
Plow Truck/Equipment	112,900			112,900
Street Patching	11,000			11,000
Sidewalks	10,000			10,000
Lawn Mower	7,600			7,600
BN Property			32,248	32,248
Garbage Service/Recycling			24,276	24,276
Deputy Registrar/Office			110,499	110,499
Municipal Airport			42,614	42,614
Storm Water Maint/Repairs			34,298	34,298
Building Upkeep/Repair			60,504	60,504
Assigned for:				
Capital Projects		164,124		164,124
Unassigned	<u>1,588,426</u>			<u>1,588,426</u>
TOTAL FUND BALANCES	<u>\$ 1,965,376</u>	<u>\$ 164,124</u>	<u>\$ 1,447,967</u>	<u>\$ 3,577,467</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Cretex Industrial Park	Other Governmental Funds	Total Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$ 457,379	\$	\$ 12,551	\$ 469,930
Special Assessments	15,501		716,402	731,903
Licenses and Permits	19,170			19,170
Intergovernmental	594,991	357,644	50,060	1,002,695
Charges for Services	22,861		392,453	415,314
Fines and Forfeitures	21,867			21,867
Investment Earnings	2,945	62	2,897	5,904
Miscellaneous	28,494	42,046	124,634	195,174
<b>TOTAL RECEIPTS</b>	<b>1,163,208</b>	<b>399,752</b>	<b>1,298,997</b>	<b>2,861,957</b>
<b>DISBURSEMENTS</b>				
Current				
General Government	207,085		71,974	279,059
Public Safety	419,166			419,166
Streets and Highways	158,763			158,763
Sanitation			195,544	195,544
Culture and Recreation	87,250			87,250
Conservation of Natural Resources	22,821			22,821
Economic Development	60,700		29,288	89,988
Airport			112,092	112,092
Debt Services				
Principal	17,922		581,000	598,922
Interest and Other Charges	1,130		158,785	159,915
Capital Outlay				
General Government	822,256		112,485	934,741
Public Safety	132,438			132,438
Streets and Highways	150,643	1,167,251		1,317,894
Culture and Recreation	2,337			2,337
<b>TOTAL DISBURSEMENTS</b>	<b>2,082,511</b>	<b>1,167,251</b>	<b>1,261,168</b>	<b>4,510,930</b>
Receipts Over (Under) Disbursements	(919,303)	(767,499)	37,829	(1,648,973)
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued	671,165	908,244	83,014	1,662,423
Bond Premium	16,246	23,379		39,625
Transfer In	264,680		208,700	473,380
Transfer Out			(88,000)	(88,000)
Transfer In - Interfund Loan			5,295	5,295
Transfer Out - Interfund Loan	(13,118)		(63,975)	(77,093)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>938,973</b>	<b>931,623</b>	<b>145,034</b>	<b>2,015,630</b>
Net Change in Fund Balances	19,670	164,124	182,863	366,657
Fund Balances - Beginning	1,945,706		1,265,104	3,210,810
Fund Balances - Ending	<u>\$ 1,965,376</u>	<u>\$ 164,124</u>	<u>\$ 1,447,967</u>	<u>\$ 3,577,467</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2013**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
<b>ASSETS</b>						
Current Assets						
Cash and Investments	\$ 56,131	\$ 416,594	\$ 554,423	\$ 200,616	\$	\$ 1,227,764
Accounts Receivable, Net	25,082	22,348	281,314	124,748		453,492
Due From Other Funds			62,835			62,835
Inventory			133,024		156,430	289,454
Total Current Assets	<u>81,213</u>	<u>438,942</u>	<u>1,031,596</u>	<u>325,364</u>	<u>156,430</u>	<u>2,033,545</u>
Capital Assets						
Land			22,241		55,000	77,241
Building	16,273		234,925	71,094	436,676	758,968
Improvements Other Than Building	4,669,163	4,530,374	2,143,598	1,096,180		12,439,315
Equipment	9,760		245,555	21,663	89,371	366,349
Less: Accumulated Depreciation	<u>(1,874,248)</u>	<u>(2,205,715)</u>	<u>(1,548,884)</u>	<u>(516,592)</u>	<u>(84,521)</u>	<u>(6,229,960)</u>
Net Capital Assets	<u>2,820,948</u>	<u>2,324,659</u>	<u>1,097,435</u>	<u>672,345</u>	<u>496,526</u>	<u>7,411,913</u>
Other Assets						
Cash-Restricted for Debt		75,319			44,416	119,735
Cash-Restricted for Lottery					4,239	4,239
Advance to Other Funds			380,492			380,492
Total Other Assets		<u>75,319</u>	<u>380,492</u>		<u>48,655</u>	<u>504,466</u>
<b>TOTAL ASSETS</b>	<u>2,902,161</u>	<u>2,838,920</u>	<u>2,509,523</u>	<u>997,709</u>	<u>701,611</u>	<u>9,949,924</u>
<b>LIABILITIES</b>						
Current Liabilities						
Accounts Payable	1,597	620	228,807	67,033		298,057
Salary Payable	438	460	1,555	915	805	4,173
Due to Other Funds					62,835	62,835
Due to Other Governmental Units	4,722		5,087		4,239	14,048
Customer Deposits			27,040			27,040
Unearned Revenue			52,061			52,061
Interest Payable	3,836	490		3,182	7,625	15,133
Compensated Absences	8,461	8,199	23,521	15,882	9,257	65,320
Current Portion - Long Term Liabilities	<u>72,000</u>	<u>65,000</u>		<u>25,000</u>	<u>20,000</u>	<u>182,000</u>
Total Current Liabilities	<u>91,054</u>	<u>74,769</u>	<u>338,071</u>	<u>112,012</u>	<u>104,761</u>	<u>720,667</u>
Long-Term Liabilities						
Advance from Other Funds	91,731				92,009	183,740
Bonds Payable	512,000	200,000		232,000	375,000	1,319,000
Less: Current Portion - Long Term Debt	<u>(72,000)</u>	<u>(65,000)</u>		<u>(25,000)</u>	<u>(20,000)</u>	<u>(182,000)</u>
Total Long-Term Liabilities	<u>531,731</u>	<u>135,000</u>		<u>207,000</u>	<u>447,009</u>	<u>1,320,740</u>
<b>TOTAL LIABILITIES</b>	<u>622,785</u>	<u>209,769</u>	<u>338,071</u>	<u>319,012</u>	<u>551,770</u>	<u>2,041,407</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	2,308,948	2,124,657	1,097,435	440,345	121,526	6,092,911
Restricted for Debt Service		75,319			44,416	119,735
Unrestricted	<u>(29,572)</u>	<u>429,175</u>	<u>1,074,017</u>	<u>238,352</u>	<u>(16,101)</u>	<u>1,695,871</u>
<b>TOTAL NET POSITION</b>	<u>\$ 2,279,376</u>	<u>\$ 2,629,151</u>	<u>\$ 2,171,452</u>	<u>\$ 678,697</u>	<u>\$ 149,841</u>	<u>\$ 7,908,517</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 941,068	\$ 941,068
Cost of Sales					(703,553)	(703,553)
Gross Profit					237,515	237,515
Charges for Sales and Services	325,682	265,451	2,231,995	751,623		3,574,751
Less Dual Fuel Rebates			(72,022)			(72,022)
Other Charges and Income	2,772	16,086	47,018	3,518	1,920	71,314
Total Operating Revenue	<u>328,454</u>	<u>281,537</u>	<u>2,206,991</u>	<u>755,141</u>	<u>239,435</u>	<u>3,811,558</u>
Operating Expenses						
Purchased Power and Gas			1,508,215	369,056		1,877,271
Salaries and Wages	55,241	59,683	224,415	125,625	88,248	553,212
Employee Benefits	17,285	15,528	66,351	36,996	20,541	156,701
Repairs and Maintenance	8,511	620	29,063	21,376	1,448	61,018
Chemicals	4,023	8,743				12,766
Utilities	25,196	3,306	11,286	4,804	12,908	57,500
Insurance	4,338	4,039	6,465	4,045	5,562	24,449
Professional Fees	1,238	15,499	52,742	24,300	5,972	99,751
Supplies	2,339	215	19,913	10,405	6,426	39,298
Other Expenses	4,931	9,695	96,746	17,227	25,533	154,132
Depreciation	148,435	167,400	69,174	26,188	14,310	425,507
Total Operating Expenses	<u>271,537</u>	<u>284,728</u>	<u>2,084,370</u>	<u>640,022</u>	<u>180,948</u>	<u>3,461,605</u>
Operating Income (Loss)	56,917	(3,191)	122,621	115,119	58,487	349,953
Nonoperating Income (Expense)						
Investment Earnings	120	765	15,063	567	59	16,574
Interest Expense	(17,806)	(7,425)		(10,187)	(27,282)	(62,700)
Gain on Disposal of Capital Asset			6,000			6,000
Total Nonoperating Income (Expense)	<u>(17,686)</u>	<u>(6,660)</u>	<u>21,063</u>	<u>(9,620)</u>	<u>(27,223)</u>	<u>(40,126)</u>
Net Income (Loss) Before Contributions and Transfers	39,231	(9,851)	143,684	105,499	31,264	309,827
Capital Contributions	173,988	40,118				214,106
Transfers In			22,178			22,178
Transfers Out	(98,000)	(87,700)	(141,625)	(75,233)	(5,000)	(407,558)
Change in Net Position	115,219	(57,433)	24,237	30,266	26,264	138,553
Net Position, Beginning	<u>2,164,157</u>	<u>2,686,584</u>	<u>2,147,215</u>	<u>648,431</u>	<u>123,577</u>	<u>7,769,964</u>
Net Position, Ending	<u>\$ 2,279,376</u>	<u>\$ 2,629,151</u>	<u>\$ 2,171,452</u>	<u>\$ 678,697</u>	<u>\$ 149,841</u>	<u>\$ 7,908,517</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Water	Sewer	Electric	Gas	Liquor	Total
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 328,227	\$ 281,734	\$ 2,176,404	\$ 716,403	\$ 947,227	\$ 4,449,995
Payments to Suppliers	(52,527)	(41,986)	(1,663,573)	(437,112)	(770,057)	(2,965,255)
Payments to Employees	(71,771)	(72,847)	(286,529)	(159,499)	(107,088)	(697,734)
Net Cash Provided By Operating Activities	203,929	166,901	226,302	119,792	70,082	787,006
Cash Flows From Noncapital Financing Activities:						
Due from Other Funds			(16,835)			(16,835)
Due from Hawley Area Fire District		17,096				17,096
Due to Other Funds					16,835	16,835
Transfers to Other Funds	(98,000)	(87,700)	(141,625)	(53,055)	(5,000)	(385,380)
Advance to Other Funds			84,665			84,665
Net Cash Provided (Used) By Noncapital Financing Activities	(98,000)	(70,604)	(73,795)	(53,055)	11,835	(283,619)
Cash Flows From Capital and Related Financing Activities:						
Purchase of Capital Assets			(436,593)	(99,058)	(32,957)	(568,608)
Transfers from Other Funds			22,178			22,178
Transfers to Other Funds				(22,178)		(22,178)
Advance from Other Funds	(17,809)				(2,117)	(19,926)
Principal Paid on Debt	(70,000)	(65,000)		(24,000)	(15,000)	(174,000)
Interest Paid on Debt	(18,237)	(7,565)		(10,507)	(27,603)	(63,912)
Net Cash Used By Capital and Related Financing Activities	(106,046)	(72,565)	(414,415)	(155,743)	(77,677)	(826,446)
Cash Flows From Investing Activities:						
Investment Earnings	122	764	15,062	567	58	16,573
Net Cash Provided By Investing Activities	122	764	15,062	567	58	16,573
Net Increase (Decrease) In Cash and Cash Equivalents	5	24,496	(246,846)	(88,439)	4,298	(306,486)
Cash and Cash Equivalents - Beginning of Year	56,126	467,417	801,269	289,055	44,357	1,658,224
Cash and Cash Equivalents - End of Year	\$ 56,131	\$ 491,913	\$ 554,423	\$ 200,616	\$ 48,655	\$ 1,351,738

