

**CITY OF HAWLEY
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	Page
CITY OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Balances Arising from Cash Transactions - Governmental Funds	5
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Governmental Funds	6
Statement of Net Position - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Net Position - Propriety Funds	9
Statement of Cash Flows - Proprietary Funds	10
Statement of Fiduciary Net Position - Agency Funds	12
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Cash Basis - General Fund	32
Budgetary Comparison Schedule - Cash Basis - Airport Fund	34
Schedule of City Contributions	35
Schedule of City's Share of Net Pension Liability	36
Note to the Pension Schedules	37
Combining Statement of Balances Arising from Cash Transactions - Nonmajor Governmental Funds	38
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Nonmajor Governmental Funds	39
Combining Statement of Balances Arising from Cash Transactions - Special Revenue Funds	40
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Special Revenue Funds	41
Combining Statement of Balances Arising from Cash Transactions - Debt Service Funds	43
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Debt Service Funds	45
Combining Statement of Balances Arising from Cash Transactions - Capital Project Funds	47
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Capital Project Funds	48

Combining Statement of Changes in Assets and Liabilities - Agency Funds	49
Schedule of Changes in Fund Balances and Changes in Net Position	50
Schedule of Indebtedness	52
OTHER INFORMATION	
Governmental Funds Receipts by Source	53
Governmental Funds Disbursements by Function	54
Assessed Valuation/Tax Capacity, Tax Levies and Rates	55
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Emergency Response District - Joint Powers	56
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Fire District - Joint Powers	57
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	58
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 <i>GOVERNMENT AUDITING STANDARDS</i>	59
Schedule of Finding and Responses	61
Corrective Action Plan	62

CITY OF HAWLEY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2016

Mayor	Gary E. Johnson
Council Member	Ben Gunkelman
Council Member	Carlos Diaz
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, 2016, 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, 2016, 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, 2016, 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 schedules, 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 schedules, 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 schedules, 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 March 10, 2017, 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

March 10, 2017

CITY OF HAWLEY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,383,211	\$ 30,802	\$ 1,564,132	\$ 3,978,145
Cash with Fiscal Agent			104,562	104,562
TOTAL ASSETS	\$ 2,383,211	\$ 30,802	\$ 1,668,694	\$ 4,082,707
FUND BALANCES				
Restricted for:				
Revolving Loan	\$	\$	\$ 104,562	\$ 104,562
Debt Service			1,163,855	1,163,855
Committed for:				
Levy Reduction	51,800			51,800
Public Works	37			37
15th Street Top Lift	18,941			18,941
Seal Coat/Crack Fill	235,459			235,459
Hwy 10 31/33 Project	900			900
Plow Truck/Equipment	50,100			50,100
Street Patching	94,000			94,000
Sidewalks	23,600			23,600
Lawn Mower	7,600			7,600
Tornado Siren	14,500			14,500
Park Board Sinking Fund	109,600			109,600
Park - Brekken	1,256			1,256
Park - Disc Golf	2,000			2,000
Park Donations	11,759			11,759
Fire Building	51,900			51,900
Police - Night to Unite	180			180
Police Armor Upgrade	600			600
Police Vehicle	25,000			25,000
Zoning Comprehensive Fund	12,300			12,300
Economic Development	9,300			9,300
River Meandering - Phase 3	20,000			20,000
Community Center	5,800			5,800
Building Demolition	4,500			4,500
City Hall Roof	9,000			9,000
Municipal Airport		30,802		30,802
Garbage Service/Recycling			118,202	118,202
Deputy Registrar/Office			83,118	83,118
Storm Water Maint/Repairs			85,247	85,247
Building Upkeep/Repair			29,583	29,583
Assigned for:				
Capital Projects			84,127	84,127
Unassigned	1,623,079			1,623,079
TOTAL FUND BALANCES	\$ 2,383,211	\$ 30,802	\$ 1,668,694	\$ 4,082,707

