

**CITY OF HAWLEY  
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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**CITY OF HAWLEY, MINNESOTA**  
CITY OFFICIALS  
DECEMBER 31, 2017

|                 |                   |
|-----------------|-------------------|
| Mayor           | James Joy         |
| Council Member  | Ben Gunkelman     |
| Council Member  | Jonathan Donnelly |
| Council Member  | Sean Mork         |
| Council Member  | Stacey Riedberger |
| 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, 2017, 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, 2017, 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, 2017, 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 February 15, 2018, on our consideration of the City of Hawley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

February 15, 2018

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2017**

|                            | General<br>Fund     | Airport          | Nature Lane      | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------|---------------------|------------------|------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>              |                     |                  |                  |                                |                                |
| Cash and Investments       | \$ 2,502,967        | \$ 18,280        | \$ 67,756        | \$ 1,651,118                   | \$ 4,240,121                   |
| Cash with Fiscal Agent     |                     |                  |                  | 111,462                        | 111,462                        |
| <b>TOTAL ASSETS</b>        | <b>\$ 2,502,967</b> | <b>\$ 18,280</b> | <b>\$ 67,756</b> | <b>\$ 1,762,580</b>            | <b>\$ 4,351,583</b>            |
| <b>FUND BALANCES</b>       |                     |                  |                  |                                |                                |
| Restricted for:            |                     |                  |                  |                                |                                |
| Revolving Loan             | \$                  | \$               | \$               | \$ 116,949                     | \$ 116,949                     |
| Debt Service               |                     |                  |                  | 1,285,637                      | 1,285,637                      |
| Committed for:             |                     |                  |                  |                                |                                |
| Levy Reduction             | 51,800              |                  |                  |                                | 51,800                         |
| Seal Coat/Crack Fill       | 151,759             |                  |                  |                                | 151,759                        |
| Plow Truck/Equipment       | 57,700              |                  |                  |                                | 57,700                         |
| Street Patching            | 159,200             |                  |                  |                                | 159,200                        |
| Sidewalks                  | 31,300              |                  |                  |                                | 31,300                         |
| Lawn Mower                 | 600                 |                  |                  |                                | 600                            |
| Tornado Siren              | 19,500              |                  |                  |                                | 19,500                         |
| Park Board Sinking Fund    | 115,200             |                  |                  |                                | 115,200                        |
| Park - Brekken             | 1,256               |                  |                  |                                | 1,256                          |
| Park - Disc Golf           | 2,000               |                  |                  |                                | 2,000                          |
| Park Donations             | 11,759              |                  |                  |                                | 11,759                         |
| Fire Building              | 66,900              |                  |                  |                                | 66,900                         |
| Police - Night to Unite    | 348                 |                  |                  |                                | 348                            |
| Police Armor Upgrade       | 600                 |                  |                  |                                | 600                            |
| Police Vehicle             | 91,500              |                  |                  |                                | 91,500                         |
| Zoning Comprehensive Fund  | 12,300              |                  |                  |                                | 12,300                         |
| Economic Development       | 21,800              |                  |                  |                                | 21,800                         |
| River Meandering - Phase 3 | 20,000              |                  |                  |                                | 20,000                         |
| Community Center           | 14,900              |                  |                  |                                | 14,900                         |
| Building Demolition        | 9,500               |                  |                  |                                | 9,500                          |
| City Hall Roof             | 14,400              |                  |                  |                                | 14,400                         |
| Public Works Vehicle       | 26,200              |                  |                  |                                | 26,200                         |
| Library                    | 4,800               |                  |                  |                                | 4,800                          |
| Municipal Airport          |                     | 18,280           |                  |                                | 18,280                         |
| Garbage Service/Recycling  |                     |                  |                  | 147,355                        | 147,355                        |
| Deputy Registrar/Office    |                     |                  |                  | 68,381                         | 68,381                         |
| Storm Water Maint/Repairs  |                     |                  |                  | 85,071                         | 85,071                         |
| Building Upkeep/Repair     |                     |                  |                  | 29,256                         | 29,256                         |
| Assigned for:              |                     |                  |                  |                                |                                |
| Capital Projects           |                     |                  | 67,756           | 29,931                         | 97,687                         |
| Unassigned                 | 1,617,645           |                  |                  |                                | 1,617,645                      |
| <b>TOTAL FUND BALANCES</b> | <b>\$ 2,502,967</b> | <b>\$ 18,280</b> | <b>\$ 67,756</b> | <b>\$ 1,762,580</b>            | <b>\$ 4,351,583</b>            |