cont.

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS – CONTINUED**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating Income (Loss)	\$ 56,917	\$ (3,191)	\$ 122,621	\$ 115,119	\$ 58,487	\$ 349,953
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	148,435	167,400	69,174	26,188	14,310	425,507
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	(565)	197	(85,192)	(38,738)		(124,298)
Inventory			(31,219)		(7,946)	(39,165)
Accounts Payable	(1,951)	131	92,076	14,101	(709)	103,648
Salary Payable	232	249	757	440	226	1,904
Due to Other Governments	338		1,049		4,239	5,626
Customer Deposits			1,495			1,495
Unearned Revenue			52,061			52,061
Compensated Absences	523	2,115	3,480	2,682	1,475	10,275
Total Adjustments	<u>147,012</u>	<u>170,092</u>	<u>103,681</u>	<u>4,673</u>	<u>11,595</u>	<u>437,053</u>
Net Cash Provided by Operating Activities	<u>\$ 203,929</u>	<u>\$ 166,901</u>	<u>\$ 226,302</u>	<u>\$ 119,792</u>	<u>\$ 70,082</u>	<u>\$ 787,006</u>
Noncash Capital and Related Financing						
Acquisition of Capital Asset from						
Capital Contribution	\$ 173,988	\$ 40,118		\$		\$ 214,106
Gain on Trade of Capital Asset			6,000			6,000

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AGENCY FUNDS**  
**DECEMBER 31, 2013**

	<u>Agency</u>
ASSETS	
Cash and Investments	\$ <u>150</u>
TOTAL ASSETS	<u>150</u>
LIABILITIES	
Due to Other Governments	<u>150</u>
TOTAL LIABILITIES	<u>150</u>
NET POSITION	\$ <u><u>          </u></u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hawley was incorporated in 1884 and became a statutory city in 1910. The City operates under the council form of government.

**A. Reporting Entity**

The City's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the City is considered financially accountable.

Component units are legally separated entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the City.

The Economic Development Authority operates under the authority and direction of the city council and is included herein as blended component unit.

**B. Fund Financial Statements**

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The financial statements of the City of Hawley have been prepared in conformity with the regulatory basis of accounting of the State of Minnesota. This basis differs from accounting principles generally accepted in the United States of America primarily because the governmental funds are presented on a cash basis of accounting. In addition, the regulatory basis of accounting does not require the presentation of the Management Discussion and Analysis or the government-wide financial statements (Statement of Net Cash Assets and the Statement of Activities).

Governmental fund financial statements are reported using the current financial resources measurement focus and the cash basis of accounting. Revenues are recognized when cash is received, and expenditures are recorded at the time of disbursement.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the proprietary funds, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. The agency funds have no measurement focus but utilize the cash basis of accounting for reporting their assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2013

or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Nonoperating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

**Major Governmental Funds**

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds.

Capital Project Fund – Cretex Industrial Park– Accounts for the capital outlays related to the 2013 street improvement project at the Cretex Industrial Park.

**Major Proprietary Funds**

Water Fund – Accounts for the activities to operate the City's water fund.

Sewer Fund – Accounts for the activities to operate the City's sewer fund.

Electric Fund – Accounts for the activities to operate the City's electric fund.

Gas Fund – Accounts for the activities to operate the City's gas fund.

Liquor Fund – Accounts for the operations of the municipal owned off-sale liquor store.

Additionally, the City reports the following fund type:

Agency Funds – Agency Funds are used to account for assets held by the City as agent for other governmental units. The City has two agency funds, the Hawley Area Fire District – Joint Powers and Hawley Area Emergency Response District – Joint Powers.

**D. Specific Account Information**

Cash and Cash Equivalents – The City considers cash equivalents to be certificates of deposits, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

Cash with Fiscal Agent – The cash held with fiscal agent in the revolving fund consists of cash held by the West Central Minnesota Initiative Fund for the purpose of revolving loan funds.

Restricted Cash – Certain resources must be set aside because their use is limited by applicable loan and grant covenants.

Inventories – Inventories of the electric fund are valued at the lower of cost or market and expensed as the supplies and materials are consumed. Inventories of the liquor fund are valued using an average cost basis, and are recorded as expenditures when sold.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the City at periodic intervals as the taxes are collected.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Special Assessments – Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years or the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties. Special assessments are generally collected by the county and remitted to the City at the same time property tax settlements are made.

Accounts Receivable – Receivables are carried at invoice amount; no allowance for uncollectible amounts is recorded. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding at the end of the month.

Capital Assets – Governmental Funds – Capital assets are not capitalized in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds.

