

**CITY OF HAWLEY
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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CITY OF HAWLEY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2014

Mayor

Gary E. Johnson

Council Member

Ben Gunkelman

Council Member

John Young, Jr.

Council Member

Sean Mork

Council Member

James Joy

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2014, 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 fund information and the financial position of each major proprietary fund of the City of Hawley, as of December 31, 2014, 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 basic financial statements. 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule, combining statements, and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole as described in the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, 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 & ASSOCIATES, P. C.
Thief River Falls, Minnesota

February 24, 2015

CITY OF HAWLEY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	<u>General</u> <u>Fund</u>	<u>TIF</u> <u>Cretex/RDO</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS				
Cash and Investments	\$ 2,183,285	\$	\$ 1,624,821	\$ 3,808,106
Cash with Fiscal Agent			77,683	77,683
	<u>2,183,285</u>	<u></u>	<u>1,702,504</u>	<u>3,885,789</u>
TOTAL ASSETS	\$ 2,183,285	\$	\$ 1,702,504	\$ 3,885,789
FUND BALANCES				
Restricted for:				
Revolving Loan	\$	\$	\$ 77,683	\$ 77,683
Debt Service			1,271,107	1,271,107
Committed for:				
Seal Coat/Crack Fill	220,459			220,459
Hwy 10 31/33 Project	26,400			26,400
Plow Truck/Equipment	15,400			15,400
Street Patching	52,000			52,000
Sidewalks	23,000			23,000
Lawn Mower	2,600			2,600
Tornado Siren	9,500			9,500
Park Board Sinking Fund	60,000			60,000
Zoning Comprehensive Fund	11,000			11,000
BN Property			37,287	37,287
Garbage Service/Recycling			40,429	40,429
Deputy Registrar/Office			120,945	120,945
Municipal Airport			32,589	32,589
Storm Water Maint/Repairs			38,888	38,888
Building Upkeep/Repair			63,507	63,507
Assigned for:				
Capital Projects			20,069	20,069
Unassigned	1,762,926			1,762,926
	<u>1,762,926</u>	<u></u>	<u></u>	<u>1,762,926</u>
TOTAL FUND BALANCES	\$ 2,183,285	\$	\$ 1,702,504	\$ 3,885,789