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, 2017**

|                                             | General<br>Fund     | Airport          | Nature<br>Lane   | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------|---------------------|------------------|------------------|--------------------------------|--------------------------------|
| <b>RECEIPTS</b>                             |                     |                  |                  |                                |                                |
| Property Taxes                              | \$ 483,719          | \$               | \$               | \$ 89,915                      | \$ 573,634                     |
| Tax Increment Financing                     | 13,666              |                  |                  | 255,498                        | 269,164                        |
| Special Assessments                         | 54,557              |                  |                  | 719,327                        | 773,884                        |
| Licenses and Permits                        | 17,037              |                  |                  |                                | 17,037                         |
| Intergovernmental                           | 715,330             | 427,483          |                  |                                | 1,142,813                      |
| Charges for Services                        | 19,505              |                  |                  | 517,908                        | 537,413                        |
| Fines and Forfeitures                       | 22,341              |                  |                  |                                | 22,341                         |
| Investment Earnings                         | 5,675               | 61               | 41               | 4,963                          | 10,740                         |
| Miscellaneous                               | 42,995              | 71,120           |                  | 62,739                         | 176,854                        |
| <b>TOTAL RECEIPTS</b>                       | <u>1,374,825</u>    | <u>498,664</u>   | <u>41</u>        | <u>1,650,350</u>               | <u>3,523,880</u>               |
| <b>DISBURSEMENTS</b>                        |                     |                  |                  |                                |                                |
| Current                                     |                     |                  |                  |                                |                                |
| General Government                          | 191,128             |                  |                  | 108,485                        | 299,613                        |
| Public Safety                               | 551,616             |                  |                  |                                | 551,616                        |
| Streets and Highways                        | 224,755             |                  |                  |                                | 224,755                        |
| Sanitation                                  |                     |                  |                  | 274,286                        | 274,286                        |
| Culture and Recreation                      | 122,889             |                  |                  |                                | 122,889                        |
| Conservation of Natural Resources           | 23,683              |                  |                  |                                | 23,683                         |
| Economic Development                        | 72,641              |                  |                  | 111,891                        | 184,532                        |
| Airport                                     |                     | 239,519          |                  |                                | 239,519                        |
| Debt Services                               |                     |                  |                  |                                |                                |
| Principal                                   | 25,581              |                  |                  | 893,000                        | 918,581                        |
| Interest and Other Charges                  | 1,626               |                  |                  | 161,693                        | 163,319                        |
| Capital Outlay                              |                     |                  |                  |                                |                                |
| General Government                          | 4,551               |                  |                  | 6,953                          | 11,504                         |
| Public Safety                               | 53,319              |                  |                  |                                | 53,319                         |
| Streets and Highways                        | 219,162             |                  | 495,370          | 104,113                        | 818,645                        |
| Culture and Recreation                      | 36,324              |                  |                  |                                | 36,324                         |
| Airport                                     |                     | 265,067          |                  |                                | 265,067                        |
| <b>TOTAL DISBURSEMENTS</b>                  | <u>1,527,275</u>    | <u>504,586</u>   | <u>495,370</u>   | <u>1,660,421</u>               | <u>4,187,652</u>               |
| Receipts Under Disbursements                | (152,450)           | (5,922)          | (495,329)        | (10,071)                       | (663,772)                      |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                     |                  |                  |                                |                                |
| Bonds Issued                                |                     |                  | 565,973          | 39,027                         | 605,000                        |
| Transfer In                                 | 301,702             |                  |                  | 376,238                        | 677,940                        |
| Transfer Out                                | (900)               |                  | (2,888)          | (289,750)                      | (293,538)                      |
| Transfer In - Interfund Loan                | 1,404               |                  |                  |                                | 1,404                          |
| Transfer Out - Interfund Loan               | (30,000)            | (6,600)          |                  | (21,558)                       | (58,158)                       |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <u>272,206</u>      | <u>(6,600)</u>   | <u>563,085</u>   | <u>103,957</u>                 | <u>932,648</u>                 |
| Net Change in Fund Balances                 | 119,756             | (12,522)         | 67,756           | 93,886                         | 268,876                        |
| Fund Balances - Beginning                   | 2,383,211           | 30,802           |                  | 1,668,694                      | 4,082,707                      |
| Fund Balances - Ending                      | <u>\$ 2,502,967</u> | <u>\$ 18,280</u> | <u>\$ 67,756</u> | <u>\$ 1,762,580</u>            | <u>\$ 4,351,583</u>            |