Capital Assets – Proprietary Funds – Capital assets are recorded in the proprietary funds only. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 40 years for plant and equipment.

Capital assets not being depreciated include land and construction in progress, if any.

Long-term Obligations – In the proprietary fund types, long-term obligations are reported as liabilities in the applicable proprietary fund. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

The governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Unearned Revenue – The City defers revenue recognition in connection with resources that have been received, but not yet earned.

Sales Tax – Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2013

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2013, a liability for unpaid vacation has been set up for the proprietary fund employees and is included in compensated absences.

Unused sick leave may be accumulated to a maximum of 120 days. Upon termination, one fourth of the unused accumulated sick leave will be paid to the employee. As of December 31, 2013, a liability for unused sick leave has been set up for the proprietary fund employees and is included in the compensated absences.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance – The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

*Nonspendable* - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

*Assigned* - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council also delegates the power to assign fund balances to the Government Service Committee.

*Unassigned* – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The City will strive to maintain a minimum unassigned general fund balance of six months of operating expenses.

#### **E. Use of Estimates**

The preparation of financial statements in conformity with the regulatory basis of accounting 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

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

of revenues and expenses in the proprietary fund during the reporting period. Ultimate results could differ from those estimates.

**NOTE 2 BUDGETARY DATA**

Annual budgets are adopted for the general fund on a cash basis. Budgetary comparisons presented in this report are on this budgetary basis.

Appropriations are authorized by the city council at the fund level, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. All unexpended appropriations lapse at year-end.

Any changes in the total budget of each fund must be approved by a majority vote of the city council.

**NOTE 3 DEPOSITS AND INVESTMENTS**

The City maintains a cash account at its depository bank. Investments are carried at fair value. The City considers certificates of deposit to be cash. The City's interest income for the year ended December 31, 2013, was \$22,480. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 3,505,346
Proprietary Funds	1,351,738
Fiduciary Funds	150
	<u>\$ 4,857,234</u>
Deposits	
Cash, Checking and Change Funds	\$ 63,370
Certificates of Deposits	680,973
Savings	3,180,260
Investments	932,631
	<u>\$ 4,857,234</u>

As of December 31, 2013, the City had the following investments:

Investments	Maturities	Fair Value
4-M External Investment Pool		\$ 932,631

The 4M Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pools shares.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City’s city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2013, the City was not exposed to custodial credit risk.

Custodial Credit Risk – Investments - The investment in the 4-M Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

**NOTE 4 RESTRICTED CASH**

The City of Hawley is required to set aside funds each year per an agreement with Minnesota Public Facilities Authority and the WIF grant for a wastewater treatment project. The following summarized the activity in this savings account.

	Capital Replacement Account
Balance, Beginning of Year	\$ 70,100
Additions	
Flow payment	5,126
Interest	93
Balance, End of Year	\$ 75,319

The liquor fund is required to have a reserve account of \$44,416 to secure bond payments and this amount must be held in reserve as long as the bonds remain outstanding.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Proprietary Fund				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,241	\$	\$	\$ 77,241
Capital Assets, Being Depreciated:				
Building	758,968			758,968
Improvements Other Than Buildings	11,746,736	692,579		12,439,315
Equipment	<u>296,016</u>	<u>96,135</u>	<u>(25,802)</u>	<u>366,349</u>
Total Capital Assets, Being Depreciated	<u>12,801,720</u>	<u>788,714</u>	<u>(25,802)</u>	<u>13,564,632</u>
Less Accumulated Depreciation for:				
Building	145,509	18,900		164,409
Improvements Other Than Buildings	5,517,597	385,531		5,903,128
Equipment	<u>167,149</u>	<u>21,076</u>	<u>(25,802)</u>	<u>162,423</u>
Total Accumulated Depreciation	<u>5,830,255</u>	<u>425,507</u>	<u>(25,802)</u>	<u>6,229,960</u>
Total Capital Assets, Being Depreciated, Net	<u>6,971,465</u>	<u>363,207</u>		<u>7,334,672</u>
Proprietary Fund Capital Assets, Net	<u>\$ 7,048,706</u>	<u>\$ 363,207</u>	<u>\$</u>	<u>\$ 7,411,913</u>

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 148,435
Sewer	167,400
Electric	69,174
Gas	26,188
Liquor	<u>14,310</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 425,507</u>

**NOTE 6 DEFINED BENEFIT PENSION PLANS-STATEWIDE**

**A. Plan Description**

All full-time and certain part-time employees of the City of Hawley are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are a cost-sharing, multiple-employer retirement plan. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org) or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

## **B. Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. The City of Hawley is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members, and 14.4% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$54,118, \$53,070, and \$49,088, respectively. The City's contributions to the Public Employees

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$17,146, \$23,847, and \$23,852, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 7 LEASE AGREEMENTS**

The City financed construction of a medical facility in 1982. The facility is leased to Sanford Health. Monthly lease payments of \$2,575 to the City are made by the organization. The lease is through March 31, 2022.

**NOTE 8 CAPITAL LEASE**

The City entered into a lease agreement as lessee for financing the acquisition of two police vehicles. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The vehicles being acquired through capital lease are for the governmental funds and the cost is \$63,401.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31, 2013	Governmental Fund
2014	\$ 19,052
2015	9,821
2016	9,821
Total minimum lease payments	38,694
Less: amount representing interest	(2,445)
Present value of minimum lease payments	\$ 36,249

**NOTE 9 LONG-TERM LIABILITIES**

**A. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$4,941,000. During the year, general obligation improvement bonds totaling \$1,625,000 were issued to finance an improvement project.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The general obligations issued for general government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	2.0 - 4.7%	2014/26	\$ 3,934,000
Governmental Fund - Refunding	2.0 - 3.3%	2014/21	1,080,000
Proprietary Fund - Refunding	1.90%	2014/18	193,000
Total			\$ 5,207,000

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Fund		Proprietary Fund	
	Principal	Interest	Principal	Interest
2014	\$ 445,000	\$ 165,096	\$ 37,000	\$ 3,667
2015	565,000	139,178	38,000	2,964
2016	595,000	126,409	39,000	2,242
2017	592,000	109,087	39,000	1,501
2018	569,000	90,880	40,000	760
2019-2023	2,013,000	204,453		
2023-2026	235,000	15,438		
	<u>\$ 5,014,000</u>	<u>\$ 850,541</u>	<u>\$ 193,000</u>	<u>\$ 11,134</u>

**B. General Obligation Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$5,408,601. General obligation revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	1.1 - 2.3%	2014/27	\$ 2,624,000
Proprietary Fund - Refunding	2.6 - 3.1%	2014/16	200,000
Proprietary Fund	3.3 - 4.5%	2014/21	551,000
			<u>\$ 3,375,000</u>

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Governmental Fund		Proprietary Fund	
	Principal	Interest	Principal	Interest
2014	\$ 199,000	\$ 37,911	\$ 125,000	\$ 26,011
2015	203,000	35,059	128,000	22,124
2016	206,000	32,137	135,000	17,782
2017	208,000	29,174	67,000	13,183
2018	211,000	26,178	69,000	10,647
2019-2023	1,099,000	84,520	227,000	15,413
2024-2027	498,000	12,240		
	<u>\$ 2,624,000</u>	<u>\$ 257,219</u>	<u>\$ 751,000</u>	<u>\$ 105,160</u>

**C. Revenue Bonds**

The City also issues bonds where the City pledge income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$435,000. Revenue bonds outstanding at the year-end are as follows:

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

Purpose	Interest Rates	Maturity Dates	Amount
Proprietary Fund	5.5 - 6.5%	2014/27	\$ 375,000

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Proprietary Fund	
	Principal	Interest
2014	\$ 20,000	\$ 22,876
2015	20,000	21,776
2016	20,000	20,626
2017	20,000	19,426
2018	20,000	18,226
2019-2023	135,000	68,165
2024-2027	140,000	19,176
	<u>\$ 375,000</u>	<u>\$ 190,271</u>

**D. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Fund</b>					
General Obligation Bonds	\$ 3,774,000	\$ 1,625,000	\$ 385,000	\$ 5,014,000	\$ 445,000
General Obligation Revenue Bonds	2,820,000		196,000	2,624,000	199,000
Capital Lease	16,748	37,422	17,921	36,249	17,548
Governmental Fund Long-Term Liabilities	<u>6,610,748</u>	<u>1,662,422</u>	<u>598,921</u>	<u>7,674,249</u>	<u>661,548</u>
<b>Proprietary Fund</b>					
General Obligation Bonds	229,000		36,000	193,000	37,000
General Obligation Revenue Bonds	874,000		123,000	751,000	125,000
Revenue Bonds	390,000		15,000	375,000	20,000
Proprietary Fund Long-Term Liabilities	<u>1,493,000</u>		<u>174,000</u>	<u>1,319,000</u>	<u>182,000</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 8,103,748</u>	<u>\$ 1,662,422</u>	<u>\$ 772,921</u>	<u>\$ 8,993,249</u>	<u>\$ 843,548</u>

The City's interest expense for the year ended December 31, 2013, was \$222,615.