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, 2014

	General Fund	TIF Cretex/RDO	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property Taxes	\$ 438,500	\$	\$ 67,029	\$ 505,529
Special Assessments	23,302		613,364	636,666
Licenses and Permits	23,721			23,721
Intergovernmental	654,067		249,099	903,166
Charges for Services	16,588		421,886	438,474
Fines and Forfeitures	22,518			22,518
Investment Earnings	2,096	10	3,409	5,515
Miscellaneous	26,528		146,203	172,731
TOTAL RECEIPTS	<u>1,207,320</u>	<u>10</u>	<u>1,500,990</u>	<u>2,708,320</u>
DISBURSEMENTS				
Current				
General Government	237,512		82,742	320,254
Public Safety	547,069			547,069
Streets and Highways	142,558			142,558
Sanitation			198,071	198,071
Culture and Recreation	100,971			100,971
Conservation of Natural Resources	21,478			21,478
Economic Development	68,822		26,922	95,744
Airport			185,817	185,817
Debt Services				
Principal	25,888		644,000	669,888
Interest and Other Charges	1,505		205,746	207,251
Miscellaneous			10	10
Capital Outlay				
General Government	111,561		218,929	330,490
Public Safety	163,475			163,475
Streets and Highways	154,384			154,384
Culture and Recreation	17,424			17,424
Economic Development		1,223,760		1,223,760
TOTAL DISBURSEMENTS	<u>1,592,647</u>	<u>1,223,760</u>	<u>1,562,237</u>	<u>4,378,644</u>
Receipts (Under) Disbursements	(385,327)	(1,223,750)	(61,247)	(1,670,324)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Asset			5,000	5,000
Debt Issued	31,755	1,198,858	71,142	1,301,755
Bond Premium		24,892		24,892
Transfer In	287,518		296,600	584,118
Transfer Out			(184,700)	(184,700)
Transfer In - Interfund Loan	283,963			283,963
Transfer Out - Interfund Loan			(36,382)	(36,382)
TOTAL OTHER FINANCING SOURCES (USES)	<u>603,236</u>	<u>1,223,750</u>	<u>151,660</u>	<u>1,978,646</u>
Net Change in Fund Balances	217,909		90,413	308,322
Fund Balances - Beginning	1,965,376		1,612,091	3,577,467
Fund Balances - Ending	<u>\$ 2,183,285</u>	<u>\$</u>	<u>\$ 1,702,504</u>	<u>\$ 3,885,789</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
ASSETS						
Current Assets						
Cash and Investments	\$ 41,061	\$ 132,074	\$ 534,942	\$ 273,228	\$	\$ 981,305
Accounts Receivable, Net	27,507	23,488	273,867	134,301		459,163
Due From Other Funds			62,588			62,588
Inventory			96,468		166,852	263,320
Total Current Assets	<u>68,568</u>	<u>155,562</u>	<u>967,865</u>	<u>407,529</u>	<u>166,852</u>	<u>1,766,376</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		362,053	29,321	89,371	490,505
Less: Accumulated Depreciation	<u>(2,025,584)</u>	<u>(2,373,785)</u>	<u>(1,638,262)</u>	<u>(546,062)</u>	<u>(99,051)</u>	<u>(6,682,744)</u>
Net Capital Assets	<u>2,669,612</u>	<u>2,156,589</u>	<u>1,124,555</u>	<u>650,533</u>	<u>481,996</u>	<u>7,083,285</u>
Other Assets						
Cash-Restricted for Debt		80,867			44,470	125,337
Cash-Restricted for Lottery					5,038	5,038
Advance to Other Funds		280,000	332,625			612,625
Total Other Assets		<u>360,867</u>	<u>332,625</u>		<u>49,508</u>	<u>743,000</u>
TOTAL ASSETS	<u>2,738,180</u>	<u>2,673,018</u>	<u>2,425,045</u>	<u>1,058,062</u>	<u>698,356</u>	<u>9,592,661</u>
LIABILITIES						
Current Liabilities						
Accounts Payable	1,254		153,577	75,517		230,348
Salary Payable	899	1,105	3,422	2,194	1,794	9,414
Due to Other Funds					62,588	62,588
Due to Other Governmental Units	5,144				5,038	10,182
Customer Deposits			33,118			33,118
Unearned Revenue			64,766			64,766
Interest Payable	3,390	349		2,837	7,259	13,835
Accrued Payroll Expense			20			20
Compensated Absences	8,298	8,233	22,490	14,945	10,790	64,756
Current Portion - Long Term Liabilities	<u>75,000</u>	<u>65,000</u>		<u>26,000</u>	<u>20,000</u>	<u>186,000</u>
Total Current Liabilities	<u>93,985</u>	<u>74,687</u>	<u>277,393</u>	<u>121,493</u>	<u>107,469</u>	<u>675,027</u>
Long-Term Liabilities						
Advance from Other Funds	73,566				89,807	163,373
Bonds Payable	440,000	135,000		207,000	355,000	1,137,000
Less: Current Portion - Long Term Debt	<u>(75,000)</u>	<u>(65,000)</u>		<u>(26,000)</u>	<u>(20,000)</u>	<u>(186,000)</u>
Total Long-Term Liabilities	<u>438,566</u>	<u>70,000</u>		<u>181,000</u>	<u>424,807</u>	<u>1,114,373</u>
TOTAL LIABILITIES	<u>532,551</u>	<u>144,687</u>	<u>277,393</u>	<u>302,493</u>	<u>532,276</u>	<u>1,789,400</u>
NET POSITION						
Net Investment in Capital Assets	2,229,612	2,021,589	1,124,555	443,533	126,995	5,946,284
Unrestricted	<u>(23,983)</u>	<u>506,742</u>	<u>1,023,097</u>	<u>312,036</u>	<u>39,085</u>	<u>1,856,977</u>
TOTAL NET POSITION	<u>\$ 2,205,629</u>	<u>\$ 2,528,331</u>	<u>\$ 2,147,652</u>	<u>\$ 755,569</u>	<u>\$ 166,080</u>	<u>\$ 7,803,261</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, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 1,037,519	\$ 1,037,519
Cost of Sales					(777,092)	(777,092)
Gross Profit					260,427	260,427
Charges for Sales and Services	343,967	269,477	2,365,624	974,581		3,953,649
Less Dual Fuel Rebates			(76,322)			(76,322)
Other Charges and Income	1,321	675	85,994	3,397	2,448	93,835
Total Operating Revenue	<u>345,288</u>	<u>270,152</u>	<u>2,375,296</u>	<u>977,978</u>	<u>262,875</u>	<u>4,231,589</u>
Operating Expenses						
Purchased Power and Gas			1,639,523	537,501		2,177,024
Salaries and Wages	56,015	60,553	221,059	124,581	101,172	563,380
Employee Benefits	18,607	16,299	72,177	39,672	25,400	172,155
Repairs and Maintenance	38,937	3,759	78,222	50,784	504	172,206
Chemicals	5,325	4,180				9,505
Utilities	15,411	3,070	13,811	4,807	13,773	50,872
Insurance	5,088	4,371	6,418	4,405	5,065	25,347
Professional Fees	2,976	10,257	38,159	10,899	6,557	68,848
Supplies	1,836	116	17,920	9,578	9,435	38,885
Other Expenses	8,917	7,535	89,457	17,662	39,063	162,634
Depreciation	151,335	168,069	89,379	29,470	14,531	452,784
Total Operating Expenses	<u>304,447</u>	<u>278,209</u>	<u>2,266,125</u>	<u>829,359</u>	<u>215,500</u>	<u>3,893,640</u>
Operating Income (Loss)	40,841	(8,057)	109,171	148,619	47,375	337,949
Nonoperating Income (Expense)						
Investment Earnings	59	671	11,698	502	53	12,983
Interest Expense	(15,647)	(5,734)		(9,200)	(26,189)	(56,770)
Total Nonoperating Income (Expense)	<u>(15,588)</u>	<u>(5,063)</u>	<u>11,698</u>	<u>(8,698)</u>	<u>(26,136)</u>	<u>(43,787)</u>
Net Income (Loss) Before Contributions and Transfers	25,253	(13,120)	120,869	139,921	21,239	294,162
Transfers Out	<u>(99,000)</u>	<u>(87,700)</u>	<u>(144,669)</u>	<u>(63,049)</u>	<u>(5,000)</u>	<u>(399,418)</u>
Change in Net Position	(73,747)	(100,820)	(23,800)	76,872	16,239	(105,256)
Net Position, Beginning	<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>
Net Position, Ending	<u>\$ 2,205,629</u>	<u>\$ 2,528,331</u>	<u>\$ 2,147,652</u>	<u>\$ 755,569</u>	<u>\$ 166,080</u>	<u>\$ 7,803,261</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 343,286	\$ 269,010	\$ 2,396,438	\$ 968,425	\$ 1,040,766	\$ 5,017,925
Payments to Suppliers	(78,833)	(33,908)	(1,922,184)	(627,152)	(861,913)	(3,523,990)
Payments to Employees	(74,324)	(76,173)	(292,380)	(163,911)	(124,050)	(730,838)
Net Cash Provided By Operating Activities	<u>190,129</u>	<u>158,929</u>	<u>181,874</u>	<u>177,362</u>	<u>54,803</u>	<u>763,097</u>
Cash Flows From Noncapital Financing Activities:						
Due from Other Funds			247			247
Due to Other Funds					(247)	(247)
Transfers to Other Funds	(99,000)	(87,700)	(144,669)	(63,049)	(5,000)	(399,418)
Advance From (To) Other Funds	(99,000)	(280,000)	47,867			(232,133)
Net Cash (Used) By Noncapital Financing Activities	<u>(99,000)</u>	<u>(367,700)</u>	<u>(96,555)</u>	<u>(63,049)</u>	<u>(5,247)</u>	<u>(631,551)</u>
Cash Flows From Capital and Related Financing Activities:						
Purchase of Capital Assets			(116,498)	(7,658)		(124,156)
Advance from Other Funds	(18,165)				(2,202)	(20,367)
Principal Paid on Debt	(72,000)	(65,000)		(25,000)	(20,000)	(182,000)
Interest Paid on Debt	(16,093)	(5,875)		(9,545)	(26,555)	(58,068)
Net Cash (Used) By Capital and Related Financing Activities	<u>(106,258)</u>	<u>(70,875)</u>	<u>(116,498)</u>	<u>(42,203)</u>	<u>(48,757)</u>	<u>(384,591)</u>
Cash Flows From Investing Activities:						
Investment Earnings	59	674	11,698	502	54	12,987
Net Cash Provided By Investing Activities	<u>59</u>	<u>674</u>	<u>11,698</u>	<u>502</u>	<u>54</u>	<u>12,987</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(15,070)	(278,972)	(19,481)	72,612	853	(240,058)
Cash and Cash Equivalents - Beginning of Year	<u>56,131</u>	<u>491,913</u>	<u>554,423</u>	<u>200,616</u>	<u>48,655</u>	<u>1,351,738</u>
Cash and Cash Equivalents - End of Year	<u>\$ 41,061</u>	<u>\$ 212,941</u>	<u>\$ 534,942</u>	<u>\$ 273,228</u>	<u>\$ 49,508</u>	<u>\$ 1,111,680</u>

cont.