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2017**

|                                           | Water            | Sewer            | Electric         | Gas              | Liquor         | Total            |
|-------------------------------------------|------------------|------------------|------------------|------------------|----------------|------------------|
| <b>ASSETS</b>                             |                  |                  |                  |                  |                |                  |
| Current Assets                            |                  |                  |                  |                  |                |                  |
| Cash and Investments                      | \$ 105,997       | \$ 224,726       | \$ 935,396       | \$ 378,877       |                | \$ 1,644,996     |
| Accounts Receivable, Net                  | 27,629           | 23,767           | 289,132          | 97,895           |                | 438,423          |
| Due From Other Funds                      |                  |                  | 31,164           |                  |                | 31,164           |
| Inventory                                 | 9,206            |                  | 88,478           | 5,172            | 167,918        | 270,774          |
| Total Current Assets                      | <u>142,832</u>   | <u>248,493</u>   | <u>1,344,170</u> | <u>481,944</u>   | <u>167,918</u> | <u>2,385,357</u> |
| Noncurrent Assets                         |                  |                  |                  |                  |                |                  |
| Assessments Receivable                    |                  | 42,953           |                  |                  |                | 42,953           |
| Capital Assets                            |                  |                  |                  |                  |                |                  |
| Land                                      |                  |                  | 22,241           |                  | 55,000         | 77,241           |
| Building                                  | 16,273           |                  | 234,925          | 71,094           | 436,676        | 758,968          |
| Improvements Other Than Building          | 4,850,502        | 4,704,518        | 2,406,515        | 1,098,536        |                | 13,060,071       |
| Equipment                                 | 27,846           | 8,000            | 382,999          | 22,321           | 90,725         | 531,891          |
| Less: Accumulated Depreciation            | (2,488,815)      | (2,883,413)      | (1,915,309)      | (627,664)        | (138,990)      | (8,054,191)      |
| Net Capital Assets                        | <u>2,405,806</u> | <u>1,829,105</u> | <u>1,131,371</u> | <u>564,287</u>   | <u>443,411</u> | <u>6,373,980</u> |
| Other Assets                              |                  |                  |                  |                  |                |                  |
| Cash-Restricted for Debt                  |                  | 98,559           |                  |                  |                | 98,559           |
| Cash-Restricted for Lottery               |                  |                  |                  |                  | 5,762          | 5,762            |
| Advance to Other Funds                    |                  | 209,261          | 264,549          |                  |                | 473,810          |
| Total Other Assets                        |                  | <u>307,820</u>   | <u>264,549</u>   |                  | <u>5,762</u>   | <u>578,131</u>   |
| <b>TOTAL ASSETS</b>                       | <u>2,548,638</u> | <u>2,428,371</u> | <u>2,740,090</u> | <u>1,046,231</u> | <u>617,091</u> | <u>9,380,421</u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>     |                  |                  |                  |                  |                |                  |
| Cost Sharing Defined Benefit Pension Plan | 15,157           | 16,238           | 54,129           | 32,478           | 25,982         | 143,984          |