See the Schedule of Indebtedness for detail and payment provisions.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

**NOTE 10 CONDUIT DEBT (NO COMMITMENT DEBT)**

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a corporation for the construction of a facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of December 31, 2013, the aggregate principal amount payable of the one series issued was \$10,000,000. The original issue amount totaled \$10,000,000.

**NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2013, is as follows:

Due To / From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Liquor	\$ 62,835
General	Nonmajor Governmental	7,851
		<u>\$ 70,686</u>

The purpose of the interfund loan is to cover the cash shortage.

Advance From / To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Nonmajor Governmental	\$ 196,752
Electric	Liquor	92,009
Electric	Water	91,731
Total		<u>\$ 380,492</u>

Based on the amortization schedules, \$47,867 will be paid in 2014.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor	\$ 5,000
General	Sewer	45,000
General	Electric	141,625
General	Gas	53,055
General	Nonmajor Governmental	20,000
Electric	Gas	22,178
Nonmajor Governmental	Nonmajor Governmental	68,000
Nonmajor Governmental	Water	98,000
Nonmajor Governmental	Sewer	42,700
		<u>\$ 495,558</u>

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and 2) move unrestricted revenues to finance various programs that the government must account for in other funds.

**NOTE 12 JOINT POWERS AGREEMENT**

**A. Hawley Area Fire District – Joint Powers**

In June of 1998, the City of Hawley, Minnesota, Cromwell Township, Highland Grove Township, Hawley Township, Eglon Township, Skree Township and Parke Township entered into a joint powers agreement to provide fire services, personnel, facilities and apparatus for the residents and property located within the governmental unit boundaries of the named entities. The goal was to reduce the financial burden to the respective townships through the sharing of facilities, equipment and manpower. The City has agreed to advance funds as necessary to keep and maintain in good order the fire fighting apparatus, equipment and vehicles, and for general operating expenses. However, budgeted contributions from the participating entities have been adequate to fund the operations.

Each entity will contribute to the joint operations in the following percentages:

City of Hawley	50%
Six Townships	50%

The participating government agencies are responsible for determining the allocation of cost responsibilities. The agreement calls for the City of Hawley to act as the fiscal agent and to maintain the funds in a separate fund. A new joint powers agreement was signed in March 2007 and it calls for the duration of the contract to be perpetual.

**B. Hawley Area Emergency Response District – Joint Powers**

In June of 1994, the City of Hawley, Minnesota, Cromwell Township, Highland Grove Township, Hawley Township, Eglon Township, Skree Township and Parke Township entered into a joint powers agreement to provide First Responder services for the residents located within the governmental unit boundaries of the named entities. The goal was to reduce the financial burden to the respective townships through the sharing of facilities, equipment and manpower. The City has agreed to advance funds as necessary to carry out the purpose of the agreement. However, budgeted contributions from the participating entities have been adequate to fund the operations.

Each entity will contribute to the joint operations in the following percentages:

City of Hawley	66.66%
Six Townships	33.34%

The participating government agencies are responsible for determining the allocation of cost responsibilities. The agreement calls for the City of Hawley to act as the fiscal agent and to maintain the funds in a separate fund. The joint powers agreement will be in effect until terminated by action of all its members. Any entity may elect to withdraw from participation upon giving a one-year written notice. The agreement was updated in March of 2007 to clarify roles and ensure compliance with laws. The new agreement will be in effect until terminated by affirmative vote of a two-thirds majority of the members, and the contract will be reviewed every five years to assure compliance with law changes. The district changed to a contract with a service provider effective January 1, 2009. The amount of contract in 2013 was \$47,500.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2013**

**NOTE 13 CONTINGENCIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 14 COMMITTED CONTRACTS**

The City entered into several agreements in 2011 with Constellation Energy for its natural gas requirements. As of August 13, 2013, the City has contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$3.7600 per MMBtu which expires on August 31, 2014. The remaining gas requirement of 34% will be purchased in the Managed Procurement Fund.

Effective March 1, 2008, the City entered into a Joint Gas Purchase Contract with Municipal Gas Acquisition and Supply Corporation to purchase natural gas at prices substantially below prevailing market prices. The term of the contract extends to December 31, 2017, and renews annually until 2046 unless terminated by either party. In exchange for a long-term commitment to purchase natural gas, the City receives a discount on all purchases.

At December 31, 2013, the City had a \$185,000 commitment for an uncompleted construction contract for the Cretex industrial park project.

**NOTE 15 IN-KIND PAYMENTS**

The electric fund provides street lighting for the City of Hawley at no charge. The total in-kind payment to the City of Hawley for the year ended December 31, 2013 was \$34,117.

**NOTE 16 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; natural disasters; and workers; compensation for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage in fiscal 2013.

**NOTE 17 NEW PRONOUNCEMENTS**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect this Statement will have on the City's financial statements.

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	2013				2012 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
<b>RECEIPTS</b>					
Property Taxes	\$ 400,820	\$ 400,820	\$ 417,174	\$ 16,354	366,913
Property Taxes -					
Tax Increment Financing	36,000	36,000	40,205	4,205	41,119
Special Assessments		6,000	15,501	9,501	7,561
Licenses and Permits	13,700	13,700	19,170	5,470	14,565
<b>Intergovernmental</b>					
Federal					39,311
State					
Local Government Aid	538,040	538,040	538,040		538,040
Market Value Credit			8	8	
Fire State Aid	15,000	23,883	23,883		15,953
Police State Aid	15,000	20,508	20,509	1	18,339
PERA	2,402	2,402	2,402		2,402
Other State Aid	900	900	684	(216)	2,325
Local - County	10,200	10,200	9,465	(735)	9,856
Total Intergovernmental	<u>581,542</u>	<u>595,933</u>	<u>594,991</u>	<u>(942)</u>	<u>626,226</u>
<b>Charges for Services</b>					
Franchise Fee - Cable	8,000	8,000	9,545	1,545	8,963
Street Charges and Sales	1,000	1,000	5,816	4,816	7,189
Airport	7,500	7,500	7,500		6,600
Total Charges for Services	<u>16,500</u>	<u>16,500</u>	<u>22,861</u>	<u>6,361</u>	<u>22,752</u>
<b>Fines and Forfeitures</b>	35,000	25,000	21,867	(3,133)	48,678
<b>Investment Earnings</b>	5,000	5,000	2,945	(2,055)	3,429
<b>Miscellaneous</b>					
Rents	6,801	8,301	9,272	971	11,518
Donations			6,105	6,105	5,150
Insurance Proceeds	1,000	3,270	8,582	5,312	12,110
Other Receipts	3,900	3,900	4,535	635	8,439
<b>TOTAL RECEIPTS</b>	<u>1,100,263</u>	<u>1,114,424</u>	<u>1,163,208</u>	<u>48,784</u>	<u>1,168,460</u>
<b>DISBURSEMENTS</b>					
<b>General Government</b>					
Current					
City Council	60,682	60,682	62,637	1,955	60,487
Election					1,933
Finance	45,136	45,136	45,355	219	44,307
Assessor	3,500	3,500	3,446	(54)	3,446
Legal	24,000	24,000	20,240	(3,760)	19,769
Other General Government	91,436	91,436	75,407	(16,029)	74,936
Capital Outlay	177,300	964,288	822,256	(142,032)	160,628
Total General Government	<u>402,054</u>	<u>1,189,042</u>	<u>1,029,341</u>	<u>(159,701)</u>	<u>365,506</u>
<b>Public Safety</b>					
Current					
Police Protection	343,435	342,865	315,653	(27,212)	344,731
Fire Relief	15,000	23,883	23,883		15,953
Fire Joint Powers District	49,000	49,000	46,521	(2,479)	52,125

cont.