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS – CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<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)	\$ 40,841	\$ (8,057)	\$ 109,171	\$ 148,619	\$ 47,375	\$ 337,949
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	151,335	168,069	89,379	29,470	14,531	452,784
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	(2,424)	(1,142)	7,446	(9,553)		(5,673)
Inventory			36,556		(10,424)	26,132
Accounts Payable	(343)	(620)	(75,230)	8,484		(67,709)
Salary Payable	461	645	1,867	1,279	989	5,241
Due to Other Governments	422		(5,087)		799	(3,866)
Customer Deposits			6,078			6,078
Unearned Revenue			12,705			12,705
Accrued Payroll Expenses			20			20
Compensated Absences	(163)	34	(1,031)	(937)	1,533	(564)
Total Adjustments	<u>149,288</u>	<u>166,986</u>	<u>72,703</u>	<u>28,743</u>	<u>7,428</u>	<u>425,148</u>
Net Cash Provided by Operating Activities	<u>\$ 190,129</u>	<u>\$ 158,929</u>	<u>\$ 181,874</u>	<u>\$ 177,362</u>	<u>\$ 54,803</u>	<u>\$ 763,097</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014

	<u>Agency</u>
ASSETS	
Cash and Investments	\$ <u>74,185</u>
TOTAL ASSETS	<u>74,185</u>
LIABILITIES	
Due to Other Governments	<u>74,185</u>
TOTAL LIABILITIES	<u>74,185</u>
NET POSITION	\$ <u><u> </u></u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.

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), or the budgetary comparison schedule for major special revenue funds. Also, the regulatory basis of accounting allows the general fund budgetary comparison schedule to be included as supplementary information.

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, 2014

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 – TIF Cretex/RDO– Accounts for the capital outlays related to the tax increment financing agreement between Cretex and RDO.

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, 2014

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, 2014

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2014, 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, 2014, 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, 2014

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, 2014, was \$18,501. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 3,808,106
Proprietary Funds	1,111,680
Fiduciary Funds	74,185
	\$ 4,993,971
Deposits	
Cash, Checking and Change Funds	\$ 67,148
Certificates of Deposits	682,949
Savings	3,461,100
Investments	782,774
	\$ 4,993,971

As of December 31, 2014, the City had the following investments:

Investments	Maturities	Fair Value
4-M External Investment Pool		\$ 782,774

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, 2014

- (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, 2014, 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	\$ 75,319
Additions	
Flow payment	5,457
Interest	91
Balance, End of Year	\$ 80,867

The liquor fund is required to have a reserve account of \$44,470 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, 2014

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2014, 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	12,439,315			12,439,315
Equipment	<u>366,349</u>	<u>124,156</u>		<u>490,505</u>
Total Capital Assets, Being Depreciated	<u>13,564,632</u>	<u>124,156</u>		<u>13,688,788</u>
Less Accumulated Depreciation for:				
Building	164,409	18,900		183,309
Improvements Other Than Buildings	5,903,128	401,378		6,304,506
Equipment	<u>162,423</u>	<u>32,506</u>		<u>194,929</u>
Total Accumulated Depreciation	<u>6,229,960</u>	<u>452,784</u>		<u>6,682,744</u>
Total Capital Assets, Being Depreciated, Net	<u>7,334,672</u>	<u>(328,628)</u>		<u>7,006,044</u>
Proprietary Fund Capital Assets, Net	<u>\$ 7,411,913</u>	<u>\$ (328,628)</u>	<u>\$</u>	<u>\$ 7,083,285</u>

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 151,335
Sewer	168,069
Electric	89,379
Gas	29,470
Liquor	<u>14,531</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 452,784</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.

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

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

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 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 2014. PEPFF members were required to contribute 9.6% of their annual covered salary in 2014. 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, 2014, 2013, and 2012 were \$59,676, \$54,118, and \$53,070, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$25,323, \$17,146, and

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

\$23,847, 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 three police vehicles. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been calculated 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 \$95,156.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

Year Ending December 31, 2014	Governmental Fund
2015	\$ 18,162
2016	18,162
2017	8,340
Total minimum lease payments	44,664
Less: amount representing interest	(2,548)
Present value of minimum lease payments	\$ 42,116

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 \$6,566,000. During the year, general obligation tax increment financing bonds totaling \$1,270,000 were issued as an agreement between Cretex and RDO.

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	0.9 - 4.7%	2015/26	\$ 4,934,000
Governmental Fund - Refunding	2.0 - 3.3%	2015/21	905,000
Proprietary Fund - Refunding	1.90%	2015/18	156,000
Total			\$ 5,995,000

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

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
2015	\$ 565,000	\$ 183,591	\$ 38,000	\$ 2,964
2016	725,000	157,759	39,000	2,242
2017	727,000	137,837	39,000	1,501
2018	704,000	116,930	40,000	760
2019	700,000	96,362		
2020-2024	2,178,000	205,029		
2025-2026	240,000	10,200		
	<u>\$ 5,839,000</u>	<u>\$ 907,708</u>	<u>\$ 156,000</u>	<u>\$ 7,467</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 \$5,408,061. General obligation revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	1.1 - 2.3%	2015/27	\$ 2,425,000
Proprietary Fund - Refunding	3.10%	2015/16	135,000
Proprietary Fund	3.3 - 4.5%	2015/21	491,000
			<u>\$ 3,051,000</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
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	214,000	23,140	73,000	7,984
2020-2024	1,115,000	68,686	154,000	7,429
2025-2027	268,000	4,934		
	<u>\$ 2,425,000</u>	<u>\$ 219,308</u>	<u>\$ 626,000</u>	<u>\$ 79,149</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, 2014

Purpose	Interest Rates	Maturity Dates	Amount
Proprietary Fund	5.5 - 6.5%	2015/27	\$ 355,000

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

Year Ending December 31	Proprietary Fund	
	Principal	Interest
2015	\$ 20,000	\$ 21,776
2016	20,000	20,626
2017	20,000	19,426
2018	20,000	18,226
2019	25,000	16,876
2020-2024	140,000	59,414
2025-2027	110,000	11,051
	<u>\$ 355,000</u>	<u>\$ 167,395</u>

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	\$ 5,014,000	\$ 1,270,000	\$ 445,000	\$ 5,839,000	\$ 565,000
General Obligation Revenue Bonds	2,624,000		199,000	2,425,000	203,000
Capital Lease	36,249	31,755	25,888	42,116	16,743
Governmental Fund Long-Term Liabilities	<u>7,674,249</u>	<u>1,301,755</u>	<u>669,888</u>	<u>8,306,116</u>	<u>784,743</u>
Proprietary Fund					
General Obligation Bonds	193,000		37,000	156,000	38,000
General Obligation Revenue Bonds	751,000		125,000	626,000	128,000
Revenue Bonds	375,000		20,000	355,000	20,000
Proprietary Fund Long-Term Liabilities	<u>1,319,000</u>		<u>182,000</u>	<u>1,137,000</u>	<u>186,000</u>
Total Long-Term Liabilities	<u>\$ 8,993,249</u>	<u>\$ 1,301,755</u>	<u>\$ 851,888</u>	<u>\$ 9,443,116</u>	<u>\$ 970,743</u>

The City's interest expense for the year ended December 31, 2014, was \$261,284.