| <b>LIABILITIES</b>                        |                  |                  |                  |                  |                |                  |
| Current Liabilities                       |                  |                  |                  |                  |                |                  |
| Accounts Payable                          | 378              |                  | 155,095          | 53,914           | 591            | 209,978          |
| Salary Payable                            | 1,582            | 1,963            | 7,118            | 3,685            | 4,295          | 18,643           |
| Due to Other Funds                        |                  |                  |                  |                  | 31,164         | 31,164           |
| Due to Other Governmental Units           | 6,932            |                  |                  |                  | 5,762          | 12,694           |
| Customer Deposits                         |                  |                  | 35,017           |                  |                | 35,017           |
| Unearned Revenue                          |                  |                  | 42,832           |                  |                | 42,832           |
| Interest Payable                          | 1,945            |                  |                  |                  | 3,196          | 5,141            |
| Compensated Absences                      | 8,066            | 10,743           | 25,623           | 16,841           | 14,511         | 75,784           |
| Current Portion - Long-Term Liabilities   | 80,000           |                  |                  |                  | 24,000         | 104,000          |
| Total Current Liabilities                 | <u>98,903</u>    | <u>12,706</u>    | <u>265,685</u>   | <u>74,440</u>    | <u>83,519</u>  | <u>535,253</u>   |
| Long-Term Liabilities                     |                  |                  |                  |                  |                |                  |
| Advance from Other Funds                  | 16,861           |                  |                  |                  | 27,686         | 44,547           |
| Bonds Payable                             | 210,000          |                  |                  |                  | 307,000        | 517,000          |
| Net Pension Liability                     | 58,541           | 62,722           | 209,074          | 125,444          | 100,355        | 556,136          |
| Less: Current Portion - Long-Term Debt    | (80,000)         |                  |                  |                  | (24,000)       | (104,000)        |
| Total Long-Term Liabilities               | <u>205,402</u>   | <u>62,722</u>    | <u>209,074</u>   | <u>125,444</u>   | <u>411,041</u> | <u>1,013,683</u> |
| <b>TOTAL LIABILITIES</b>                  | <u>304,305</u>   | <u>75,428</u>    | <u>474,759</u>   | <u>199,884</u>   | <u>494,560</u> | <u>1,548,936</u> |

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION - CONTINUED**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2017**

|                                           | <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 | \$ 13,701           | \$ 14,680           | \$ 48,931           | \$ 29,358         | \$ 23,487         | \$ 130,157          |
| NET POSITION                              |                     |                     |                     |                   |                   |                     |
| Net Investment in Capital Assets          | 2,195,806           | 1,829,105           | 1,131,371           | 564,287           | 136,411           | 5,856,980           |
| Unrestricted                              | <u>49,983</u>       | <u>525,396</u>      | <u>1,139,158</u>    | <u>285,180</u>    | <u>(11,385)</u>   | <u>1,988,332</u>    |
| TOTAL NET POSITION                        | <u>\$ 2,245,789</u> | <u>\$ 2,354,501</u> | <u>\$ 2,270,529</u> | <u>\$ 849,467</u> | <u>\$ 125,026</u> | <u>\$ 7,845,312</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, 2017**