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	2013				2012 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	32,662	32,662	32,662		32,662
Animal Control	700	700	447	(253)	462
Capital Outlay	15,231	105,231	132,438	27,207	42,949
Total Public Safety	<u>456,028</u>	<u>554,341</u>	<u>551,604</u>	<u>(2,737)</u>	<u>488,882</u>
Streets and Highways					
Current					
Street Maintenance	45,928	165,928	158,763	(7,165)	171,789
Snow Removal	4,000	4,000		(4,000)	
Capital Outlay	205,000	263,575	150,643	(112,932)	12,358
Total Streets and Highways	<u>254,928</u>	<u>433,503</u>	<u>309,406</u>	<u>(124,097)</u>	<u>184,147</u>
Culture and Recreation					
Current					
Community Building	22,511	22,511	14,635	(7,876)	13,044
Parks	71,414	71,414	62,644	(8,770)	63,098
Library	11,990	11,990	9,971	(2,019)	8,434
Capital Outlay	41,000	41,000	2,337	(38,663)	72,938
Total Culture and Recreation	<u>146,915</u>	<u>146,915</u>	<u>89,587</u>	<u>(57,328)</u>	<u>157,514</u>
Conservation of Natural Resources					
Vector Control	22,500	22,500	19,054	(3,446)	10,250
Forestry Shade Tree	5,800	5,800	3,767	(2,033)	3,098
Total Conservation of Natural Resources	<u>28,300</u>	<u>28,300</u>	<u>22,821</u>	<u>(5,479)</u>	<u>13,348</u>
Economic Development - Current	65,000	65,000	60,700	(4,300)	65,340
Debt Service					
Principal			17,922	17,922	9,231
Interest			1,130	1,130	
Total Debt Service			<u>19,052</u>	<u>19,052</u>	<u>9,231</u>
TOTAL DISBURSEMENTS	<u>1,353,225</u>	<u>2,417,101</u>	<u>2,082,511</u>	<u>(334,590)</u>	<u>1,283,968</u>
Receipts Over (Under) Disbursements	(252,962)	(1,302,677)	(919,303)	383,374	(115,508)
OTHER FINANCING SOURCES (USES)					
Debt Issued		649,988	671,165	21,177	25,979
Bond Premium			16,246	16,246	
Transfer In	255,000	255,000	264,680	9,680	240,633
Transfer Out - Interfund Loan			(13,118)	(13,118)	(27,977)
TOTAL OTHER FINANCING SOURCES (USES)	<u>255,000</u>	<u>904,988</u>	<u>938,973</u>	<u>33,985</u>	<u>238,635</u>
Net Change in Fund Balances	2,038	(397,689)	19,670	417,359	123,127
Fund Balances - Beginning	1,945,706	1,945,706	1,945,706		1,822,579
Fund Balances - Ending	<u>\$ 1,947,744</u>	<u>\$ 1,548,017</u>	<u>\$ 1,965,376</u>	<u>\$ 417,359</u>	<u>1,945,706</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2013**

Exhibit A-1

	Special Revenue <u>Exhibit B-1</u>	Debt Service <u>Exhibit B-3</u>	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 304,439	\$ 1,071,407	\$ 1,375,846
Cash with Fiscal Agent	<u>72,121</u>		<u>72,121</u>
<b>TOTAL ASSETS</b>	<u>\$ 376,560</u>	<u>\$ 1,071,407</u>	<u>\$ 1,447,967</u>
<b>FUND BALANCES</b>			
Restricted for:			
Revolving Loan	\$ 72,121		\$ 72,121
Debt Service		1,071,407	1,071,407
Committed for:			
BN Property	32,248		32,248
Garbage Service/Recycling	24,276		24,276
Deputy Registrar/Office	110,499		110,499
Municipal Airport	42,614		42,614
Storm Water Maint/Repairs	34,298		34,298
Building Upkeep/Repair	<u>60,504</u>		<u>60,504</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 376,560</u>	<u>\$ 1,071,407</u>	<u>\$ 1,447,967</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit A-2

	<u>Special Revenue Exhibit B-2</u>	<u>Debt Service Exhibit B-4</u>	<u>Capital Project Exhibit B-5</u>	<u>Total Nonmajor Governmental Funds</u>
<b>RECEIPTS</b>				
Property Taxes	\$	\$ 12,551	\$	\$ 12,551
Special Assessments		706,911	9,491	716,402
Intergovernmental	50,060			50,060
Charges for Services	392,453			392,453
Investment Earnings	1,639	1,237	21	2,897
Miscellaneous				
Rent	84,621			84,621
Other Receipts	40,013			40,013
<b>TOTAL RECEIPTS</b>	<u>568,786</u>	<u>720,699</u>	<u>9,512</u>	<u>1,298,997</u>
<b>DISBURSEMENTS</b>				
Current				
General Government	71,974			71,974
Sanitation	195,544			195,544
Economic Development	29,288			29,288
Airport	112,092			112,092
Debt Service				
Principal		581,000		581,000
Interest and Other Charges		158,785		158,785
Capital Outlay				
General Government	112,485			112,485
<b>TOTAL DISBURSEMENTS</b>	<u>521,383</u>	<u>739,785</u>		<u>1,261,168</u>
Receipts Over (Under) Disbursements	47,403	(19,086)	9,512	37,829
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued		83,014		83,014
Transfer In		208,700		208,700
Transfer Out	(88,000)			(88,000)
Transfer In - Interfund Loan	5,295			5,295
Transfer Out - Interfund Loan	(33,106)		(30,869)	(63,975)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(115,811)</u>	<u>291,714</u>	<u>(30,869)</u>	<u>145,034</u>
Net Change in Fund Balances	(68,408)	272,628	(21,357)	182,863
Fund Balances - Beginning	444,968	798,779	21,357	1,265,104
Fund Balances - Ending	<u>\$ 376,560</u>	<u>\$ 1,071,407</u>	<u>\$</u>	<u>\$ 1,447,967</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2013**

Exhibit B-1

	Nonmajor Funds						Total Special Revenue Exhibit A-1	
	Revolving Loan	Economic Development	Garbage	Deputy Registrar	Storm Water	Airport		Clinic
<b>ASSETS</b>								
Cash and Investments	\$	\$ 32,248	\$ 24,276	\$ 110,499	\$ 34,298	\$ 42,614	\$ 60,504	\$ 304,439
Cash with Fiscal Agent	72,121							72,121
<b>TOTAL ASSETS</b>	<u>\$ 72,121</u>	<u>\$ 32,248</u>	<u>\$ 24,276</u>	<u>\$ 110,499</u>	<u>\$ 34,298</u>	<u>\$ 42,614</u>	<u>\$ 60,504</u>	<u>\$ 376,560</u>
<b>FUND BALANCES</b>								
Restricted for:								
Revolving Loan	\$ 72,121							\$ 72,121
Committed for:								
BN Property		32,248						32,248
Garbage Service/Recycling			24,276					24,276
Deputy Registrar/Office				110,499				110,499
Municipal Airport						42,614		42,614
Storm Water Maint/Repairs					34,298			34,298
Building Upkeep/Repair							60,504	60,504
<b>TOTAL FUND BALANCES</b>	<u>\$ 72,121</u>	<u>\$ 32,248</u>	<u>\$ 24,276</u>	<u>\$ 110,499</u>	<u>\$ 34,298</u>	<u>\$ 42,614</u>	<u>\$ 60,504</u>	<u>\$ 376,560</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit B-2