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, 2016

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property Taxes	\$ 437,497	\$	\$ 81,978	\$ 519,475
Tax Increment Financing	17,154		246,915	264,069
Special Assessments	58,173		650,382	708,555
Licenses and Permits	19,129			19,129
Intergovernmental	703,398	292,865		996,263
Charges for Services	16,308		476,377	492,685
Fines and Forfeitures	20,711			20,711
Investment Earnings	3,102	18	3,274	6,394
Miscellaneous	82,327	76,102	62,733	221,162
TOTAL RECEIPTS	<u>1,357,799</u>	<u>368,985</u>	<u>1,521,659</u>	<u>3,248,443</u>
DISBURSEMENTS				
Current				
General Government	203,825		105,167	308,992
Public Safety	565,007			565,007
Streets and Highways	166,665			166,665
Sanitation			227,400	227,400
Culture and Recreation	106,574			106,574
Conservation of Natural Resources	33,896			33,896
Economic Development	71,335		131,599	202,934
Airport		219,557		219,557
Debt Services				
Principal	40,324		891,000	931,324
Interest and Other Charges	3,027		177,454	180,481
Capital Outlay				
General Government	389			389
Public Safety	98,996			98,996
Streets and Highways			350,610	350,610
Culture and Recreation	17,334			17,334
Airport		254,765		254,765
TOTAL DISBURSEMENTS	<u>1,307,372</u>	<u>474,322</u>	<u>1,883,230</u>	<u>3,664,924</u>
Receipts Over (Under) Disbursements	50,427	(105,337)	(361,571)	(416,481)
OTHER FINANCING SOURCES (USES)				
Bonds Issued			411,000	411,000
Transfer In	255,766		373,407	629,173
Transfer Out	(25,500)		(226,207)	(251,707)
Transfer In - Interfund Loan	19,892	165,000	65	184,957
Transfer Out - Interfund Loan	(30,065)	(28,861)	(63,396)	(122,322)
TOTAL OTHER FINANCING SOURCES (USES)	<u>220,093</u>	<u>136,139</u>	<u>494,869</u>	<u>851,101</u>
Net Change in Fund Balances	270,520	30,802	133,298	434,620
Fund Balances - Beginning	2,112,691		1,535,396	3,648,087
Fund Balances - Ending	<u>\$ 2,383,211</u>	<u>\$ 30,802</u>	<u>\$ 1,668,694</u>	<u>\$ 4,082,707</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
ASSETS						
Current Assets						
Cash and Investments	\$ 77,599	\$ 127,372	\$ 831,734	\$ 445,861	\$	\$ 1,482,566
Accounts Receivable, Net	28,208	24,526	261,693	109,797		424,224
Due From Other Funds			48,166			48,166
Inventory			68,399		161,653	230,052
Total Current Assets	<u>105,807</u>	<u>151,898</u>	<u>1,209,992</u>	<u>555,658</u>	<u>161,653</u>	<u>2,185,008</u>
Noncurrent Assets						
Assessments Receivable		44,446				44,446
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	2,366,991	1,096,180		12,662,708
Equipment	27,846	8,000	366,323	22,321	90,725	515,215
Less: Accumulated Depreciation	<u>(2,331,271)</u>	<u>(2,711,256)</u>	<u>(1,828,927)</u>	<u>(598,104)</u>	<u>(123,208)</u>	<u>(7,592,766)</u>
Net Capital Assets	<u>2,382,011</u>	<u>1,827,118</u>	<u>1,161,553</u>	<u>591,491</u>	<u>459,193</u>	<u>6,421,366</u>
Other Assets						
Cash-Restricted for Debt		92,648				92,648
Cash-Restricted for Lottery					3,281	3,281
Advance to Other Funds		233,425	310,415			543,840
Total Other Assets		<u>326,073</u>	<u>310,415</u>		<u>3,281</u>	<u>639,769</u>
TOTAL ASSETS	<u>2,487,818</u>	<u>2,349,535</u>	<u>2,681,960</u>	<u>1,147,149</u>	<u>624,127</u>	<u>9,290,589</u>
DEFERRED OUTFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	<u>32,215</u>	<u>34,515</u>	<u>115,051</u>	<u>69,032</u>	<u>55,226</u>	<u>306,039</u>
LIABILITIES						
Current Liabilities						
Accounts Payable	5	2,231	155,255	65,938	46	223,475
Salary Payable	1,725	1,978	6,264	3,983	3,656	17,606
Due to Other Funds					48,166	48,166
Due to Other Governmental Units	6,253				3,282	9,535
Customer Deposits			34,752			34,752
Unearned Revenue			74,135			74,135
Interest Payable	2,500			2,081	2,079	6,660
Compensated Absences	8,248	10,443	23,828	16,834	12,919	72,272
Current Portion - Long-Term Liabilities	78,000			28,000	22,000	128,000
Total Current Liabilities	<u>96,731</u>	<u>14,652</u>	<u>294,234</u>	<u>116,836</u>	<u>92,148</u>	<u>614,601</u>
Long-Term Liabilities						
Advance from Other Funds	36,138				35,275	71,413
Bonds Payable	288,000			154,000	329,000	771,000
Net Pension Liability	77,298	82,819	276,064	165,638	132,510	734,329
Less: Current Portion - Long-Term Debt	<u>(78,000)</u>			<u>(28,000)</u>	<u>(22,000)</u>	<u>(128,000)</u>
Total Long-Term Liabilities	<u>323,436</u>	<u>82,819</u>	<u>276,064</u>	<u>291,638</u>	<u>474,785</u>	<u>1,448,742</u>
TOTAL LIABILITIES	<u>420,167</u>	<u>97,471</u>	<u>570,298</u>	<u>408,474</u>	<u>566,933</u>	<u>2,063,343</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	<u>10,198</u>	<u>10,926</u>	<u>36,419</u>	<u>21,851</u>	<u>17,482</u>	<u>96,876</u>
NET POSITION						
Net Investment in Capital Assets	2,094,011	1,827,118	1,161,553	437,491	130,193	5,650,366
Unrestricted	<u>(4,343)</u>	<u>448,535</u>	<u>1,028,741</u>	<u>348,365</u>	<u>(35,255)</u>	<u>1,786,043</u>
TOTAL NET POSITION	<u>\$ 2,089,668</u>	<u>\$ 2,275,653</u>	<u>\$ 2,190,294</u>	<u>\$ 785,856</u>	<u>\$ 94,938</u>	<u>\$ 7,436,409</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, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 1,146,098	\$ 1,146,098
Cost of Sales					(849,787)	(849,787)
Gross Profit					296,311	296,311
Charges for Sales and Services	380,324	291,878	2,384,627	705,284		3,762,113
Less Dual Fuel Rebates			(31,011)			(31,011)
Other Charges and Income	6,181	3,148	42,678	3,865	9,000	64,872
Total Operating Revenue	<u>386,505</u>	<u>295,026</u>	<u>2,396,294</u>	<u>709,149</u>	<u>305,311</u>	<u>4,092,285</u>
Operating Expenses						
Purchased Power and Gas			1,635,354	321,179		1,956,533
Salaries and Wages	57,315	72,271	227,403	140,304	125,062	622,355
Employee Benefits	24,461	25,641	94,455	58,743	52,114	255,414
Repairs and Maintenance	48,886	2,918	71,647	17,369	702	141,522
Chemicals	1,389	4,316				5,705
Utilities	17,303	3,988	11,715	4,403	14,235	51,644
Insurance	4,660	4,060	6,336	4,642	5,084	24,782
Professional Fees	2,197	16,848	29,018	17,436	7,472	72,971
Supplies	2,643	1,052	17,043	5,897	6,548	33,183
Other Expenses	2,458	57,397	53,116	19,143	42,317	174,431
Depreciation	154,352	169,402	101,580	29,521	15,783	470,638
Total Operating Expenses	<u>315,664</u>	<u>357,893</u>	<u>2,247,667</u>	<u>618,637</u>	<u>269,317</u>	<u>3,809,178</u>
Operating Income (Loss)	70,841	(62,867)	148,627	90,512	35,994	283,107
Nonoperating Income (Expense)						
Investment Earnings	81	6,713	10,430	696	48	17,968
Interest and Other Charges	(11,123)			(7,022)	(33,090)	(51,235)
Special Assessment Revenue		50,880				50,880
Gain on Disposal of Capital Asset			1,807			1,807
Total Nonoperating Income (Expense)	<u>(11,042)</u>	<u>57,593</u>	<u>12,237</u>	<u>(6,326)</u>	<u>(33,042)</u>	<u>19,420</u>
Net Income (Loss) Before Transfers	59,799	(5,274)	160,864	84,186	2,952	302,527
Transfers Out	<u>(99,000)</u>	<u>(87,700)</u>	<u>(134,828)</u>	<u>(50,938)</u>	<u>(5,000)</u>	<u>(377,466)</u>
Change in Net Position	(39,201)	(92,974)	26,036	33,248	(2,048)	(74,939)
Net Position, Beginning	<u>2,128,869</u>	<u>2,368,627</u>	<u>2,164,258</u>	<u>752,608</u>	<u>96,986</u>	<u>7,511,348</u>
Net Position, Ending	<u>\$ 2,089,668</u>	<u>\$ 2,275,653</u>	<u>\$ 2,190,294</u>	<u>\$ 785,856</u>	<u>\$ 94,938</u>	<u>\$ 7,436,409</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Water	Sewer	Electric	Gas	Liquor	Total
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 387,413	\$ 294,987	\$ 2,398,747	\$ 710,814	\$ 1,153,375	\$ 4,945,336
Payments to Suppliers	(79,545)	(88,348)	(1,806,854)	(379,304)	(907,994)	(3,262,045)
Payments to Employees	(75,276)	(90,463)	(298,184)	(183,898)	(167,075)	(814,896)
Net Cash Provided By Operating Activities	232,592	116,176	293,709	147,612	78,306	868,395
Cash Flows From Noncapital Financing Activities:						
Due from Other Funds			26,394			26,394
Due to Other Funds					(26,394)	(26,394)
Transfers to Other Funds	(99,000)	(87,700)	(134,828)	(50,938)	(5,000)	(377,466)
Advance From (To) Other Funds		23,575	(29,227)			(5,652)
Net Cash Provided (Used) By Noncapital Financing Activities	(99,000)	(64,125)	(137,661)	(50,938)	(31,394)	(383,118)
Cash Flows From Capital and Related Financing Activities:						
Purchase of Capital Assets	(18,086)	(8,000)	(32,893)			(58,979)
Advance from Other Funds	(18,899)				(49,124)	(68,023)
Special Assessment Revenue Received		6,434				6,434
Principal Paid on Debt	(77,000)			(27,000)	(20,000)	(124,000)
Interest and Other Charges Paid on Debt	(11,543)			(7,412)	(24,451)	(43,406)
Proceeds from Capital Debt					365	365
Gain on Disposal of Capital Asset			1,807			1,807
Net Cash (Used) By Capital and Related Financing Activities	(125,528)	(1,566)	(31,086)	(34,412)	(93,210)	(285,802)
Cash Flows From Investing Activities:						
Investment Earnings	83	6,713	10,430	700	51	17,977
Net Cash Provided By Investing Activities	83	6,713	10,430	700	51	17,977
Net Increase (Decrease) In Cash and Cash Equivalents	8,147	57,198	135,392	62,962	(46,247)	217,452
Cash and Cash Equivalents - Beginning of Year	69,452	162,822	696,342	382,899	49,528	1,361,043
Cash and Cash Equivalents - End of Year	\$ 77,599	\$ 220,020	\$ 831,734	\$ 445,861	\$ 3,281	\$ 1,578,495
Noncash Capital and Related Financing						
Payment of Long-Term Debt from Refunding Proceeds	\$	\$	\$	\$	\$ 315,000	\$ 315,000
Payment of Accrued Interest Expense from Refunding Proceeds					2,225	2,225
Payment of Fees from Refunding Proceeds					11,410	11,410

cont.