|                                     | Water               | Sewer               | Electric            | Gas               | Liquor            | Total               |
|-------------------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|---------------------|
| Operating Revenues                  |                     |                     |                     |                   |                   |                     |
| Sales                               | \$                  | \$                  | \$                  | \$                | \$ 1,221,095      | \$ 1,221,095        |
| Cost of Sales                       |                     |                     |                     |                   | (901,415)         | (901,415)           |
| Gross Profit                        |                     |                     |                     |                   | 319,680           | 319,680             |
| Charges for Sales and Services      | 376,934             | 288,881             | 2,425,118           | 721,716           |                   | 3,812,649           |
| Less Dual Fuel Rebates              |                     |                     | (11,701)            |                   |                   | (11,701)            |
| Other Charges and Income            | 1,075               | 1,052               | 64,309              | 2,126             | 1,871             | 70,433              |
| Total Operating Revenue             | <u>378,009</u>      | <u>289,933</u>      | <u>2,477,726</u>    | <u>723,842</u>    | <u>321,551</u>    | <u>4,191,061</u>    |
| Operating Expenses                  |                     |                     |                     |                   |                   |                     |
| Purchased Power and Gas             |                     |                     | 1,692,193           | 327,151           |                   | 2,019,344           |
| Salaries and Wages                  | 55,771              | 70,701              | 233,764             | 138,228           | 132,757           | 631,221             |
| Employee Benefits                   | 21,465              | 21,417              | 82,059              | 51,289            | 46,522            | 222,752             |
| Repairs and Maintenance             | 33,704              | 1,351               | 31,218              | 20,006            | 1,064             | 87,343              |
| Chemicals                           | 1,519               | 4,673               |                     |                   |                   | 6,192               |
| Utilities                           | 15,397              | 5,472               | 11,138              | 4,391             | 14,663            | 51,061              |
| Insurance                           | 4,285               | 3,586               | 5,617               | 3,917             | 5,249             | 22,654              |
| Professional Fees                   | 1,382               | 20,911              | 16,558              | 5,093             | 8,049             | 51,993              |
| Supplies                            | 1,629               | 680                 | 15,485              | 6,914             | 6,516             | 31,224              |
| Other Expenses                      | 3,064               | 5,816               | 92,805              | 18,527            | 41,185            | 161,397             |
| Depreciation                        | 157,543             | 172,157             | 86,382              | 29,560            | 15,783            | 461,425             |
| Total Operating Expenses            | <u>295,759</u>      | <u>306,764</u>      | <u>2,267,219</u>    | <u>605,076</u>    | <u>271,788</u>    | <u>3,746,606</u>    |
| Operating Income (Loss)             | 82,250              | (16,831)            | 210,507             | 118,766           | 49,763            | 444,455             |
| Nonoperating Income (Expense)       |                     |                     |                     |                   |                   |                     |
| Investment Earnings                 | 140                 | 8,235               | 5,835               | 782               |                   | 14,992              |
| Interest and Other Charges          | (8,608)             |                     |                     | (1,342)           | (11,675)          | (21,625)            |
| Total Nonoperating Income (Expense) | <u>(8,468)</u>      | <u>8,235</u>        | <u>5,835</u>        | <u>(560)</u>      | <u>(11,675)</u>   | <u>(6,633)</u>      |
| Net Income (Loss) Before Transfers  | 73,782              | (8,596)             | 216,342             | 118,206           | 38,088            | 437,822             |
| Capital Contributions               | 181,339             | 174,144             |                     |                   |                   | 355,483             |
| Transfers Out                       | (99,000)            | (86,700)            | (136,107)           | (54,595)          | (8,000)           | (384,402)           |
| Change in Net Position              | 156,121             | 78,848              | 80,235              | 63,611            | 30,088            | 408,903             |
| Net Position, Beginning             | <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>    |
| Net Position, Ending                | <u>\$ 2,245,789</u> | <u>\$ 2,354,501</u> | <u>\$ 2,270,529</u> | <u>\$ 849,467</u> | <u>\$ 125,026</u> | <u>\$ 7,845,312</u> |