See the Schedule of Indebtedness for detail and payment provisions.

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

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, 2014, 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, 2014, is as follows:

Due To / From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Liquor	\$ 62,588
General	Nonmajor Governmental	3,889
		<u>\$ 66,477</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	\$ 169,250
Electric	Liquor	89,806
Electric	Water	73,565
Sewer	General	280,000
Total		<u>\$ 612,621</u>

Based on the amortization schedules, \$74,437 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	144,669
General	Gas	63,049
General	Nonmajor Governmental	29,800
Nonmajor Governmental	Nonmajor Governmental	154,900
Nonmajor Governmental	Water	99,000
Nonmajor Governmental	Sewer	42,700
		<u>\$ 584,118</u>

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

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 2014 was \$50,000.

CITY OF HAWLEY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2014

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 September 5, 2014, the City has contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$4.000 per MMBtu which goes from October 2014 through September 2015. 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.

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, 2014 was \$36,410.

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; workers; and 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 2014.

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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, amends Statement No. 68 to require that, when transitioning to the new pension standards, a state or local government recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. The provisions of Statement No. 71 are effective simultaneously with the provisions of Statement No. 68.

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, 2014

	2014				2013 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
RECEIPTS					
Property Taxes	\$ 366,520	\$ 366,520	\$ 390,800	\$ 24,280	417,174
Property Taxes -					
Tax Increment Financing	70,000	47,700	47,700		40,205
Special Assessments	20,000	20,000	23,302	3,302	15,501
Licenses and Permits	15,200	15,200	23,721	8,521	19,170
Intergovernmental					
State					
Local Government Aid	600,787	600,787	600,787		538,040
Market Value Credit					8
Fire State Aid	15,000	25,664	25,664		23,883
Police State Aid	15,000	15,000	15,232	232	20,509
PERA	2,402	2,402	2,402		2,402
Other State Aid	900	900	965	65	684
Local - County	9,470	9,470	9,017	(453)	9,465
Total Intergovernmental	<u>643,559</u>	<u>654,223</u>	<u>654,067</u>	<u>(156)</u>	<u>594,991</u>
Charges for Services					
Franchise Fee - Cable	8,500	8,500	9,585	1,085	9,545
Street Charges and Sales	1,000	1,000	503	(497)	5,816
Airport	7,500	7,500	6,500	(1,000)	7,500
Total Charges for Services	<u>17,000</u>	<u>17,000</u>	<u>16,588</u>	<u>(412)</u>	<u>22,861</u>
Fines and Forfeitures	35,000	35,000	22,518	(12,482)	21,867
Investment Earnings	4,000	4,000	2,096	(1,904)	2,945
Miscellaneous					
Rents	7,801	7,801	8,401	600	9,272
Donations			4,970	4,970	6,105
Insurance Proceeds	3,000	3,000	5,724	2,724	8,582
Other Receipts	3,700	3,700	7,433	3,733	4,535
TOTAL RECEIPTS	<u>1,185,780</u>	<u>1,174,144</u>	<u>1,207,320</u>	<u>33,176</u>	<u>1,163,208</u>
DISBURSEMENTS					
General Government					
Current					
City Council	62,248	62,248	65,041	2,793	62,637
Election	2,900	2,900	1,550	(1,350)	
Finance	48,237	48,237	47,068	(1,169)	45,355
Assessor	5,920	5,920	5,920		3,446
Legal	24,000	24,000	24,176	176	20,240
Other General Government	91,460	91,460	93,757	2,297	75,407
Capital Outlay	40,500	128,000	111,561	(16,439)	822,256
Total General Government	<u>275,265</u>	<u>362,765</u>	<u>349,073</u>	<u>(13,692)</u>	<u>1,029,341</u>
Public Safety					
Current					
Police Protection	371,922	371,922	437,704	65,782	315,653
Fire Relief	15,000	25,664	25,664		23,883
Fire Joint Powers District	49,665	49,665	49,000	(665)	46,521

cont.

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014				2013 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	33,334	33,334	34,328	994	32,662
Animal Control	700	700	373	(327)	447
Capital Outlay	57,000	154,776	163,475	8,699	132,438
Total Public Safety	<u>527,621</u>	<u>636,061</u>	<u>710,544</u>	<u>74,483</u>	<u>551,604</u>
Streets and Highways					
Current					
Street Maintenance	191,249	201,049	142,558	(58,491)	158,763
Snow Removal	4,000	4,000		(4,000)	
Capital Outlay	175,000	282,000	154,384	(127,616)	150,643
Total Streets and Highways	<u>370,249</u>	<u>487,049</u>	<u>296,942</u>	<u>(190,107)</u>	<u>309,406</u>
Culture and Recreation					
Current					
Community Building	16,989	16,989	15,924	(1,065)	14,635
Parks	74,614	74,614	75,294	680	62,644
Library	11,790	11,790	9,753	(2,037)	9,971
Capital Outlay	43,000	48,000	17,424	(30,576)	2,337
Total Culture and Recreation	<u>146,393</u>	<u>151,393</u>	<u>118,395</u>	<u>(32,998)</u>	<u>89,587</u>
Conservation of Natural Resources					
Vector Control	17,000	12,000	11,166	(834)	19,054
Forestry Shade Tree	5,800	10,800	10,312	(488)	3,767
Total Conservation of Natural Resources	<u>22,800</u>	<u>22,800</u>	<u>21,478</u>	<u>(1,322)</u>	<u>22,821</u>
Economic Development - Current	<u>102,000</u>	<u>79,700</u>	<u>68,822</u>	<u>(10,878)</u>	<u>60,700</u>
Debt Service					
Principal			25,888	25,888	17,922
Interest			1,505	1,505	1,130
Total Debt Service			<u>27,393</u>	<u>27,393</u>	<u>19,052</u>
TOTAL DISBURSEMENTS	<u>1,444,328</u>	<u>1,739,768</u>	<u>1,592,647</u>	<u>(147,121)</u>	<u>2,082,511</u>
Receipts Over (Under) Disbursements	(258,548)	(565,624)	(385,327)	180,297	(919,303)
OTHER FINANCING SOURCES (USES)					
Debt Issued			31,755	31,755	671,165
Bond Premium					16,246
Transfer In	261,000	550,800	287,518	(263,282)	264,680
Transfer In - Interfund Loan			283,963	283,963	
Transfer Out - Interfund Loan					(13,118)
TOTAL OTHER FINANCING SOURCES (USES)	<u>261,000</u>	<u>550,800</u>	<u>603,236</u>	<u>52,436</u>	<u>938,973</u>
Net Change in Fund Balances	2,452	(14,824)	217,909	232,733	19,670
Fund Balances - Beginning	1,965,376	1,965,376	1,965,376		1,945,706
Fund Balances - Ending	<u>\$ 1,967,828</u>	<u>\$ 1,950,552</u>	<u>\$ 2,183,285</u>	<u>\$ 232,733</u>	<u>\$ 1,965,376</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