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS – CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<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)	\$ 70,841	\$ (62,867)	\$ 148,627	\$ 90,512	\$ 35,994	\$ 283,107
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	154,352	169,402	101,580	29,521	15,783	470,638
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	255	(39)	23,057	1,665		24,938
Inventory			9,798		18,105	27,903
Accounts Payable	(9)	2,231	7,577	10,765	46	20,610
Salary Payable	410	417	1,586	1,080	704	4,197
Due to Other Governments	653		(7,243)		(1,723)	(8,313)
Customer Deposits			(3,920)			(3,920)
Unearned Revenue			(9,441)			(9,441)
Net Pension	25,058	26,848	89,493	53,696	42,956	238,051
Deferred Outflows	(25,021)	(26,807)	(89,358)	(53,616)	(42,893)	(237,695)
Deferred Inflows	5,098	5,462	18,205	10,923	8,739	48,427
Accrued Payroll Expenses			2			2
Compensated Absences	955	1,529	3,746	3,066	595	9,891
Total Adjustments	<u>161,751</u>	<u>179,043</u>	<u>145,082</u>	<u>57,100</u>	<u>42,312</u>	<u>585,288</u>
Net Cash Provided by Operating Activities	<u>\$ 232,592</u>	<u>\$ 116,176</u>	<u>\$ 293,709</u>	<u>\$ 147,612</u>	<u>\$ 78,306</u>	<u>\$ 868,395</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
AS OF DECEMBER 31, 2016

	<u>Agency</u>
ASSETS	
Cash and Investments	\$ <u>129,084</u>
TOTAL ASSETS	\$ <u><u>129,084</u></u>
LIABILITIES	
Due to Other Governments	\$ <u>129,084</u>
TOTAL LIABILITIES	\$ <u><u>129,084</u></u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 a 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's 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 THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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.

Special Revenue Fund - Airport – Accounts for the activities to operate the City’s airport.

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 fiduciary 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 Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The City considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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.

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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.

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2016, 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, 2016, a liability for unused sick leave has been set up for the proprietary fund employees and is included in the compensated absences.

Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan*, which represents actuarial differences within PERA pension plans.

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 assets 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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 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 and airport 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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, 2016, was \$24,364. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 3,978,145
Proprietary Funds	1,578,495
Fiduciary Funds	129,084
	\$ 5,685,724
Deposits	
Cash, Checking and Change Funds	\$ 28,700
Certificates of Deposits	685,470
Savings	4,538,033
Investments	433,521
	\$ 5,685,724

As of December 31, 2016, the City had the following investments:

Investments	Maturities	Level	Fair Value
4-M External Investment Pool	N/A	N/A	\$ 433,521

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 issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (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

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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 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, 2016, 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 summarizes the activity in this savings account.

	Capital Replacement Account
Balance, Beginning of Year	\$ 86,726
Additions	
Flow payment	5,818
Interest	104
Balance, End of Year	\$ 92,648

The liquor fund is also required to have a reserve account of \$3,281 for the lottery account.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2016, 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	12,629,815	32,893		12,662,708
Equipment	<u>506,859</u>	<u>26,086</u>	<u>17,730</u>	<u>515,215</u>
Total Capital Assets, Being Depreciated	<u>13,895,642</u>	<u>58,979</u>	<u>17,730</u>	<u>13,936,891</u>
Less Accumulated Depreciation for:				
Building	202,209	18,900		221,109
Improvements Other Than Buildings	6,707,452	404,177		7,111,629
Equipment	<u>230,197</u>	<u>47,561</u>	<u>17,730</u>	<u>260,028</u>
Total Accumulated Depreciation	<u>7,139,858</u>	<u>470,638</u>	<u>17,730</u>	<u>7,592,766</u>
Total Capital Assets, Being Depreciated, Net	<u>6,755,784</u>	<u>(411,659)</u>		<u>6,344,125</u>
Proprietary Fund Capital Assets, Net	<u>\$ 6,833,025</u>	<u>\$ (411,659)</u>	<u>\$</u>	<u>\$ 6,421,366</u>

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 154,352
Sewer	169,402
Electric	101,580
Gas	29,521
Liquor	<u>15,783</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 470,638</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS-STATEWIDE

The financial statements of the City of Hawley have been prepared in conformity with the regulatory basis of accounting in the State of Minnesota as described in Note 1. The regulatory basis of accounting allows the City to report deferred inflows and outflows of resources for the proprietary funds but not at the governmental fund level. The net pension liability is an all-inclusive calculation for governmental and proprietary funds; however, because the City reports on the regulatory basis of accounting, it is only required to include net pension liability for the proprietary funds.

Plan Description – The City of Hawley participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City of Hawley are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

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

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Contributions - Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$62,916. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$35,449. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs –

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,104,253 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$14,445. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0136% which was a decrease of 0.0008% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$136,064 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$4,307 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 91,099
Difference between projected and actual investment earnings	212,538	
Changes in actuarial assumptions	216,213	
Changes in proportion		54,583
Contributions paid to PERA subsequent to the measurement date	31,457	
Total	\$ 460,208	\$ 145,682

\$31,457 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

Year Ending December 31	Pension Expense Amount
2017	\$ 72,965
2018	72,965
2019	97,251
2020	39,888

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP 2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for the Police and Fire Plan was for the period of July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ending June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds’ projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

Pension Liability Sensitivity – The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

City Proportionate Share of NPL		
<u>1% Decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% Increase (8.5%)</u>
\$ 1,568,366	\$ 1,104,253	\$ 721,949

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 7 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 a street sweeper in 2015. This lease agreement qualifies 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31,	Governmental Fund
2017	\$ 17,084
2018	17,084
2019	17,084
Total minimum lease payments	51,252
Less: amount representing interest	(3,288)
Present value of minimum lease payments	\$ 47,964

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 \$6,449,000. During the year, a general obligation improvement bond totaling \$411,000 was issued.

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

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	2.0 - 3.3%	2017/31	\$ 3,646,000
Governmental Fund - Refunding	2.0 - 2.9%	2017/21	1,205,000
Proprietary Fund - Refunding	1.90%	2017/18	79,000
Total			\$ 4,930,000

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
2017	\$ 685,000	\$ 124,219	\$ 39,000	\$ 1,501
2018	710,000	111,151	40,000	760
2019	727,000	94,441		
2020	628,000	76,805		
2021	573,000	61,262		
2022-2026	1,353,000	119,350		
2027-2031	175,000	14,178		
	\$ 4,851,000	\$ 601,406	\$ 79,000	\$ 2,261

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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 \$4,903,061. General obligation revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Fund	1.1 - 2.3%	2017/27	\$ 2,016,000
Proprietary Fund	3.3 - 4.5%	2017/21	363,000
			<u>\$ 2,379,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Fund</u>		<u>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	216,000	20,066	75,000	5,170
2021	220,000	16,954	79,000	2,259
2022-2026	929,000	36,278		
2027	18,000	322		
	<u>\$ 2,016,000</u>	<u>\$ 152,112</u>	<u>\$ 363,000</u>	<u>\$ 39,243</u>

C. Revenue Bonds

The City also issues bonds where the City pledges 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. During the year, refunding revenue bonds totaling \$329,000 were issued to pay off existing bond issues. The City will realize savings of \$54,424 in net present value. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Proprietary Fund - Refunding	3.25%	2017/27	\$ 329,000

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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

Year Ending December 31	Proprietary Fund	
	Principal	Interest
2017	\$ 22,000	\$ 9,147
2018	24,000	9,588
2019	29,000	8,726
2020	29,000	7,784
2021	28,000	6,857
2022-2026	160,000	19,175
2027	37,000	601
	<u>\$ 329,000</u>	<u>\$ 61,878</u>

D. Current Refunding

During 2016, the City issued \$329,000 in refunding revenue bonds with an interest rate of 3.25%. The City issued the bonds to refund the following outstanding general obligations:

Revenue Bonds	Refunding Date	Interest Rate	Amount
Revenue Bonds, 2008A	10/11/2016	6.0 - 6.5%	\$ 335,000

E. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	\$ 5,125,000	\$ 411,000	\$ 685,000	\$ 4,851,000	\$ 685,000
General Obligation Revenue Bonds	2,222,000		206,000	2,016,000	208,000
Capital Lease	88,289		40,325	47,964	15,458
Governmental Fund Long-Term Liabilities	<u>7,435,289</u>	<u>411,000</u>	<u>931,325</u>	<u>6,914,964</u>	<u>908,458</u>
Proprietary Fund					
General Obligation Bonds	118,000		39,000	79,000	39,000
General Obligation Revenue Bonds	428,000		65,000	363,000	67,000
Revenue Bonds	335,000	329,000	335,000	329,000	22,000
Proprietary Fund Long-Term Liabilities	<u>881,000</u>	<u>329,000</u>	<u>439,000</u>	<u>771,000</u>	<u>128,000</u>
Total Long-Term Liabilities	<u>\$ 8,316,289</u>	<u>\$ 740,000</u>	<u>\$ 1,370,325</u>	<u>\$ 7,685,964</u>	<u>\$ 1,036,458</u>

The City's interest expense for the year ended December 31, 2016, was \$205,940.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2016, is as follows:

Due To / From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Liquor	\$ 48,166
General	Nonmajor Governmental	2,615
Total		<u>\$ 50,781</u>

The purpose of the interfund loans are to cover the cash shortage.