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                                                               | Water             | Sewer             | Electric          | Gas               | Liquor          | Total               |
|-------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------|---------------------|
| <b>Cash Flows From Operating Activities:</b>                                  |                   |                   |                   |                   |                 |                     |
| Receipts from Customers                                                       | \$ 379,267        | \$ 290,692        | \$ 2,419,249      | \$ 735,744        | \$ 1,225,446    | \$ 5,050,398        |
| Payments to Suppliers                                                         | (69,813)          | (44,720)          | (1,885,253)       | (403,195)         | (983,861)       | (3,386,842)         |
| Payments to Employees                                                         | (75,757)          | (89,899)          | (306,731)         | (185,941)         | (173,955)       | (832,283)           |
| <b>Net Cash Provided By Operating Activities</b>                              | <u>233,697</u>    | <u>156,073</u>    | <u>227,265</u>    | <u>146,608</u>    | <u>67,630</u>   | <u>831,273</u>      |
| <b>Cash Flows From Noncapital Financing Activities:</b>                       |                   |                   |                   |                   |                 |                     |
| Due from Other Funds                                                          |                   |                   | 17,002            |                   |                 | 17,002              |
| Due to Other Funds                                                            |                   |                   |                   |                   | (17,002)        | (17,002)            |
| Transfers to Other Funds                                                      | (99,000)          | (86,700)          | (136,107)         | (54,595)          | (8,000)         | (384,402)           |
| Advance From (To) Other Funds                                                 |                   | 24,164            | 45,866            |                   |                 | 70,030              |
| <b>Net Cash Used By Noncapital Financing Activities</b>                       | <u>(99,000)</u>   | <u>(62,536)</u>   | <u>(73,239)</u>   | <u>(54,595)</u>   | <u>(25,002)</u> | <u>(314,372)</u>    |
| <b>Cash Flows From Capital and Related Financing Activities:</b>              |                   |                   |                   |                   |                 |                     |
| Purchase of Capital Assets                                                    |                   |                   | (56,200)          | (2,356)           |                 | (58,556)            |
| Advance from Other Funds                                                      | (19,277)          |                   |                   |                   | (7,589)         | (26,866)            |
| Special Assessment Revenue Received                                           |                   | 1,493             |                   |                   |                 | 1,493               |
| Principal Paid on Debt                                                        | (78,000)          |                   |                   | (154,000)         | (22,000)        | (254,000)           |
| Interest and Other Charges Paid on Debt                                       | (9,163)           |                   |                   | (3,423)           | (10,558)        | (23,144)            |
| <b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>   | <u>(106,440)</u>  | <u>1,493</u>      | <u>(56,200)</u>   | <u>(159,779)</u>  | <u>(40,147)</u> | <u>(361,073)</u>    |
| <b>Cash Flows From Investing Activities:</b>                                  |                   |                   |                   |                   |                 |                     |
| Investment Earnings                                                           | 141               | 8,235             | 5,836             | 782               |                 | 14,994              |
| <b>Net Cash Provided By Investing Activities</b>                              | <u>141</u>        | <u>8,235</u>      | <u>5,836</u>      | <u>782</u>        |                 | <u>14,994</u>       |
| <b>Net Increase (Decrease) In Cash, Cash Equivalents, and Restricted Cash</b> | 28,398            | 103,265           | 103,662           | (66,984)          | 2,481           | 170,822             |
| <b>Cash, Cash Equivalents, and Restricted Cash - Beginning of Year</b>        | <u>77,599</u>     | <u>220,020</u>    | <u>831,734</u>    | <u>445,861</u>    | <u>3,281</u>    | <u>1,578,495</u>    |
| <b>Cash, Cash Equivalents, and Restricted Cash - End of Year</b>              | <u>\$ 105,997</u> | <u>\$ 323,285</u> | <u>\$ 935,396</u> | <u>\$ 378,877</u> | <u>\$ 5,762</u> | <u>\$ 1,749,317</u> |
| <b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash</b>          |                   |                   |                   |                   |                 |                     |
| Cash and Investments                                                          | \$ 105,997        | \$ 224,726        | \$ 935,396        | \$ 378,877        |                 | \$ 1,644,996        |
| Restricted Cash - Debt                                                        |                   | 98,559            |                   |                   |                 | 98,559              |
| Restricted Cash - Lottery                                                     |                   |                   |                   |                   | 5,762           | 5,762               |
| <b>Total Cash, Cash Equivalents, and Restricted Cash</b>                      | <u>\$ 105,997</u> | <u>\$ 323,285</u> | <u>\$ 935,396</u> | <u>\$ 378,877</u> | <u>\$ 5,762</u> | <u>\$ 1,749,317</u> |
| <b>Noncash Capital and Related Financing</b>                                  |                   |                   |                   |                   |                 |                     |
| Acquisition of Capital Asset from Capital Contribution                        | \$ 181,339        | \$ 174,144        | \$                | \$                |                 | \$ 355,483          |