Exhibit A-1

	<u>Special Revenue Exhibit B-1</u>	<u>Debt Service Exhibit B-3</u>	<u>Capital Project Exhibit B-5</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 333,645	\$ 1,271,107	\$ 20,069	\$ 1,624,821
Cash with Fiscal Agent	<u>77,683</u>			<u>77,683</u>
TOTAL ASSETS	<u>\$ 411,328</u>	<u>\$ 1,271,107</u>	<u>\$ 20,069</u>	<u>\$ 1,702,504</u>
FUND BALANCES				
Restricted for:				
Revolving Loan	\$ 77,683			\$ 77,683
Debt Service		1,271,107		1,271,107
Assigned for:				
Capital Projects			20,069	20,069
Committed for:				
BN Property	37,287			37,287
Garbage Service/Recycling	40,429			40,429
Deputy Registrar/Office	120,945			120,945
Municipal Airport	32,589			32,589
Storm Water Maint/Repairs	38,888			38,888
Building Upkeep/Repair	<u>63,507</u>			<u>63,507</u>
TOTAL FUND BALANCES	<u>\$ 411,328</u>	<u>\$ 1,271,107</u>	<u>\$ 20,069</u>	<u>\$ 1,702,504</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, 2014

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>
RECEIPTS				
Property Taxes	\$	\$ 67,029	\$	\$ 67,029
Special Assessments		613,364		613,364
Intergovernmental	106,743		142,356	249,099
Charges for Services	421,886			421,886
Investment Earnings	1,861	1,321	227	3,409
Miscellaneous				
Rent	80,802			80,802
Other Receipts	65,401			65,401
TOTAL RECEIPTS	<u>676,693</u>	<u>681,714</u>	<u>142,583</u>	<u>1,500,990</u>
DISBURSEMENTS				
Current				
General Government	82,742			82,742
Sanitation	198,071			198,071
Economic Development	26,922			26,922
Airport	185,817			185,817
Debt Service				
Principal		644,000		644,000
Interest and Other Charges		205,746		205,746
Miscellaneous		10		10
Capital Outlay				
Streets and Highways	19,191		199,738	218,929
TOTAL DISBURSEMENTS	<u>512,743</u>	<u>849,756</u>	<u>199,738</u>	<u>1,562,237</u>
Receipts Over (Under) Disbursements	163,950	(168,042)	(57,155)	(61,247)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Asset	5,000			5,000
Debt Issued		71,142		71,142
Transfer In		296,600		296,600
Transfer Out	(97,800)		(86,900)	(184,700)
Transfer Out - Interfund Loan	(36,382)			(36,382)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(129,182)</u>	<u>367,742</u>	<u>(86,900)</u>	<u>151,660</u>
Net Change in Fund Balances	34,768	199,700	(144,055)	90,413
Fund Balances - Beginning	<u>376,560</u>	<u>1,071,407</u>	<u>164,124</u>	<u>1,612,091</u>
Fund Balances - Ending	<u>\$ 411,328</u>	<u>\$ 1,271,107</u>	<u>\$ 20,069</u>	<u>\$ 1,702,504</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2014

Exhibit B-1

	Nonmajor Funds							Total Special Revenue Exhibit A-1
	Revolving Loan	Economic Development	Garbage	Deputy Registrar	Storm Water	Airport	Clinic	
ASSETS								
Cash and Investments	\$	\$	\$	\$	\$	\$	\$	\$
Cash with Fiscal Agent	77,683	37,287	40,429	120,945	38,888	32,589	63,507	333,645
	<u>77,683</u>	<u>37,287</u>	<u>40,429</u>	<u>120,945</u>	<u>38,888</u>	<u>32,589</u>	<u>63,507</u>	<u>77,683</u>
TOTAL ASSETS	<u>\$ 77,683</u>	<u>\$ 37,287</u>	<u>\$ 40,429</u>	<u>\$ 120,945</u>	<u>\$ 38,888</u>	<u>\$ 32,589</u>	<u>\$ 63,507</u>	<u>\$ 411,328</u>
FUND BALANCES								
Restricted for:								
Revolving Loan	\$ 77,683							\$ 77,683
Committed for:								
BN Property		37,287						37,287
Garbage Service/Recycling			40,429					40,429
Deputy Registrar/Office				120,945				120,945
Municipal Airport						32,589		32,589
Storm Water Maint/Repairs					38,888			38,888
Building Upkeep/Repair							63,507	63,507
	<u>77,683</u>	<u>37,287</u>	<u>40,429</u>	<u>120,945</u>	<u>38,888</u>	<u>32,589</u>	<u>63,507</u>	<u>411,328</u>
TOTAL FUND BALANCES	<u>\$ 77,683</u>	<u>\$ 37,287</u>	<u>\$ 40,429</u>	<u>\$ 120,945</u>	<u>\$ 38,888</u>	<u>\$ 32,589</u>	<u>\$ 63,507</u>	<u>\$ 411,328</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, 2014

Exhibit B-2

	Nonmajor Funds							Total Special Revenue A-2
	Revolving Loan	Economic Development	Garbage	Deputy Registrar	Storm Water	Airport	Clinic	
RECEIPTS								
Intergovernmental - Federal	\$	\$	\$	\$	\$	\$ 89,573	\$	\$ 89,573
Intergovernmental - State						17,170		17,170
Charges for Services			232,708	87,652	101,526			421,886
Investment Earnings	1,416	39	60	197	55	48	46	1,861
Miscellaneous								
Rent	5,031					44,871	30,900	80,802
Other Receipts	30,000		1,456	671		33,274		65,401
TOTAL RECEIPTS	<u>36,447</u>	<u>39</u>	<u>234,224</u>	<u>88,520</u>	<u>101,581</u>	<u>184,936</u>	<u>30,946</u>	<u>676,693</u>
DISBURSEMENTS								
Current								
General Government				78,074			4,668	82,742
Sanitation			198,071					198,071
Economic Development	26,922							26,922
Airport						185,817		185,817
Capital Outlay								
Streets and Highways					19,191			19,191
TOTAL DISBURSEMENTS	<u>26,922</u>	<u></u>	<u>198,071</u>	<u>78,074</u>	<u>19,191</u>	<u>185,817</u>	<u>4,668</u>	<u>512,743</u>
Receipts Over (Under) Disbursements	9,525	39	36,153	10,446	82,390	(881)	26,278	163,950
OTHER FINANCING SOURCES (USES)								
Sale of Capital Asset		5,000						5,000
Transfer Out			(20,000)		(77,800)			(97,800)
Transfer Out - Interfund Loan	(3,963)					(9,144)	(23,275)	(36,382)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,963)</u>	<u>5,000</u>	<u>(20,000)</u>	<u></u>	<u>(77,800)</u>	<u>(9,144)</u>	<u>(23,275)</u>	<u>(129,182)</u>
Net Change in Fund Balances	5,562	5,039	16,153	10,446	4,590	(10,025)	3,003	34,768
Fund Balances - Beginning	72,121	32,248	24,276	110,499	34,298	42,614	60,504	376,560
Fund Balances - Ending	<u>\$ 77,683</u>	<u>\$ 37,287</u>	<u>\$ 40,429</u>	<u>\$ 120,945</u>	<u>\$ 38,888</u>	<u>\$ 32,589</u>	<u>\$ 63,507</u>	<u>\$ 411,328</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS
DECEMBER 31, 2014