Advance From / To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Airport	\$ 165,000
Electric	Nonmajor Governmental	74,000
Electric	Liquor	35,275
Electric	Water	36,138
Sewer	General	233,425
Total		<u>\$ 543,838</u>

Based on the amortization schedules, \$235,030 will be paid in 2017.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor	\$ 5,000
General	Sewer	45,000
General	Electric	134,828
General	Gas	50,938
General	Nonmajor Governmental	20,000
Nonmajor Governmental	General	25,500
Nonmajor Governmental	Nonmajor Governmental	206,207
Nonmajor Governmental	Water	99,000
Nonmajor Governmental	Sewer	42,700
Total		<u>\$ 629,173</u>

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

NOTE 11 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 2016 was \$51,250.

NOTE 12 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

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

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 13 COMMITTED CONTRACTS

The City entered into several agreements in 2015 & 2016 with Constellation Energy for its natural gas requirements. As of December 4, 2014, the City has contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$3.960 per MMBtu which goes from November 2015 through April 2016. Through two locks as of May 27, 2015 and October 28, 2015, the City also contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$3.355 per MMBtu which goes from September 2016 through October 2019. Another 33% lock has been contracted at \$3.24 per MMBtu from November 2019 to October 2020. The remaining gas requirement of 34% will be purchased in the Managed Procurement Fund. May through August 2016 was not locked and was charged at current market rate.

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.

Effective November 1, 2015, the City entered into a Firm Transportation Agreement with Viking Gas Transmission Company for additional capacity through October 31, 2020 – adding 100Dth/day, for a total contract of 696 Dth/day.

At December 31, 2016, the City had construction commitments of \$253,000 for the Airport Project.

NOTE 14 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, 2016 was \$33,894.

NOTE 15 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 2016.

NOTE 16 TAX ABATEMENT DISCLOSURE

<u>Purpose of Tax Abatement</u>	<u>Percentage of Taxes Abated During the Fiscal Year</u>	<u>Amount of Taxes Abated</u>
Residential New Housing Tax Abatement-2 year duration 9 houses built in 2013 and 6 houses built in 2014	100% of City taxes on the first \$200,000 value	\$ 11,077
AmericInn/Hawley Hotel Partners Tax Abatement - to reimburse for certain development costs of construction of much needed Nationally Franchised "AmericInn" 10 year duration	75% of City taxes abated	14,730
Total Abatements 2016		\$ 25,807

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2016

City made determinations to grant property tax abatement, pursuant to Minnesota Statutes, Sections 469.1812 to 469.1816 for: New residential homes will serve to improve the tax base of the City, increase property tax revenue, and expand the labor pool supporting Hawley area businesses; and a Nationally Franchised AmeriInn will provide a public benefit and economic development.

In accordance with Section 469.1813, subdivision 8 of the Act, in no case shall the Abatement, together with all other abatements approved by the City under the Act and paid in any one year, exceed the greater of 10% of the City's tax capacity for that year or \$200,000.

In accordance with Section 469.1815 of the Act, the City will add to its levy in each year during the term of the Abatement the total estimated amount of current year Abatement granted under this resolution. The City Clerk-Treasurer shall estimate the amount of tax abatement to be generated, and shall add such amount to the City's levy.

NOTE 17 NEW PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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, 2016

	2016				2015 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
RECEIPTS					
Property Taxes	\$ 429,217	\$ 429,217	\$ 437,497	\$ 8,280	\$ 397,638
Property Taxes -					
Tax Increment Financing	28,000	17,154	17,154		17,798
Special Assessments	50,000	50,000	58,173	8,173	59,013
Licenses and Permits	17,500	17,500	19,129	1,629	20,304
Intergovernmental					
Federal		2,369	2,369		
State					
Local Government Aid	611,066	611,066	611,066		608,733
Market Value Credit					76
Fire State Aid	15,000	55,977	55,977		2,000
Police State Aid	15,000	17,227	17,227		19,939
PERA	2,402	2,402	2,402		2,402
Small City Assistance					31,888
Other State Aid	900	4,750	5,417	667	5,803
Local - County	9,000	9,000	8,940	(60)	9,109
Total Intergovernmental	<u>653,368</u>	<u>702,791</u>	<u>703,398</u>	<u>607</u>	<u>679,950</u>
Charges for Services					
Franchise Fee - Cable	9,000	9,000	9,808	808	9,763
Street Charges and Sales	1,000	1,000		(1,000)	1,125
Airport	7,500	7,500	6,500	(1,000)	7,500
Total Charges for Services	<u>17,500</u>	<u>17,500</u>	<u>16,308</u>	<u>(1,192)</u>	<u>18,388</u>
Fines and Forfeitures	30,000	18,000	20,711	2,711	29,237
Investment Earnings	2,000	2,000	3,102	1,102	2,115
Miscellaneous					
Rents	7,201	7,201	6,845	(356)	7,860
Donations		1,400	1,455	55	3,025
Insurance Proceeds	3,000	3,000	25,082	22,082	14,429
Other Receipts	3,750	40,365	48,945	8,580	1,092
TOTAL RECEIPTS	<u>1,241,536</u>	<u>1,306,128</u>	<u>1,357,799</u>	<u>51,671</u>	<u>1,250,849</u>
DISBURSEMENTS					
General Government					
Current					
City Council	84,940	59,240	54,862	(4,378)	73,636
Election	2,950	1,820	1,752	(68)	
Finance	51,849	50,849	50,445	(404)	48,585
Assessor	5,920	5,920	5,920		5,920
Legal	25,000	21,000	20,951	(49)	16,962
Other General Government	83,522	74,746	69,895	(4,851)	66,013
Capital Outlay	31,500	1,500	389	(1,111)	11,706
Total General Government	<u>285,681</u>	<u>215,075</u>	<u>204,214</u>	<u>(10,861)</u>	<u>222,822</u>
Public Safety					
Current					
Police Protection	464,913	429,409	423,256	(6,153)	382,513
Fire Relief	15,000	55,977	55,977		2,000
Fire Joint Powers District	51,250	51,250	51,250		50,000
Animal Control	700	700	196	(504)	132

cont.