cont.

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS – CONTINUED**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                                                                                      | <u>Water</u>      | <u>Sewer</u>      | <u>Electric</u>   | <u>Gas</u>        | <u>Liquor</u>    | <u>Total</u>      |
|------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Reconciliation of Operating Income (Loss) to<br>Net Cash Provided by Operating Activities:           |                   |                   |                   |                   |                  |                   |
| Operating Income (Loss)                                                                              | \$ 82,250         | \$ (16,831)       | \$ 210,507        | \$ 118,766        | \$ 49,763        | \$ 444,455        |
| Adjustments to Reconcile Operating<br>Income (Loss) to Net Cash Provided by<br>Operating Activities: |                   |                   |                   |                   |                  |                   |
| Depreciation                                                                                         | 157,543           | 172,157           | 86,382            | 29,560            | 15,783           | 461,425           |
| Effects on Operating Cash Flows due<br>to Changes in:                                                |                   |                   |                   |                   |                  |                   |
| Accounts Receivable                                                                                  | 579               | 759               | (27,439)          | 11,902            |                  | (14,199)          |
| Inventory                                                                                            | (9,206)           |                   | (20,079)          | (5,172)           | (6,265)          | (40,722)          |
| Accounts Payable                                                                                     | 373               | (2,231)           | (160)             | (12,024)          | 545              | (13,497)          |
| Salary Payable                                                                                       | (143)             | (15)              | 853               | (298)             | 638              | 1,035             |
| Due to Other Governments                                                                             | 679               |                   |                   |                   | 2,480            | 3,159             |
| Customer Deposits                                                                                    |                   |                   | 265               |                   |                  | 265               |
| Unearned Revenue                                                                                     |                   |                   | (31,303)          |                   |                  | (31,303)          |
| Net Pension                                                                                          | (18,757)          | (20,097)          | (66,990)          | (40,194)          | (32,155)         | (178,193)         |
| Deferred Outflows                                                                                    | 17,058            | 18,277            | 60,922            | 36,554            | 29,244           | 162,055           |
| Deferred Inflows                                                                                     | 3,503             | 3,754             | 12,512            | 7,507             | 6,005            | 33,281            |
| Compensated Absences                                                                                 | (182)             | 300               | 1,795             | 7                 | 1,592            | 3,512             |
| Total Adjustments                                                                                    | <u>151,447</u>    | <u>172,904</u>    | <u>16,758</u>     | <u>27,842</u>     | <u>17,867</u>    | <u>386,818</u>    |
| Net Cash Provided by Operating Activities                                                            | <u>\$ 233,697</u> | <u>\$ 156,073</u> | <u>\$ 227,265</u> | <u>\$ 146,608</u> | <u>\$ 67,630</u> | <u>\$ 831,273</u> |

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**AS OF DECEMBER 31, 2017**

|                          | <u>Agency</u>                   |
|--------------------------|---------------------------------|
| <b>ASSETS</b>            |                                 |
| Cash and Investments     | \$ <u>139,642</u>               |
| <b>TOTAL ASSETS</b>      | <b>\$ <u><u>139,642</u></u></b> |
| <b>LIABILITIES</b>       |                                 |
| Due to Other Governments | \$ <u>139,642</u>               |
| <b>TOTAL LIABILITIES</b> | <b>\$ <u><u>139,642</u></u></b> |

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2017

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 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.