	Nonmajor Funds							Total Special Revenue A-2	
	Revolving Loan	Economic Development	Housing Rehab	Garbage	Deputy Registrar	Storm Water	Airport		Clinic
<b>RECEIPTS</b>									
Intergovernmental - Federal	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental - State							30,187		30,187
Charges for Services				229,646	84,267	78,540	19,873		19,873
Investment Earnings	1,157	43	3	53	195	27	53	108	1,639
Miscellaneous									
Rent	9,089						44,632	30,900	84,621
Other Receipts	6,094			1,605	2,896		29,418		40,013
<b>TOTAL RECEIPTS</b>	<u>16,340</u>	<u>43</u>	<u>3</u>	<u>231,304</u>	<u>87,358</u>	<u>78,567</u>	<u>124,163</u>	<u>31,008</u>	<u>568,786</u>
<b>DISBURSEMENTS</b>									
Current									
General Government					67,645			4,329	71,974
Sanitation				195,544					195,544
Economic Development	17,728		11,560						29,288
Airport							112,092		112,092
Capital Outlay									
General Government								112,485	112,485
<b>TOTAL DISBURSEMENTS</b>	<u>17,728</u>		<u>11,560</u>	<u>195,544</u>	<u>67,645</u>		<u>112,092</u>	<u>116,814</u>	<u>521,383</u>
Receipts Over (Under) Disbursements	(1,388)	43	(11,557)	35,760	19,713	78,567	12,071	(85,806)	47,403
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfer Out				(20,000)		(68,000)			(88,000)
Transfer In - Interfund Loan	5,295								5,295
Transfer Out - Interfund Loan							(9,356)	(23,750)	(33,106)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>5,295</u>			<u>(20,000)</u>		<u>(68,000)</u>	<u>(9,356)</u>	<u>(23,750)</u>	<u>(115,811)</u>
Net Change in Fund Balances	3,907	43	(11,557)	15,760	19,713	10,567	2,715	(109,556)	(68,408)
Fund Balances - Beginning	68,214	32,205	11,557	8,516	90,786	23,731	39,899	170,060	444,968
Fund Balances - Ending	<u>\$ 72,121</u>	<u>\$ 32,248</u>	<u>\$</u>	<u>\$ 24,276</u>	<u>\$ 110,499</u>	<u>\$ 34,298</u>	<u>\$ 42,614</u>	<u>\$ 60,504</u>	<u>\$ 376,560</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS**  
**DECEMBER 31, 2013**

Exhibit B-3

	Nonmajor Funds					
	10 Refund	11 Refund (04)	2005 Prairie Hills 2 Bond	2005 Jetvig Bond	2006 PFA Water	2006 PFA Sewer
ASSETS						
Cash and Investments	\$ 150,596	\$ 146,113	\$ 72,802	\$ 196,440	\$ 118,409	\$ 93,509
TOTAL ASSETS	<u>\$ 150,596</u>	<u>\$ 146,113</u>	<u>\$ 72,802</u>	<u>\$ 196,440</u>	<u>\$ 118,409</u>	<u>\$ 93,509</u>
FUND BALANCES						
Restricted for Debt Service	\$ 150,596	\$ 146,113	\$ 72,802	\$ 196,440	\$ 118,409	\$ 93,509
TOTAL FUND BALANCES	<u>\$ 150,596</u>	<u>\$ 146,113</u>	<u>\$ 72,802</u>	<u>\$ 196,440</u>	<u>\$ 118,409</u>	<u>\$ 93,509</u>

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS – CONTINUED**  
**DECEMBER 31, 2013**

Exhibit B-3

	Nonmajor Funds						
	11 Refund (06A)	11 Refund (06B)	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy 10	Total Nonmajor Debt Service Exhibit A-1
ASSETS							
Cash and Investments	\$ 36,522	\$ 24,518	\$ 6,691	\$ 2,961	\$ 45,812	\$ 177,034	\$ 1,071,407
<b>TOTAL ASSETS</b>	<b>\$ 36,522</b>	<b>\$ 24,518</b>	<b>\$ 6,691</b>	<b>\$ 2,961</b>	<b>\$ 45,812</b>	<b>\$ 177,034</b>	<b>\$ 1,071,407</b>
FUND BALANCES							
Restricted for Debt Service	\$ 36,522	\$ 24,518	\$ 6,691	\$ 2,961	\$ 45,812	\$ 177,034	\$ 1,071,407
<b>TOTAL FUND BALANCES</b>	<b>\$ 36,522</b>	<b>\$ 24,518</b>	<b>\$ 6,691</b>	<b>\$ 2,961</b>	<b>\$ 45,812</b>	<b>\$ 177,034</b>	<b>\$ 1,071,407</b>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit B-4

	Nonmajor Funds					
	10 Refund	11 Refund (04)	2005 Prairie Hills 2 Bond	2005 Jetvig Bond	2006 PFA Water	2006 PFA Sewer
<b>RECEIPTS</b>						
Property Taxes	\$	\$	\$	\$	\$	\$
Special Assessments	79,626	105,421	70,331	112,569	90,682	42,010
Investment Earnings	278	157	134	264	109	99
<b>TOTAL RECEIPTS</b>	<u>79,904</u>	<u>105,578</u>	<u>70,465</u>	<u>112,833</u>	<u>90,791</u>	<u>42,109</u>
<b>DISBURSEMENTS</b>						
Debt Service						
Principal	50,000	70,000	53,000	67,000	129,000	54,000
Interest and Other Charges	6,950	11,870	23,841	32,727	28,704	7,939
<b>TOTAL DISBURSEMENTS</b>	<u>56,950</u>	<u>81,870</u>	<u>76,841</u>	<u>99,727</u>	<u>157,704</u>	<u>61,939</u>
Receipts Over (Under) Disbursements	22,954	23,708	(6,376)	13,106	(66,913)	(19,830)
<b>OTHER FINANCING SOURCES</b>						
Debt Issued						
Transfer In					88,000	34,000
<b>TOTAL OTHER FINANCING SOURCES</b>					<u>88,000</u>	<u>34,000</u>
Net Change in Fund Balances	22,954	23,708	(6,376)	13,106	21,087	14,170
Fund Balances - Beginning	127,642	122,405	79,178	183,334	97,322	79,339
Fund Balances - Ending	<u>\$ 150,596</u>	<u>\$ 146,113</u>	<u>\$ 72,802</u>	<u>\$ 196,440</u>	<u>\$ 118,409</u>	<u>\$ 93,509</u>

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS – CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit B-4

	Nonmajor Funds						Total Nonmajor Debt Service Exhibit A-2
	11 Refund (06A)	11 Refund (06B)	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy10	
<b>RECEIPTS</b>							
Property Taxes	\$	\$	\$	\$	\$ 12,551	\$	\$ 12,551
Special Assessments	44,154	25,903			42,215	94,000	706,911
Investment Earnings	107	25			44	20	1,237
<b>TOTAL RECEIPTS</b>	<u>44,261</u>	<u>25,928</u>			<u>54,810</u>	<u>94,020</u>	<u>720,699</u>
<b>DISBURSEMENTS</b>							
Debt Service							
Principal	35,000	20,000	7,000	6,000	90,000		581,000
Interest and Other Charges	7,628	4,935	1,561	2,522	30,108		158,785
<b>TOTAL DISBURSEMENTS</b>	<u>42,628</u>	<u>24,935</u>	<u>8,561</u>	<u>8,522</u>	<u>120,108</u>		<u>739,785</u>
Receipts Over (Under) Disbursements	1,633	993	(8,561)	(8,522)	(65,298)	94,020	(19,086)
<b>OTHER FINANCING SOURCES</b>							
Debt Issued						83,014	83,014
Transfer In			10,000	8,700	68,000		208,700
<b>TOTAL OTHER FINANCING SOURCES</b>			<u>10,000</u>	<u>8,700</u>	<u>68,000</u>	<u>83,014</u>	<u>291,714</u>
Net Change in Fund Balances	1,633	993	1,439	178	2,702	177,034	272,628
Fund Balances - Beginning	34,889	23,525	5,252	2,783	43,110		798,779
Fund Balances - Ending	<u>\$ 36,522</u>	<u>\$ 24,518</u>	<u>\$ 6,691</u>	<u>\$ 2,961</u>	<u>\$ 45,812</u>	<u>\$ 177,034</u>	<u>\$ 1,071,407</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit B-5