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016				2015 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	34,826	34,826	34,328	(498)	34,328
Capital Outlay	29,000	129,441	98,996	(30,445)	206,233
Total Public Safety	<u>595,689</u>	<u>701,603</u>	<u>664,003</u>	<u>(37,600)</u>	<u>675,206</u>
Streets and Highways					
Current					
Street Maintenance	203,058	168,158	166,665	(1,493)	122,470
Snow Removal	4,000				1,153
Capital Outlay	120,000				310,736
Total Streets and Highways	<u>327,058</u>	<u>168,158</u>	<u>166,665</u>	<u>(1,493)</u>	<u>434,359</u>
Culture and Recreation					
Current					
Community Building	19,303	13,403	13,569	166	17,340
Parks	91,417	81,322	81,926	604	73,207
Library	11,040	12,223	11,079	(1,144)	11,624
Capital Outlay	44,651	15,301	17,334	2,033	9,644
Total Culture and Recreation	<u>166,411</u>	<u>122,249</u>	<u>123,908</u>	<u>1,659</u>	<u>111,815</u>
Conservation of Natural Resources					
Vector Control	17,500	17,500	17,361	(139)	12,384
Forestry Shade Tree	7,300	16,515	16,535	20	9,010
Total Conservation of Natural Resources	<u>24,800</u>	<u>34,015</u>	<u>33,896</u>	<u>(119)</u>	<u>21,394</u>
Economic Development - Current	80,500	71,860	71,335	(525)	27,645
Economic Development - Capital Outlay					98,157
Total Economic Development	<u>80,500</u>	<u>71,860</u>	<u>71,335</u>	<u>(525)</u>	<u>125,802</u>
Debt Service					
Principal			40,324	40,324	33,827
Interest			3,027	3,027	1,419
Total Debt Service			<u>43,351</u>	<u>43,351</u>	<u>35,246</u>
TOTAL DISBURSEMENTS	<u>1,480,139</u>	<u>1,312,960</u>	<u>1,307,372</u>	<u>(5,588)</u>	<u>1,626,644</u>
Receipts Over (Under) Disbursements	(238,603)	(6,832)	50,427	57,259	(375,795)
OTHER FINANCING SOURCES (USES)					
Debt Issued					80,000
Transfer In	291,000	278,000	255,766	(22,234)	336,743
Transfer In - Interfund Loan			19,892	19,892	10,550
Transfer Out	(17,084)	(42,584)	(25,500)	17,084	(64,100)
Transfer Out - Interfund Loan	(34,200)	(30,000)	(30,065)	(65)	(57,992)
TOTAL OTHER FINANCING SOURCES (USES)	<u>239,716</u>	<u>205,416</u>	<u>220,093</u>	<u>14,677</u>	<u>305,201</u>
Net Change in Fund Balances	1,113	198,584	270,520	71,936	(70,594)
Fund Balances - Beginning	2,112,691	2,112,691	2,112,691		2,183,285
Fund Balances - Ending	<u>\$ 2,113,804</u>	<u>\$ 2,311,275</u>	<u>\$ 2,383,211</u>	<u>\$ 71,936</u>	<u>\$ 2,112,691</u>

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
AIRPORT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016			2015 Actual
	Original and Final Budget	Actual Amounts	Over (Under) Final Budget	
RECEIPTS				
Intergovernmental				
Federal	\$ 416,888	\$ 205,699	\$ (211,189)	\$ 176,834
State	7,105	87,166	80,061	147,830
Total Intergovernmental	<u>423,993</u>	<u>292,865</u>	<u>(131,128)</u>	<u>324,664</u>
Investment Earnings	25	18	(7)	29
Miscellaneous				
Rents	42,750	48,856	6,106	42,346
Other Receipts	<u>25,050</u>	<u>27,246</u>	<u>2,196</u>	<u>28,986</u>
TOTAL RECEIPTS	<u>491,818</u>	<u>368,985</u>	<u>(122,833)</u>	<u>396,025</u>
DISBURSEMENTS				
Airport				
Current	233,776	219,557	(14,219)	166,563
Capital Outlay	<u>254,776</u>	<u>254,765</u>	<u>(11)</u>	<u>273,012</u>
TOTAL DISBURSEMENTS	<u>488,552</u>	<u>474,322</u>	<u>(14,230)</u>	<u>439,575</u>
Receipts Over (Under) Disbursements	3,266	(105,337)	(108,603)	(43,550)
OTHER FINANCING SOURCES (USES)				
Transfer In - Interfund Loan		165,000	165,000	19,892
Transfer Out - Interfund Loan		<u>(28,861)</u>	<u>(28,861)</u>	<u>(8,931)</u>
TOTAL OTHER FINANCING SOURCES (USES)		<u>136,139</u>	<u>136,139</u>	<u>10,961</u>
Net Change in Fund Balances	3,266	30,802	27,536	(32,589)
Fund Balances - Beginning				<u>32,589</u>
Fund Balances - Ending	<u>\$ 3,266</u>	<u>\$ 30,802</u>	<u>\$ 27,536</u>	<u>\$</u>

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 YEARS

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
PERA	2015	\$ 64,247	\$ 64,247	\$	856,623	7.50 %
	2016	62,916	62,916		838,877	7.50

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Note to the Pension Schedules

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	2015	0.0144 %	\$ 746,283	\$	\$ 746,283	\$ 839,866	88.86 %	78.19 %
	2016	0.0136	1,104,253	14,445	1,118,698	847,750	131.96	68.90

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Note to the Pension Schedules

CITY OF HAWLEY, MINNESOTA
NOTE TO THE PENSION SCHEDULES
DECEMBER 31, 2016

NOTE 1 DEFINED BENEFIT PLANS

PERA

General Employees Fund

2016 Changes

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

2015 Changes

Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Special Revenue Exhibit B-1	Debt Service Exhibit B-3	Capital Project Exhibit B-5	Exhibit A-1 Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 316,150	\$ 1,163,855	\$ 84,127	\$ 1,564,132
Cash with Fiscal Agent	<u>104,562</u>			<u>104,562</u>
TOTAL ASSETS	<u>\$ 420,712</u>	<u>\$ 1,163,855</u>	<u>\$ 84,127</u>	<u>\$ 1,668,694</u>
FUND BALANCES				
Restricted for:				
Revolving Loan	\$ 104,562			\$ 104,562
Debt Service		1,163,855		1,163,855
Committed for:				
Garbage Service/Recycling	118,202			118,202
Deputy Registrar/Office	83,118			83,118
Storm Water Maint/Repairs	85,247			85,247
Building Upkeep/Repair	29,583			29,583
Assigned for:				
Capital Projects			<u>84,127</u>	<u>84,127</u>
TOTAL FUND BALANCES	<u>\$ 420,712</u>	<u>\$ 1,163,855</u>	<u>\$ 84,127</u>	<u>\$ 1,668,694</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, 2016

Exhibit A-2

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Capital Project Exhibit B-6	Total Nonmajor Governmental Funds
RECEIPTS				
Property Taxes	\$	\$ 81,978	\$	\$ 81,978
Tax Increment Financing	246,915			246,915
Special Assessments		600,553	49,829	650,382
Charges for Services	476,377			476,377
Investment Earnings	1,867	1,399	8	3,274
Miscellaneous				
Rent	38,207			38,207
Other Receipts	24,526			24,526
TOTAL RECEIPTS	787,892	683,930	49,837	1,521,659
DISBURSEMENTS				
Current				
General Government	105,167			105,167
Sanitation	227,400			227,400
Economic Development	131,599			131,599
Debt Service				
Principal		891,000		891,000
Interest and Other Charges		166,014	11,440	177,454
Capital Outlay				
Streets and Highways	6,268		344,342	350,610
TOTAL DISBURSEMENTS	470,434	1,057,014	355,782	1,883,230
Receipts Over (Under) Disbursements	317,458	(373,084)	(305,945)	(361,571)
OTHER FINANCING SOURCES (USES)				
Debt Issued		20,928	390,072	411,000
Transfer In		373,407		373,407
Transfer In - Interfund Loan	65			65
Transfer Out	(226,207)			(226,207)
Transfer Out - Interfund Loan	(63,396)			(63,396)
TOTAL OTHER FINANCING SOURCES (USES)	(289,538)	394,335	390,072	494,869
Net Change in Fund Balances	27,920	21,251	84,127	133,298
Fund Balances - Beginning	392,792	1,142,604		1,535,396
Fund Balances - Ending	\$ 420,712	\$ 1,163,855	\$ 84,127	\$ 1,668,694