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	\$ <u>186,406</u>	\$ <u>159,358</u>	\$ <u>66,838</u>	\$ <u>202,605</u>	\$ <u>144,394</u>	\$ <u>109,052</u>
TOTAL ASSETS	\$ <u><u>186,406</u></u>	\$ <u><u>159,358</u></u>	\$ <u><u>66,838</u></u>	\$ <u><u>202,605</u></u>	\$ <u><u>144,394</u></u>	\$ <u><u>109,052</u></u>
FUND BALANCES						
Restricted for Debt Service	\$ <u>186,406</u>	\$ <u>159,358</u>	\$ <u>66,838</u>	\$ <u>202,605</u>	\$ <u>144,394</u>	\$ <u>109,052</u>
TOTAL FUND BALANCES	\$ <u><u>186,406</u></u>	\$ <u><u>159,358</u></u>	\$ <u><u>66,838</u></u>	\$ <u><u>202,605</u></u>	\$ <u><u>144,394</u></u>	\$ <u><u>109,052</u></u>

cont.

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS – CONTINUED
DECEMBER 31, 2014

Exhibit B-3

	Nonmajor Funds							
	11 Refund (06A)	11 Refund (06B)	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy 10	Bond TIF	Total Nonmajor Debt Service Exhibit A-1
ASSETS								
Cash and Investments	\$ 41,076	\$ 26,157	\$ 8,228	\$ 3,278	\$ 46,824	\$ 205,734	\$ 71,157	\$ 1,271,107
TOTAL ASSETS	<u>\$ 41,076</u>	<u>\$ 26,157</u>	<u>\$ 8,228</u>	<u>\$ 3,278</u>	<u>\$ 46,824</u>	<u>\$ 205,734</u>	<u>\$ 71,157</u>	<u>\$ 1,271,107</u>
FUND BALANCES								
Restricted for Debt Service	\$ 41,076	\$ 26,157	\$ 8,228	\$ 3,278	\$ 46,824	\$ 205,734	\$ 71,157	\$ 1,271,107
TOTAL FUND BALANCES	<u>\$ 41,076</u>	<u>\$ 26,157</u>	<u>\$ 8,228</u>	<u>\$ 3,278</u>	<u>\$ 46,824</u>	<u>\$ 205,734</u>	<u>\$ 71,157</u>	<u>\$ 1,271,107</u>

CITY OF HAWLEY, MINNESOTA

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Exhibit B-4

	Nonmajor Funds					
	10 Refund	11 Refund (04)	2005 Prairie Hills 2 Bond	2005 Jetvig Bond	2006 PFA Water	
RECEIPTS						
Property Taxes	\$	\$	\$	\$	\$	\$
Special Assessments	91,611	94,027	71,711	105,322	94,572	43,812
Investment Earnings	299	183	26	267	105	98
TOTAL RECEIPTS	91,910	94,210	71,737	105,589	94,677	43,910
DISBURSEMENTS						
Debt Service						
Principal	50,000	70,000	56,000	69,000	131,000	55,000
Interest and Other Charges	6,100	10,965	21,701	30,424	26,692	7,367
Miscellaneous						
TOTAL DISBURSEMENTS	56,100	80,965	77,701	99,424	157,692	62,367
Receipts Over (Under) Disbursements	35,810	13,245	(5,964)	6,165	(63,015)	(18,457)
OTHER FINANCING SOURCES						
Debt Issued						
Transfer In					89,000	34,000
TOTAL OTHER FINANCING SOURCES					89,000	34,000
Net Change in Fund Balances	35,810	13,245	(5,964)	6,165	25,985	15,543
Fund Balances - Beginning	150,596	146,113	72,802	196,440	118,409	93,509
Fund Balances - Ending	\$ 186,406	\$ 159,358	\$ 66,838	\$ 202,605	\$ 144,394	\$ 109,052

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, 2014

Exhibit B-4

	Nonmajor Funds							
	11 Refund (06A)	11 Refund (06B)	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy10	Bond TIF	Total Nonmajor Debt Service Exhibit A-2
RECEIPTS								
Property Taxes	\$	\$	\$	\$	\$ 11,048	\$ 55,981	\$	\$ 67,029
Special Assessments	46,184	25,903			40,222			613,364
Investment Earnings	50	24	8	2	50	184	25	1,321
TOTAL RECEIPTS	46,234	25,927	8	2	51,320	56,165	25	681,714
DISBURSEMENTS								
Debt Service								
Principal	35,000	20,000	7,000	6,000	90,000	55,000		644,000
Interest and Other Charges	6,680	4,288	1,471	2,385	28,308	59,365		205,746
Miscellaneous							10	10
TOTAL DISBURSEMENTS	41,680	24,288	8,471	8,385	118,308	114,365	10	849,756
Receipts Over (Under) Disbursements	4,554	1,639	(8,463)	(8,383)	(66,988)	(58,200)	15	(168,042)
OTHER FINANCING SOURCES								
Debt Issued							71,142	71,142
Transfer In			10,000	8,700	68,000	86,900		296,600
TOTAL OTHER FINANCING SOURCES			10,000	8,700	68,000	86,900	71,142	367,742
Net Change in Fund Balances	4,554	1,639	1,537	317	1,012	28,700	71,157	199,700
Fund Balances - Beginning	36,522	24,518	6,691	2,961	45,812	177,034		1,071,407
Fund Balances - Ending	\$ 41,076	\$ 26,157	\$ 8,228	\$ 3,278	\$ 46,824	\$ 205,734	\$ 71,157	\$ 1,271,107