	Nonmajor 2009 Street Reconstruction	Total Nonmajor Capital Project Exhibit A-2	Major Fund Cretex Industrial Park	Total Capital Project
<b>RECEIPTS</b>				
Special Assessments	\$ 9,491	\$ 9,491	\$	\$ 9,491
Intergovernmental			357,644	357,644
Investment Earnings	21	21	62	83
Miscellaneous			42,046	42,046
	<u>9,512</u>	<u>9,512</u>	<u>399,752</u>	<u>409,264</u>
<b>TOTAL RECEIPTS</b>				
<b>DISBURSEMENTS</b>				
Capital Outlay				
Streets and Highways			1,167,251	1,167,251
			<u>1,167,251</u>	<u>1,167,251</u>
<b>TOTAL DISBURSEMENTS</b>				
Receipts Over (Under) Disbursements	9,512	9,512	(767,499)	(757,987)
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued			908,244	908,244
Bond Premium			23,379	23,379
Transfer Out - Interfund Loan	(30,869)	(30,869)		(30,869)
	<u>(30,869)</u>	<u>(30,869)</u>	<u>931,623</u>	<u>900,754</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>				
Net Change in Fund Balances	(21,357)	(21,357)	164,124	142,767
Fund Balances - Beginning	<u>21,357</u>	<u>21,357</u>	<u></u>	<u>21,357</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 164,124</u>	<u>\$ 164,124</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance 01/01/13	Additions	Deductions	Balance 12/31/13
<b>HAWLEY AREA FIRE DISTRICT - JOINT POWERS</b>				
<b>ASSETS</b>				
Cash and Investments	\$	\$ 117,994	\$ 117,102	\$ 892
Due from Other Governments	17,096		17,096	
Total Assets	\$ 17,096	\$ 117,994	\$ 134,198	\$ 892
<b>LIABILITIES</b>				
Due to Other Governments	\$	\$ 117,994	\$ 117,102	\$ 892
Due to City of Hawley	17,096		17,096	
Total Liabilities	\$ 17,096	\$ 117,994	\$ 134,198	\$ 892
 <b>HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS</b>				
<b>ASSETS</b>				
Cash and Investments	\$	\$ 48,250	\$ 48,992	\$ (742)
<b>LIABILITIES</b>				
Due to Other Governments	\$	\$ 48,250	\$ 48,992	\$ (742)
 <b>TOTAL</b>				
<b>ASSETS</b>				
Cash and Investments	\$	\$ 166,244	\$ 166,094	\$ 150
Due from Other Governments	17,096		17,096	
Total Assets	\$ 17,096	\$ 166,244	\$ 183,190	\$ 150
<b>LIABILITIES</b>				
Due to Other Governments	\$	\$ 166,244	\$ 166,094	\$ 150
Due to City of Hawley	17,096		17,096	
Total Liabilities	\$ 17,096	\$ 166,244	\$ 183,190	\$ 150

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Bond Premiums	Contributed Capital	Balance End of Year
<b>Governmental Funds</b>									
General Fund									
Committed for:									
Seal Coat/Crack Fill	\$ 164,000	\$	\$	\$ (58,550)	\$	\$	\$	\$	\$ 105,450
Hwy 10 31/33 Project	132,000			(2,000)					130,000
Buffalo RRWD Diversion Pipe	5,000			(5,000)					
Plow Truck/Equipment	105,000			7,900					112,900
Street Patching				11,000					11,000
Sidewalks				10,000					10,000
Lawn Mower	7,600								7,600
Unassigned	1,532,106	1,163,208	2,082,511	301,330	(13,118)	671,165	16,246		1,588,426
<b>Total General Fund</b>	<b>1,945,706</b>	<b>1,163,208</b>	<b>2,082,511</b>	<b>264,680</b>	<b>(13,118)</b>	<b>671,165</b>	<b>16,246</b>		<b>1,965,376</b>
Special Revenue									
Revolving Loan	68,214	16,340	17,728		5,295				72,121
Housing Rehab	11,557	3	11,560						
Economic Development	32,205	43							32,248
Garbage	8,516	231,304	195,544	(20,000)					24,276
Deputy Registrar	90,786	87,358	67,645						110,499
Airport	39,899	124,163	112,092		(9,356)				42,614
Storm Water	23,731	78,567		(68,000)					34,298
Clinic	170,060	31,008	116,814		(23,750)				60,504
Debt Service									
10 Refund	127,642	79,904	56,950						150,596
11 Refund (04)	122,405	105,578	81,870						146,113
2005 Prairie Hills 2 Bond	79,178	70,465	76,841						72,802
2005 Jetvig Bond	183,334	112,833	99,727						196,440
11 Refund (06A)	34,889	44,261	42,628						36,522
2006 PFA Water	97,322	90,791	157,704	88,000					118,409
2006 PFA Sewer	79,339	42,109	61,939	34,000					93,509
11 Refund (06B)	23,525	25,928	24,935						24,518
2008 PFA Water	5,252		8,561	10,000					6,691
2008 PFA Sewer	2,783		8,522	8,700					2,961
11 Street Rebuild	43,110	54,810	120,108	68,000					45,812
13 Cretex/Hwy10		94,020				83,014			177,034
Capital Projects									
2009 Street Reconstruction	21,357	9,512			(30,869)				
Cretex Industrial Park		399,752	1,167,251			908,244	23,379		164,124
<b>Total Governmental Funds</b>	<b>\$ 3,210,810</b>	<b>\$ 2,861,957</b>	<b>\$ 4,510,930</b>	<b>\$ 385,380</b>	<b>\$ (71,798)</b>	<b>\$ 1,662,423</b>	<b>\$ 39,625</b>	<b>\$</b>	<b>\$ 3,577,467</b>

cont.

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION – CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Bonds Issued	Bond Premiums	Contributed Capital	Balance End of Year
<b>Proprietary Funds</b>									
Water	\$ 2,164,157	\$ 328,574	\$ 289,343	\$ (98,000)	\$	\$	\$	\$ 173,988	\$ 2,279,376
Sewer	2,686,584	282,302	292,153	(87,700)				40,118	2,629,151
Electric	2,147,215	2,294,076	2,150,392	(119,447)					2,171,452
Gas	648,431	755,708	650,209	(75,233)					678,697
Liquor	123,577	943,047	911,783	(5,000)					149,841
<b>Total Proprietary Funds</b>	<b>\$ 7,769,964</b>	<b>\$ 4,603,707</b>	<b>\$ 4,293,880</b>	<b>\$ (385,380)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 214,106</b>	<b>\$ 7,908,517</b>

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2012	Issued 2013	Retired 2013	Balance 12/31/2013	Principal Due In 2014	Interest Due In 2014
<b>General Obligation Bonds</b>										
G.O. Improvement Refunding, 2010A	2.6 - 3.1%	2010	2014/17	\$ 400,000	\$ 250,000	\$	\$ 50,000	\$ 200,000	\$ 50,000	\$ 5,650
G.O. Improvement Bonds, 2011B	2.0 - 3.2%	2011	2014/26	1,260,000	1,230,000		90,000	1,140,000	90,000	27,813
G.O. Refunding Bonds, 2011A	2.0 - 2.9%	2011	2014/19	585,000	520,000		70,000	450,000	70,000	10,470
G.O. Improvement, 2005	4.0 - 4.5%	2005	2014/21	856,000	572,000		53,000	519,000	56,000	21,351
G.O. Improvement, 2005	4.2 - 4.7%	2005	2014/21	1,071,000	717,000		67,000	650,000	69,000	29,974
G.O. Refunding Bonds, 2011A	2.0 - 3.3%	2011	2014/21	335,000	300,000		35,000	265,000	35,000	6,680
G.O. Refunding Bonds, 2011A	2.0 - 3.3%	2011	2014/21	205,000	185,000		20,000	165,000	20,000	4,288
G.O. Refunding Note, 2012A	1.90%	2012	2014/18	229,000	229,000		36,000	193,000	37,000	3,667
G.O. Improvement Bonds, 2013A	.75-3.0%	2013	2014/23	1,625,000		1,625,000		1,625,000	55,000	58,870
Total General Obligation Bonds					<u>4,003,000</u>	<u>1,625,000</u>	<u>421,000</u>	<u>5,207,000</u>	<u>482,000</u>	<u>168,763</u>
<b>General Obligation Revenue Bonds</b>										
G.O. Water Revenue Note, 2006A	1.56%	2006	2014/25	2,565,987	1,840,000		129,000	1,711,000	131,000	26,690
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2014/25	1,010,110	749,000		54,000	695,000	55,000	7,366
G.O. Water Revenue Note, 2008A	1.29%	2008	2014/27	150,010	121,000		7,000	114,000	7,000	1,471
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2014/27	132,954	110,000		6,000	104,000	6,000	2,384
G.O. Water Revenue Note, 2001	3.32%	2001	2014/21	660,000	353,000		34,000	319,000	35,000	10,590
G.O. Sewer Revenue Refunding, 2009A	2.6 - 3.1%	2009	2014/16	505,000	265,000		65,000	200,000	65,000	5,876
G.O. Gas Transmission Revenue, 2005	4.0 - 4.5%	2005	2014/21	384,000	256,000		24,000	232,000	25,000	9,545
Total General Obligation Revenue Bonds					<u>3,694,000</u>		<u>319,000</u>	<u>3,375,000</u>	<u>324,000</u>	<u>63,922</u>
<b>Revenue Bonds</b>										
Revenue Bonds, 2008A	5.5 - 6.5%	2008	2014/27	435,000	390,000		15,000	375,000	20,000	22,876
<b>Other Long-Term Debt</b>										
Capital Lease-2013 Police Car	6.50%	2012	2014	25,979	16,748		8,100	8,648	8,648	583
Capital Lease-2013 Ford Explorer	3.34%	2013	2014/16	37,422		37,422	9,821	27,601	8,900	922
Total Other Long-Term Debt					<u>16,748</u>	<u>37,422</u>	<u>17,921</u>	<u>36,249</u>	<u>17,548</u>	<u>1,505</u>
<b>Total</b>					<u>\$ 8,103,748</u>	<u>\$ 1,662,422</u>	<u>\$ 772,921</u>	<u>\$ 8,993,249</u>	<u>\$ 843,548</u>	<u>\$ 257,066</u>