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

Exhibit B-1

	Nonmajor Funds					Total Special Revenue Exhibit A-1
	Revolving Loan	Garbage	Deputy Registrar	Storm Water	Clinic	
ASSETS						
Cash and Investments	\$	\$ 118,202	\$ 83,118	\$ 85,247	\$ 29,583	\$ 316,150
Cash with Fiscal Agent	<u>104,562</u>					<u>104,562</u>
TOTAL ASSETS	<u>\$ 104,562</u>	<u>\$ 118,202</u>	<u>\$ 83,118</u>	<u>\$ 85,247</u>	<u>\$ 29,583</u>	<u>\$ 420,712</u>
FUND BALANCES						
Restricted for:						
Revolving Loan	\$ 104,562					\$ 104,562
Committed for:						
Garbage Service/Recycling		118,202				118,202
Deputy Registrar/Office			83,118			83,118
Storm Water Maint/Repairs				85,247		85,247
Building Upkeep/Repair					29,583	29,583
TOTAL FUND BALANCES	<u>\$ 104,562</u>	<u>\$ 118,202</u>	<u>\$ 83,118</u>	<u>\$ 85,247</u>	<u>\$ 29,583</u>	<u>\$ 420,712</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, 2016

Exhibit B-2

	Nonmajor Funds					
	Revolving Loan	GN Property	Garbage	Deputy Registrar	Storm Water	Clinic
RECEIPTS						
Tax Increment Financing	\$	\$ 13,395	\$	\$	\$	\$
Intergovernmental - Federal						
Intergovernmental - State						
Charges for Services			279,396	91,159	105,822	
Investment Earnings	1,428		119	144	100	76
Miscellaneous						
Rent	7,307					30,900
Other Receipts	20,000		1,745	2,781		
TOTAL RECEIPTS	28,735	13,395	281,260	94,084	105,922	30,976
DISBURSEMENTS						
Current						
General Government				101,056		4,111
Sanitation			227,400			
Economic Development	22,891	13,395				
Airport						
Capital Outlay						
Streets and Highways					6,268	
Airport						
TOTAL DISBURSEMENTS	22,891	13,395	227,400	101,056	6,268	4,111
Receipts Over (Under) Disbursements	5,844		53,860	(6,972)	99,654	26,865
OTHER FINANCING SOURCES (USES)						
Transfer In - Interfund Loan	65					
Transfer Out			(20,000)		(68,000)	
Transfer Out - Interfund Loan						(63,396)
TOTAL OTHER FINANCING SOURCES (USES)	65		(20,000)		(68,000)	(63,396)
Net Change in Fund Balances	5,909		33,860	(6,972)	31,654	(36,531)
Fund Balances - Beginning	98,653		84,342	90,090	53,593	66,114
Fund Balances - Ending	\$ 104,562	\$	\$ 118,202	\$ 83,118	\$ 85,247	\$ 29,583

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Nonmajor Funds		Total Nonmajor Special Revenue Exhibit A-2	Major Fund Airport	Exhibit B-2 Total Special Revenue
	TIF RDO	TIF Cretex			
RECEIPTS					
Tax Increment Financing	\$ 109,360	\$ 124,160	\$ 246,915		\$ 246,915
Intergovernmental - Federal				205,699	205,699
Intergovernmental - State				87,166	87,166
Charges for Services			476,377		476,377
Investment Earnings			1,867	18	1,885
Miscellaneous					
Rent			38,207	48,856	87,063
Other Receipts			24,526	27,246	51,772
TOTAL RECEIPTS	109,360	124,160	787,892	368,985	1,156,877
DISBURSEMENTS					
Current					
General Government			105,167		105,167
Sanitation			227,400		227,400
Economic Development	30,975	64,338	131,599		131,599
Airport				219,557	219,557
Capital Outlay					
Streets and Highways			6,268		6,268
Airport				254,765	254,765
TOTAL DISBURSEMENTS	30,975	64,338	470,434	474,322	944,756
Receipts Over (Under) Disbursements	78,385	59,822	317,458	(105,337)	212,121
OTHER FINANCING SOURCES (USES)					
Transfer In - Interfund Loan			65	165,000	165,065
Transfer Out	(78,385)	(59,822)	(226,207)		(226,207)
Transfer Out - Interfund Loan			(63,396)	(28,861)	(92,257)
TOTAL OTHER FINANCING SOURCES (USES)	(78,385)	(59,822)	(289,538)	136,139	(153,399)
Net Change in Fund Balances			27,920	30,802	58,722
Fund Balances - Beginning			392,792		392,792
Fund Balances - Ending	\$	\$	\$ 420,712	\$ 30,802	\$ 451,514

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS
DECEMBER 31, 2016

Exhibit B-3

	Nonmajor Funds					
	11 Refund (04)	2006 PFA Water	2006 PFA Sewer	11 Refund (06A)	11 Refund (06B)	PFA Water
ASSETS						
Cash and Investments	\$ 184,261	\$ 172,891	\$ 129,951	\$ 31,897	\$ 30,649	\$ 9,590
TOTAL ASSETS	<u>\$ 184,261</u>	<u>\$ 172,891</u>	<u>\$ 129,951</u>	<u>\$ 31,897</u>	<u>\$ 30,649</u>	<u>\$ 9,590</u>
FUND BALANCES						
Restricted for Debt Service	\$ 184,261	\$ 172,891	\$ 129,951	\$ 31,897	\$ 30,649	\$ 9,590
TOTAL FUND BALANCES	<u>\$ 184,261</u>	<u>\$ 172,891</u>	<u>\$ 129,951</u>	<u>\$ 31,897</u>	<u>\$ 30,649</u>	<u>\$ 9,590</u>

cont.

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS – CONTINUED
DECEMBER 31, 2016

Exhibit B-3

Nonmajor Funds							
	2008 PFA Sewer	2008 11 Street Rebuild	13 Cretex/ Hwy 10	Bond TIF	15 Refund	Autumn View	Total Nonmajor Debt Service Exhibit A-1
ASSETS							
Cash and Investments	\$ 2,348	\$ 57,198	\$ 256,518	\$ 19,957	\$ 247,664	\$ 20,931	\$ 1,163,855
TOTAL ASSETS	<u>\$ 2,348</u>	<u>\$ 57,198</u>	<u>\$ 256,518</u>	<u>\$ 19,957</u>	<u>\$ 247,664</u>	<u>\$ 20,931</u>	<u>\$ 1,163,855</u>
FUND BALANCES							
Restricted for Debt Service	\$ 2,348	\$ 57,198	\$ 256,518	\$ 19,957	\$ 247,664	\$ 20,931	\$ 1,163,855
TOTAL FUND BALANCES	<u>\$ 2,348</u>	<u>\$ 57,198</u>	<u>\$ 256,518</u>	<u>\$ 19,957</u>	<u>\$ 247,664</u>	<u>\$ 20,931</u>	<u>\$ 1,163,855</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, 2016

Exhibit B-4

	Nonmajor Funds					
	11 Refund (04)	2006 PFA Water	2006 PFA Sewer	11 Refund (06A)	11 Refund (06B)	
RECEIPTS						
Property Taxes	\$	\$	\$	\$	\$	\$
Special Assessments	94,747	83,282	38,582	39,757	25,903	
Investment Earnings	220	172	138	51	36	10
TOTAL RECEIPTS	94,967	83,454	38,720	39,808	25,939	10
DISBURSEMENTS						
Debt Service						
Principal	75,000	135,000	56,000	40,000	20,000	8,000
Interest and Other Charges	7,570	22,573	6,201	5,675	3,488	1,277
TOTAL DISBURSEMENTS	82,570	157,573	62,201	45,675	23,488	9,277
Receipts Over (Under) Disbursements	12,397	(74,119)	(23,481)	(5,867)	2,451	(9,267)
OTHER FINANCING SOURCES						
Debt Issued						
Transfer In		89,000	34,000			10,000
TOTAL OTHER FINANCING SOURCES		89,000	34,000			10,000
Net Change in Fund Balances	12,397	14,881	10,519	(5,867)	2,451	733
Fund Balances - Beginning	171,864	158,010	119,432	37,764	28,198	8,857
Fund Balances - Ending	\$ 184,261	\$ 172,891	\$ 129,951	\$ 31,897	\$ 30,649	\$ 9,590