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Exhibit B-5

	Nonmajor Cretex Industrial Park	Total Nonmajor Capital Project Exhibit A-2	Major Fund TIF Cretex RDO	Total Capital Project
RECEIPTS				
Intergovernmental	\$ 142,356	\$ 142,356	\$	\$ 142,356
Investment Earnings	227	227	10	237
TOTAL RECEIPTS	142,583	142,583	10	142,593
DISBURSEMENTS				
Capital Outlay				
Economic Development			1,223,760	1,223,760
Streets and Highways	199,738	199,738		199,738
TOTAL DISBURSEMENTS	199,738	199,738	1,223,760	1,423,498
Receipts (Under) Disbursements	(57,155)	(57,155)	(1,223,750)	(1,280,905)
OTHER FINANCING SOURCES (USES)				
Debt Issued			1,198,858	1,198,858
Bond Premium			24,892	24,892
Transfer Out	(86,900)	(86,900)		(86,900)
TOTAL OTHER FINANCING SOURCES (USES)	(86,900)	(86,900)	1,223,750	1,136,850
Net Change in Fund Balances	(144,055)	(144,055)		(144,055)
Fund Balances - Beginning	164,124	164,124		164,124
Fund Balances - Ending	\$ 20,069	\$ 20,069	\$	\$ 20,069

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Balance 01/01/14	Additions	Deductions	Balance 12/31/14
HAWLEY AREA FIRE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	\$ 892	\$ 174,068	\$ 99,995	\$ 74,965
Total Assets	<u>\$ 892</u>	<u>\$ 174,068</u>	<u>\$ 99,995</u>	<u>\$ 74,965</u>
LIABILITIES				
Due to Other Governments	\$ 892	\$ 174,068	\$ 99,995	\$ 74,965
Total Liabilities	<u>\$ 892</u>	<u>\$ 174,068</u>	<u>\$ 99,995</u>	<u>\$ 74,965</u>
 HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	<u>\$ (742)</u>	<u>\$ 51,454</u>	<u>\$ 51,492</u>	<u>\$ (780)</u>
LIABILITIES				
Due to Other Governments	<u>\$ (742)</u>	<u>\$ 51,454</u>	<u>\$ 51,492</u>	<u>\$ (780)</u>
 TOTAL				
ASSETS				
Cash and Investments	<u>\$ 150</u>	<u>\$ 225,522</u>	<u>\$ 151,487</u>	<u>\$ 74,185</u>
Total Assets	<u>\$ 150</u>	<u>\$ 225,522</u>	<u>\$ 151,487</u>	<u>\$ 74,185</u>
LIABILITIES				
Due to Other Governments	<u>\$ 150</u>	<u>\$ 225,522</u>	<u>\$ 151,487</u>	<u>\$ 74,185</u>
Total Liabilities	<u>\$ 150</u>	<u>\$ 225,522</u>	<u>\$ 151,487</u>	<u>\$ 74,185</u>

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Bond Premiums	Contributed Capital	Balance End of Year
Governmental Funds									
General Fund									
Committed for:									
Seal Coat/Crack Fill	\$ 105,450	\$	\$	\$ 115,009	\$	\$	\$	\$	\$ 220,459
Hwy 10 31/33 Project	130,000			(103,600)					26,400
Plow Truck/Equipment	112,900			(97,500)					15,400
Street Patching	11,000			41,000					52,000
Sidewalks	10,000			13,000					23,000
Lawn Mower	7,600			(5,000)					2,600
Tornado Siren				9,500					9,500
Park Board Sinking Fund				60,000					60,000
Zoning Comprehensive Plan				11,000					11,000
Unassigned	<u>1,588,426</u>	<u>1,207,320</u>	<u>1,592,647</u>	<u>244,109</u>	<u>283,963</u>	<u>31,755</u>			<u>1,762,926</u>
Total General Fund	<u>1,965,376</u>	<u>1,207,320</u>	<u>1,592,647</u>	<u>287,518</u>	<u>283,963</u>	<u>31,755</u>			<u>2,183,285</u>
Special Revenue									
Revolving Loan	72,121	36,447	26,922		(3,963)				77,683
Economic Development	32,248	39						5,000	37,287
Garbage	24,276	234,224	198,071	(20,000)					40,429
Deputy Registrar	110,499	88,520	78,074						120,945
Airport	42,614	184,936	185,817		(9,144)				32,589
Storm Water	34,298	101,581	19,191	(77,800)					38,888
Clinic	60,504	30,946	4,668		(23,275)				63,507
Debt Service									
10 Refund	150,596	91,910	56,100						186,406
11 Refund (04)	146,113	94,210	80,965						159,358
2005 Prairie Hills 2 Bond	72,802	71,737	77,701						66,838
2005 Jetvig Bond	196,440	105,589	99,424						202,605
11 Refund (06A)	36,522	46,234	41,680						41,076
2006 PFA Water	118,409	94,677	157,692	89,000					144,394
2006 PFA Sewer	93,509	43,910	62,367	34,000					109,052
11 Refund (06B)	24,518	25,927	24,288						26,157
2008 PFA Water	6,691	8	8,471	10,000					8,228
2008 PFA Sewer	2,961	2	8,385	8,700					3,278
11 Street Rebuild	45,812	51,320	118,308	68,000					46,824
13 Cretex/Hwy10	177,034	56,165	114,365	86,900					205,734
Bond TIF		25	10			71,142			71,157
Capital Projects									
Cretex Industrial Park	164,124	142,583	199,738	(86,900)					20,069
TIF Cretex/RDO		10	1,223,760			1,198,858	24,892		
Total Governmental Funds	<u>\$ 3,577,467</u>	<u>\$ 2,708,320</u>	<u>\$ 4,378,644</u>	<u>\$ 399,418</u>	<u>\$ 247,581</u>	<u>\$ 1,301,755</u>	<u>\$ 24,892</u>	<u>\$ 5,000</u>	<u>\$ 3,885,789</u>

cont.

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Bonds Issued	Bond Premiums	Contributed Capital	Balance End of Year
Proprietary Funds									
Water	\$ 2,279,376	\$ 345,347	\$ 320,094	\$ (99,000)	\$	\$	\$	\$	\$ 2,205,629
Sewer	2,629,151	270,823	283,943	(87,700)					2,528,331
Electric	2,171,452	2,463,316	2,342,447	(144,669)					2,147,652
Gas	678,697	978,480	838,559	(63,049)					755,569
Liquor	149,841	1,040,020	1,018,781	(5,000)					166,080
Total Proprietary Funds	\$ 7,908,517	\$ 5,097,986	\$ 4,803,824	\$ (399,418)	\$	\$	\$	\$	\$ 7,803,261