**CITY OF HAWLEY, MINNESOTA**  
**GOVERNMENTAL FUNDS RECEIPTS BY SOURCE**  
**LAST TEN YEARS**  
**(UNAUDITED)**

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>	<u>Fines &amp; Forfeitures</u>	<u>Special Assessments</u>	<u>Interest</u>	<u>Lease Payment for Debt Service</u>	<u>Miscellaneous</u>	<u>Total</u>
2004	\$ 254,483	\$ 35,297	\$ 386,378	\$ 34,482 (a)	\$ 23,710	\$ 315,075	\$ 5,915	\$ 28,835	\$ 216,277	\$ 1,300,452
2005	276,866	25,163	415,649	36,400 (a)	19,389	419,216	17,968	28,835	197,140	1,436,626
2006	306,007	29,244	601,192	56,508	12,377	530,684	38,186	28,835	158,656	1,761,689
2007	335,516	17,832	482,004	11,683	25,237	782,903	47,061	31,238	96,843	1,830,317
2008	359,220	12,922	494,450	15,040	45,290	689,084	39,672	28,835	37,218	1,721,731
2009	391,728	12,454	763,080	326,240	45,030	630,062	28,895	28,835	337,682	2,564,006 (b)
2010	402,117	13,515	955,879	383,178	34,298	632,505	18,821	28,835	92,697	2,561,845 (b)
2011	432,565	13,410	666,560	410,507	35,666	765,375	15,440		156,896	2,496,419 (b)
2012	445,132	14,565	909,389	390,310	48,678	710,895	8,792		161,430	2,689,191 (b)
2013	469,930	19,170	1,002,695	415,314	21,867	731,903	5,904		195,174	2,861,957 (b)

(a) Includes vector control fees of \$30,092

(b) The City has elected to report the garbage fund, deputy registrar fund and the airport fund as special revenue funds, the funds were previously reported in enterprise fund.

**CITY OF HAWLEY, MINNESOTA**  
**GOVERNMENTAL FUNDS DISBURSEMENTS BY FUNCTION**  
**LAST TEN YEARS**  
**(UNAUDITED)**

Fiscal Year	General Government	Public Safety	Streets and Highways	Sanitation	Culture and Recreation	Debt Service	Capital Outlay	Other	Total
2004	\$ 199,060	\$ 303,896	\$ 195,286		\$ 140,685	\$ 272,029	\$ 969,300	\$ 205,456	\$ 2,285,712
2005	209,563	363,599	172,378		147,942	418,307	1,397,618	180,808	2,890,215
2006	256,266	314,478	227,726		150,280	655,408	4,096,928	55,049	5,756,135
2007	227,255	350,838	254,524		134,294	657,494	1,121,854	76,294	2,822,553
2008	237,711	391,399	194,181		127,974	832,916	11,573	27,615	1,823,369
2009	246,438	397,017	188,186	204,295	89,813	836,865	979,281	124,650	3,066,545 (a)
2010	265,295	387,452	112,843	208,151	87,593	809,601	629,153	180,207	2,680,295 (a)
2011	255,634	418,393	145,416	207,053	92,088	710,846	1,549,006	164,820	3,543,256 (a)
2012	276,370	445,933	171,789	206,049	84,576	1,428,371 (b)	925,547	183,979	3,722,614 (a)
2013	279,059	419,166	158,763	195,544	87,250	758,837	2,387,410	224,901	4,510,930 (a)

(a) The City has elected to report the garbage fund, deputy registrar fund and the airport fund as special revenue funds, the funds were previously reported in enterprise fund.

(b) The City reported principal payments on refunded bonds in the amount of \$515,000 as debt service.

**CITY OF HAWLEY, MINNESOTA**  
**ASSESSED VALUATION/TAX CAPACITY, TAX LEVIES AND RATES**  
**LAST TEN YEARS**  
**(UNAUDITED)**

Levy Year	Tax Capacity	Tax Levy	Tax Capacity Rates				Total
			City	School	County	Water Shed District	
2004	596,065	284,380	47.710	28.407	78.229	1.157	155.503
2005	660,927	309,980	46.901	34.848	69.162	1.383	152.294
2006	746,469	325,400	43.592	36.819	64.814	1.573	146.798
2007	876,091	345,000	39.565	35.707	62.529	2.803	140.604
2008	940,061	374,300	39.995	35.809	60.406	2.807	139.017
2009	971,769	393,000	40.559	34.902	58.619	2.795	136.875
2010	990,285	412,700	41.664	33.760	55.930	2.366 *	133.720
2011	991,582	433,500	43.718	36.384	56.167	2.125	138.394
2012	902,413	400,000	44.326	35.751	55.719	2.235	138.031
2013	908,972	420,000	46.206	33.761	53.736	2.215	135.918

\* Includes watershed and Clay County HRA

Note:  
Information obtained from the Clay County Auditor

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND –**  
**HAWLEY AREA EMERGENCY RESPONSE DISTRICT – JOINT POWERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**  
**(UNAUDITED)**

ADDITIONS		
Operating Reimbursements		
City of Hawley	\$	32,662
Townships		<u>15,588</u>
TOTAL ADDITIONS		<u>48,250</u>
DEDUCTIONS		
Current		
Professional Services		47,500
RRR Dispatch		<u>1,492</u>
TOTAL DEDUCTIONS		<u>48,992</u>
CHANGES IN ASSETS AND LIABILITIES		(742)
ASSETS AND LIABILITIES, BEGINNING		<u>          </u>
ASSETS AND LIABILITIES, ENDING	\$	<u><u>(742)</u></u>

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND –**  
**HAWLEY AREA FIRE DISTRICT – JOINT POWERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**  
**(UNAUDITED)**

<b>ADDITIONS</b>	
Intergovernmental	
City of Hawley	\$ 44,875
Townships	40,700
Fire Relief	12,000
Investment Earnings	29
Miscellaneous	10,021
Interfund Transfer - Fire District Checking Account	<u>10,369</u>
<b>TOTAL ADDITIONS</b>	<u><u>117,994</u></u>
<b>DEDUCTIONS</b>	
Current	
Professional Services	2,700
Insurance	9,112
Training	4,194
Supplies	12,323
Fuel and Additives	3,665
Repairs and Maintenance	6,591
Utilities	6,871
Salaries and Benefits	26,971
Fire Relief Contribution	7,700
RRR Dispatch	574
Miscellaneous	7,900
Capital Outlay	<u>11,405</u>
<b>TOTAL DEDUCTIONS</b>	<u><u>100,006</u></u>
<b>CHANGES IN ASSETS AND LIABILITIES</b>	17,988
<b>ASSETS AND LIABILITIES, BEGINNING</b>	<u><u>(17,096)</u></u>
<b>ASSETS AND LIABILITIES, ENDING</b>	<u><u>\$ 892</u></u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR’S REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2014. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

**Purpose of the Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

March 20, 2014



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Hawley's financial statements and have issued our report thereon dated March 20, 2014. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

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

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

March 20, 2014

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2013**

**2013-001 FINDING**

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with the regulatory basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2013, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The city council is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the City's annual financial statements.

Cause

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The city council is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Corrective Action Plan Prepared by the City

*Correcting Plan:* Management recognizes the significant deficiency and believes it is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Explanation of Disagreement:* There is essentially no disagreement with the finding.

*Official Responsible:* The city council is responsible for carrying out the corrective action plan.

*Completion Date:* The City will review on an annual basis.

*Monitor Plan:* The city council will monitor completion of the corrective action plan.