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, 2016

Exhibit B-4

	Nonmajor Funds						Total Nonmajor Debt Service Exhibit A-2
	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy10	Bond TIF	15 Refund	Autumn View	
RECEIPTS							
Property Taxes	\$	\$ 25,991	\$ 55,987	\$	\$	\$	\$ 81,978
Special Assessments		40,084	105,316		172,882		600,553
Investment Earnings	<u>2</u>	<u>72</u>	<u>337</u>	<u>37</u>	<u>321</u>	<u>3</u>	<u>1,399</u>
TOTAL RECEIPTS	<u>2</u>	<u>66,147</u>	<u>161,640</u>	<u>37</u>	<u>173,203</u>	<u>3</u>	<u>683,930</u>
DISBURSEMENTS							
Debt Service							
Principal	7,000	110,000	165,000	130,000	145,000		891,000
Interest and Other Charges	<u>2,087</u>	<u>24,708</u>	<u>42,795</u>	<u>31,845</u>	<u>17,795</u>		<u>166,014</u>
TOTAL DISBURSEMENTS	<u>9,087</u>	<u>134,708</u>	<u>207,795</u>	<u>161,845</u>	<u>162,795</u>		<u>1,057,014</u>
Receipts Over (Under) Disbursements	(9,085)	(68,561)	(46,155)	(161,808)	10,408	3	(373,084)
OTHER FINANCING SOURCES							
Debt Issued						20,928	20,928
Transfer In	<u>8,700</u>	<u>68,000</u>	<u>25,500</u>	<u>138,207</u>			<u>373,407</u>
TOTAL OTHER FINANCING SOURCES	<u>8,700</u>	<u>68,000</u>	<u>25,500</u>	<u>138,207</u>		<u>20,928</u>	<u>394,335</u>
Net Change in Fund Balances	(385)	(561)	(20,655)	(23,601)	10,408	20,931	21,251
Fund Balances - Beginning	<u>2,733</u>	<u>57,759</u>	<u>277,173</u>	<u>43,558</u>	<u>237,256</u>		<u>1,142,604</u>
Fund Balances - Ending	<u>\$ 2,348</u>	<u>\$ 57,198</u>	<u>\$ 256,518</u>	<u>\$ 19,957</u>	<u>\$ 247,664</u>	<u>\$ 20,931</u>	<u>\$ 1,163,855</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
CAPITAL PROJECT FUNDS
DECEMBER 31, 2016

Exhibit B-5

	Nonmajor Fund Autumn View	Total Nonmajor Capital Project Exhibit A-2
ASSETS		
Cash and Investments	\$ <u>84,127</u>	\$ <u>84,127</u>
TOTAL ASSETS	\$ <u><u>84,127</u></u>	\$ <u><u>84,127</u></u>
FUND BALANCES		
Assigned for Capital Projects	\$ <u>84,127</u>	\$ <u>84,127</u>
TOTAL FUND BALANCES	\$ <u><u>84,127</u></u>	\$ <u><u>84,127</u></u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Exhibit B-6

	Autumn View	Total Capital Project
RECEIPTS		
Special Assessments	\$ 49,829	\$ 49,829
Investment Earnings	8	8
TOTAL RECEIPTS	49,837	49,837
DISBURSEMENTS		
Capital Outlay		
Streets and Highways	344,342	344,342
Interest and Other Charges	11,440	11,440
TOTAL DISBURSEMENTS	355,782	355,782
Receipts Under Disbursements	(305,945)	(305,945)
OTHER FINANCING SOURCES		
Debt Issued	390,072	390,072
TOTAL OTHER FINANCING SOURCES	390,072	390,072
Net Change in Fund Balances	84,127	84,127
Fund Balances - Beginning		
Fund Balances - Ending	\$ 84,127	\$ 84,127

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance 01/01/16	Additions	Deductions	Balance 12/31/16
HAWLEY AREA FIRE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	\$ 109,481	\$ 138,314	\$ 117,931	\$ 129,864
Total Assets	\$ 109,481	\$ 138,314	\$ 117,931	\$ 129,864
LIABILITIES				
Due to Other Governments	\$ 109,481	\$ 138,314	\$ 117,931	\$ 129,864
Total Liabilities	\$ 109,481	\$ 138,314	\$ 117,931	\$ 129,864
 HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	\$	\$ 50,712	\$ 51,492	\$ (780)
Total Assets	\$	\$ 50,712	\$ 51,492	\$ (780)
LIABILITIES				
Due to Other Governments	\$	\$ 50,712	\$ 51,492	\$ (780)
Total Liabilities	\$	\$ 50,712	\$ 51,492	\$ (780)
 TOTAL				
ASSETS				
Cash and Investments	\$ 109,481	\$ 189,026	\$ 169,423	\$ 129,084
Total Assets	\$ 109,481	\$ 189,026	\$ 169,423	\$ 129,084
LIABILITIES				
Due to Other Governments	\$ 109,481	\$ 189,026	\$ 169,423	\$ 129,084
Total Liabilities	\$ 109,481	\$ 189,026	\$ 169,423	\$ 129,084

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Balance End of Year
Governmental Funds							
General Fund							
Committed for:							
2016 Levy Reduction	\$ 10,000				\$ 41,800		\$ 51,800
Public Works	37						37
15th Street Top Lift	26,941			(8,000)			18,941
Seal Coat/Crack Fill	135,459			100,000			235,459
Hwy 10 31/33 Project	26,400			(25,500)			900
Plow Truck/Equipment	30,100			20,000			50,100
Street Patching	94,000						94,000
Sidewalks	23,600						23,600
Lawn Mower	2,600			5,000			7,600
Tornado Siren	14,500						14,500
Park Board Sinking Fund	89,600			20,000			109,600
Park - Brekken	1,256						1,256
Park - Disc Golf	2,000						2,000
Park Donations	11,759						11,759
Park Security System	2,500		2,500				
Fire Building	31,900			20,000			51,900
Police - Night to Unite	962		782				180
Police Armor Upgrade	41,600		41,000				600
Police Vehicle	25,000						25,000
Police - Vehicle Lease Payoff	8,105		8,105				
Zoning Comprehensive Plan	12,300						12,300
Economic Development	9,300						9,300
River Remeandering - Phase 3	20,000						20,000
Community Center	5,800						5,800
Building Demolition	4,500						4,500
City Hall Roof				9,000			9,000
Unassigned	1,482,472	1,357,799	1,254,985	47,966	(10,173)		1,623,079
Total General Fund	2,112,691	1,357,799	1,307,372	230,266	(10,173)		2,383,211
Special Revenue							
Revolving Loan	98,653	28,735	22,891				104,497
TIF RDO		109,360	30,975	(78,385)			
TIF Cretex		124,160	64,338	(59,822)			
GN Property		13,395	13,395				
Garbage	84,342	281,260	227,400	(20,000)			118,202
Deputy Registrar	90,090	94,084	101,056				83,118
Airport		368,985	474,322		136,139		30,802
Storm Water	53,593	105,922	6,268	(68,000)			85,247
Clinic	66,114	30,976	4,111		(63,396)		29,583

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Balance End of Year
Debt Service							
11 Refund (04)	\$ 171,864	\$ 94,967	\$ 82,570	\$	\$	\$	\$ 184,261
11 Refund (06A)	37,764	39,808	45,675				31,897
2006 PFA Water	158,010	83,454	157,573	89,000			172,891
2006 PFA Sewer	119,432	38,720	62,201	34,000			129,951
11 Refund (06B)	28,198	25,939	23,488				30,649
2008 PFA Water	8,857	10	9,277	10,000			9,590
2008 PFA Sewer	2,733	2	9,087	8,700			2,348
11 Street Rebuild	57,759	66,147	134,708	68,000			57,198
13 Cretex/Hwy10	277,173	161,640	207,795	25,500			256,518
Bond TIF	43,558	37	161,845	138,207			19,957
15 Refund	237,256	173,203	162,795				247,664
Autumn View Bond		3				20,928	20,931
Capital Projects							
Autumn View		49,837	355,782			390,072	84,127
Total Governmental Funds	\$ 3,648,087	\$ 3,248,443	\$ 3,664,924	\$ 377,466	\$ 62,570	\$ 411,000	\$ 4,082,642