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2013	Issued 2014	Retired 2014	Balance 12/31/2014	Principal Due In 2015	Interest Due In 2015
General Obligation Bonds										
G.O. Improvement Refunding, 2010A	2.6 - 3.1%	2010	2015/17	\$ 400,000	\$ 200,000	\$	\$ 50,000	\$ 150,000	\$ 50,000	\$ 4,375
G.O. Improvement Bonds, 2011B	2.0 - 3.3%	2011	2015/26	1,260,000	1,140,000		90,000	1,050,000	90,000	26,013
G.O. Refunding Bonds, 2011A	2.0 - 2.9%	2011	2015/19	585,000	450,000		70,000	380,000	75,000	9,070
G.O. Improvement, 2005	4.1 - 4.5%	2005	2015/21	856,000	519,000		56,000	463,000	58,000	19,042
G.O. Improvement, 2005	4.3 - 4.7%	2005	2015/21	1,071,000	650,000		69,000	581,000	72,000	27,069
G.O. Refunding Bonds, 2011A	2.0 - 3.3%	2011	2015/21	335,000	265,000		35,000	230,000	40,000	5,980
G.O. Refunding Bonds, 2011A	2.0 - 3.3%	2011	2015/21	205,000	165,000		20,000	145,000	20,000	3,888
G.O. Refunding Note, 2012A	1.90%	2012	2015/18	229,000	193,000		37,000	156,000	38,000	2,964
G.O. Improvement Bonds, 2013A	0.9 - 3.0%	2013	2015/23	1,625,000	1,625,000		55,000	1,570,000	160,000	43,740
G.O. TIF Bonds 2014A	2.0 - 3.0%	2014	2016/25	1,270,000		1,270,000		1,270,000		44,413
Total General Obligation Bonds					<u>5,207,000</u>	<u>1,270,000</u>	<u>482,000</u>	<u>5,995,000</u>	<u>603,000</u>	<u>186,554</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Note, 2006A	1.56%	2006	2015/25	2,565,987	1,711,000		131,000	1,580,000	133,000	24,648
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2015/25	1,010,110	695,000		55,000	640,000	55,000	6,784
G.O. Water Revenue Note, 2008A	1.29%	2008	2015/27	150,010	114,000		7,000	107,000	8,000	1,380
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2015/27	132,954	104,000		6,000	98,000	7,000	2,247
G.O. Water Revenue Note, 2001	3.32%	2001	2015/21	660,000	319,000		35,000	284,000	37,000	9,429
G.O. Sewer Revenue Refunding, 2009A	3.10%	2009	2015/16	505,000	200,000		65,000	135,000	65,000	4,185
G.O. Gas Transmission Revenue, 2005	4.1 - 4.5%	2005	2015/21	384,000	232,000		25,000	207,000	26,000	8,512
Total General Obligation Revenue Bonds					<u>3,375,000</u>		<u>324,000</u>	<u>3,051,000</u>	<u>331,000</u>	<u>57,185</u>
Revenue Bonds										
Revenue Bonds, 2008A	5.5 - 6.5%	2008	2015/27	435,000	375,000		20,000	355,000	20,000	21,776
Other Long-Term Debt										
Capital Lease-2013 Police Car	6.50%	2012	2014	25,979	8,648		8,648			
Capital Lease-2013 Ford Explorer	3.34%	2013	2015/16	37,422	27,601		8,900	18,701	9,197	625
Capital Lease-2013 Ford Interceptor	5.00%	2014	2015/17	31,755		31,755	8,340	23,415	7,546	794
Total Other Long-Term Debt					<u>36,249</u>	<u>31,755</u>	<u>25,888</u>	<u>42,116</u>	<u>16,743</u>	<u>1,419</u>
Total					<u>\$ 8,993,249</u>	<u>\$ 1,301,755</u>	<u>\$ 851,888</u>	<u>\$ 9,443,116</u>	<u>\$ 970,743</u>	<u>\$ 266,934</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 & Forfeitures</u>	<u>Special Assessments</u>	<u>Interest</u>	<u>Lease Payment for Debt Service</u>	<u>Miscellaneous</u>	<u>Total</u>
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)
2014	505,529	23,721	903,166	438,474	22,518	636,666	5,515		172,731	2,708,320 (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
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)
2014	320,254	547,069	142,558	198,071	100,971	877,139	665,773	303,049	3,154,884 (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	EDA/HRA	
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
2014	1,012,934	441,000	43.537	27.391	50.223	1.776	0.707	123.634

* 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, 2014
(UNAUDITED)

ADDITIONS	
Operating Reimbursements	
City of Hawley	\$ 34,328
Townships	<u>17,126</u>
TOTAL ADDITIONS	<u>51,454</u>
DEDUCTIONS	
Current	
Professional Services	50,000
RRR Dispatch	<u>1,492</u>
TOTAL DEDUCTIONS	<u>51,492</u>
CHANGES IN ASSETS AND LIABILITIES	(38)
ASSETS AND LIABILITIES, BEGINNING	<u>(742)</u>
ASSETS AND LIABILITIES, ENDING	<u><u>\$ (780)</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, 2014
(UNAUDITED)

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 49,000
Townships	49,000
Grant	1,500
Fire Relief	62,000
Investment Earnings	116
Miscellaneous	2,148
Interfund Transfer - Fire District Checking Account	<u>10,304</u>
TOTAL ADDITIONS	<u>174,068</u>
DEDUCTIONS	
Current	
Professional Services	5,350
Insurance	11,140
Training	5,274
Supplies	11,650
Fuel and Additives	3,627
Repairs and Maintenance	1,512
Utilities	7,251
Salaries and Benefits	27,227
Fire Relief Contribution	7,700
RRR Dispatch	574
Miscellaneous	8,859
Capital Outlay	<u>9,831</u>
TOTAL DEDUCTIONS	<u>99,995</u>
CHANGES IN ASSETS AND LIABILITIES	74,073
ASSETS AND LIABILITIES, BEGINNING	<u>892</u>
ASSETS AND LIABILITIES, ENDING	<u><u>\$ 74,965</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, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2015. 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* except as described in the schedule of findings and responses as item 2014-002. 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.

A handwritten signature in black ink that reads "Brady Martz".

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

February 24, 2015

BRADY, MARTZ & ASSOCIATES, P.C.
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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 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, 2014, 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 February 24, 2015. 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. However, as discussed below, we noted a deficiency in internal control that we consider to be a significant deficiency.

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 2014-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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

February 24, 2015

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2014

2014-001 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, 2014, 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.

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2014

2014-002 FINDING

Criteria

Minnesota Statute Section 574.26 requires contractors doing public work to give both a performance bond and payment bond for contracts over \$100,000.

Condition

The City entered into a contract over \$100,000 without requiring a performance or payment bond.

Cause

Oversight by the City Staff.

Effect

The City was not in compliance with Minnesota State Statutes.

Recommendation

The City should comply with the statute.

Corrective Action Plan Prepared by the City

Correcting Plan: Staff responsible for contract bidding will be given a copy of the state statute and will be responsible for following the laws.

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 planned completion date for the corrective action plan is immediately.

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