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Balance End of Year
Proprietary Funds							
Water	\$ 2,128,869	\$ 386,586	\$ 326,787	\$ (99,000)	\$	\$	\$ 2,089,668
Sewer	2,368,627	352,619	357,893	(87,700)			2,275,653
Electric	2,164,258	2,437,735	2,276,871	(134,828)			2,190,294
Gas	752,608	709,845	625,659	(50,938)			785,856
Liquor	96,986	1,155,146	1,152,194	(5,000)			94,938
Total Proprietary Funds	\$ 7,511,348	\$ 5,041,931	\$ 4,739,404	\$ (377,466)	\$	\$	\$ 7,436,409

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2015	Issued 2016	Retired 2016	Balance 12/31/2016	Principal Due In 2017	Interest Due In 2017
General Obligation Bonds										
G.O. Improvement Bonds, 2011B	2.0 - 3.3%	2011	2017/26	\$ 1,260,000	\$ 960,000	\$	\$ 110,000	\$ 850,000	\$ 110,000	\$ 22,012
G.O. Refunding Bonds, 2011A	2.35 - 2.9%	2011	2017/21	585,000	305,000		75,000	230,000	75,000	6,070
G.O. Refunding Bonds, 2011A	2.35 - 2.9%	2011	2017/21	335,000	190,000		40,000	150,000	30,000	4,380
G.O. Refunding Bonds, 2011A	2.35 - 2.9%	2011	2017/21	205,000	125,000		20,000	105,000	20,000	3,088
G.O. Refunding Note, 2012A	1.90%	2012	2017/18	229,000	118,000		39,000	79,000	39,000	1,501
G.O. Improvement Bonds, 2013A	3.00%	2013	2017/23	1,625,000	1,410,000		165,000	1,245,000	165,000	37,350
G.O. TIF Bonds 2014A	2.0 - 3.0%	2014	2017/25	1,270,000	1,270,000		130,000	1,140,000	135,000	28,750
G.O. Improvement Refunding, 2015A	2.00%	2015	2017/21	940,000	865,000		145,000	720,000	150,000	14,400
G.O. Improvement Note 2016A	2.65%	2016	2017/31	411,000		411,000		411,000		8,169
Total General Obligation Bonds					<u>5,243,000</u>	<u>411,000</u>	<u>724,000</u>	<u>4,930,000</u>	<u>724,000</u>	<u>125,720</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Note, 2006A	1.56%	2006	2017/25	2,565,987	1,447,000		135,000	1,312,000	137,000	20,466
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2017/25	1,010,110	585,000		56,000	529,000	56,000	5,608
G.O. Water Revenue Note, 2008A	1.29%	2008	2017/27	150,010	99,000		8,000	91,000	8,000	1,172
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2017/27	132,954	91,000		7,000	84,000	7,000	1,928
G.O. Water Revenue Note, 2001	3.32%	2001	2017/21	660,000	247,000		38,000	209,000	39,000	6,940
G.O. Gas Transmission Revenue, 2005	4.3 - 4.5%	2005	2017/21	384,000	181,000		27,000	154,000	28,000	6,243
Total General Obligation Revenue Bonds					<u>2,650,000</u>		<u>271,000</u>	<u>2,379,000</u>	<u>275,000</u>	<u>42,357</u>
Revenue Bonds										
Revenue Bonds, 2008A		2008		435,000	335,000		335,000			
Refunding Revenue Note, 2016A	3.25%	2016	2017/27	329,000		329,000		329,000	22,000	9,147
Total Revenue Bonds					<u>335,000</u>	<u>329,000</u>	<u>335,000</u>	<u>329,000</u>	<u>22,000</u>	<u>9,147</u>
Other Long-Term Debt										
Capital Lease-2013 Ford Explorer	3.34%	2013		37,422	9,504		9,504			
Capital Lease-2013 Ford Interceptor	5.00%	2014	2017/17	31,755	15,869		15,869			
Capital Lease-Street Sweeper		2015	2017/19	80,000	62,916		14,952	47,964	15,458	1,626
Total Other Long-Term Debt					<u>88,289</u>		<u>40,325</u>	<u>47,964</u>	<u>15,458</u>	<u>1,626</u>
Total					<u>\$ 8,316,289</u>	<u>\$ 740,000</u>	<u>\$ 1,370,325</u>	<u>\$ 7,685,964</u>	<u>\$ 1,036,458</u>	<u>\$ 178,850</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>Tax Increment Financing</u>	<u>Lease Payment for Debt Service</u>	<u>Miscellaneous</u>	<u>Total</u>
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 (a)
2010	402,117	13,515	955,879	383,178	34,298	632,505	18,821		28,835	92,697	2,561,845 (a)
2011	432,565	13,410	666,560	410,507	35,666	765,375	15,440			156,896	2,496,419 (a)
2012	445,132	14,565	909,389	390,310	48,678	710,895	8,792			161,430	2,689,191 (a)
2013	469,930	19,170	1,002,695	415,314	21,867	731,903	5,904			195,174	2,861,957 (a)
2014	505,529	23,721	903,166	438,474	22,518	636,666	5,515			172,731	2,708,320 (a)
2015	491,586	20,304	1,004,614	485,480	29,237	777,959	5,630	17,665		155,333	2,987,808 (a)
2016	519,475	19,129	996,263	492,685	20,711	708,555	6,394	264,069		221,162	3,248,443 (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.

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

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Streets and Highways</u>	<u>Sanitation</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Other</u>	<u>Total</u>
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)
2015	323,724	468,973	123,623	215,228	102,171	1,227,501	940,211	264,168	3,665,599 (a)
2016	308,992	565,007	166,665	227,400	106,574	1,111,805	722,094	456,387	3,664,924 (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
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
2015	1,095,403	476,500	43.500	26.942	46.032	1.733		118.207
2016	1,249,225	519,500	41.586	25.435	45.173	1.724		113.918

* Includes watershed and Clay County HRA

Note:
Information obtained from the Clay County Auditor

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND –
HAWLEY AREA EMERGENCY RESPONSE DISTRICT – JOINT POWERS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

ADDITIONS		
Operating Reimbursements		
City of Hawley	\$	34,328
Townships		<u>16,384</u>
TOTAL ADDITIONS		<u>50,712</u>
DEDUCTIONS		
Current		
Professional Services		50,000
RRR Dispatch		<u>1,492</u>
TOTAL DEDUCTIONS		<u>51,492</u>
CHANGES IN ASSETS AND LIABILITIES		(780)
ASSETS AND LIABILITIES, BEGINNING		<u> </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, 2016
(UNAUDITED)

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 51,250
Townships	51,250
Fire Relief	21,000
Investment Earnings	208
Miscellaneous	6,726
Interfund Transfer - Fire District Checking Account	7,880
	<hr/>
TOTAL ADDITIONS	138,314
	<hr/>
DEDUCTIONS	
Current	
Insurance	11,131
Training	6,504
Supplies	26,205
Fuel and Additives	2,071
Repairs and Maintenance	2,542
Utilities	6,787
Salaries and Benefits	27,965
Fire Relief Contribution	9,100
RRR Dispatch	574
Miscellaneous	6,836
Capital Outlay	18,216
	<hr/>
TOTAL DEDUCTIONS	117,931
	<hr/>
CHANGES IN ASSETS AND LIABILITIES	20,383
ASSETS AND LIABILITIES, BEGINNING	<hr/> 109,481
ASSETS AND LIABILITIES, ENDING	<hr/> <hr/> \$ 129,864



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, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2017. 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 Cities*, 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 Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

March 10, 2017



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, 2016, and the related notes to the financial statements, which collectively comprise the City of Hawley's financial statements and have issued our report thereon dated March 10, 2017. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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 corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



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

March 10, 2017

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2016

2016-001 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, 2016, 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.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

CITY OF HAWLEY, MINNESOTA
CORRECTIVE ACTION PLAN
DECEMBER 31, 2016

2016-001 FINDING

Contact Person – Lisa Jetvig, City Clerk/Treasurer

Corrective Action Plan - Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date - Ongoing