Capital Project Fund – Nature Lane – Accounts for all activities associated with the Nature Lane Project.

**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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2017

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

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

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

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

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.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2017

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

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

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

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

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2017, 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, 2017, 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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2017

Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

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

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

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

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

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

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

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

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

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts 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, 2017**

**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, 2017, was \$25,733. The pooled cash and investment account is comprised of the following:

|                                 |                     |
|---------------------------------|---------------------|
| Cash and Investments            |                     |
| Governmental Funds              | \$ 4,240,121        |
| Proprietary Funds               | 1,749,317           |
| Fiduciary Funds                 | 139,642             |
|                                 | <u>\$ 6,129,080</u> |
| Deposits                        |                     |
| Cash, Checking and Change Funds | \$ 45,436           |
| Certificates of Deposits        | 887,542             |
| Savings                         | 4,759,805           |
| Investments                     | 436,297             |
|                                 | <u>\$ 6,129,080</u> |

As of December 31, 2017, the City had the following investments:

| Investments                  | Maturities | Level | Fair Value |
|------------------------------|------------|-------|------------|
| 4-M External Investment Pool | N/A        | N/A   | \$ 436,297 |

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.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

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

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the city 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, 2017, 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<br>Replacement<br>Account |
|----------------------------|-----------------------------------|
| Balance, Beginning of Year | \$ 92,648                         |
| Additions                  |                                   |
| Flow payment               | 5,799                             |
| Interest                   | 112                               |
| Balance, End of Year       | \$ 98,559                         |

The liquor fund is also required to have a reserve account of \$5,762 for the lottery account.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2017, was as follows:

|                                              | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>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            | 12,662,708                   | 397,363            |                  | 13,060,071                |
| Equipment                                    | 515,215                      | 16,676             |                  | 531,891                   |
| Total Capital Assets, Being Depreciated      | <u>13,936,891</u>            | <u>414,039</u>     |                  | <u>14,350,930</u>         |
| Less Accumulated Depreciation for:           |                              |                    |                  |                           |
| Building                                     | 221,109                      | 18,899             |                  | 240,008                   |
| Improvements Other Than Buildings            | 7,111,629                    | 393,090            |                  | 7,504,719                 |
| Equipment                                    | 260,028                      | 49,436             |                  | 309,464                   |
| Total Accumulated Depreciation               | <u>7,592,766</u>             | <u>461,425</u>     |                  | <u>8,054,191</u>          |
| Total Capital Assets, Being Depreciated, Net | <u>6,344,125</u>             | <u>(47,386)</u>    |                  | <u>6,296,739</u>          |
| Proprietary Fund Capital Assets, Net         | <u>\$ 6,421,366</u>          | <u>\$ (47,386)</u> |                  | <u>\$ 6,373,980</u>       |

Depreciation expense was charged to the functions as follows:

|                                                |                   |
|------------------------------------------------|-------------------|
| Proprietary Funds:                             |                   |
| Water                                          | \$ 157,543        |
| Sewer                                          | 172,157           |
| Electric                                       | 86,382            |
| Gas                                            | 29,560            |
| Liquor                                         | 15,783            |
| Total Depreciation Expense - Proprietary Funds | <u>\$ 461,425</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.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
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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 Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

*General Employees Retirement Plan (General Employees Plan (accounted or in the General Employees Fund))*

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 (Police and Fire Plan (accounted for in the Police and Fire Fund))*

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% 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.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

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

*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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$63,645. 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 2017. The City was required to contribute 16.20% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$37,560. 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, 2017, the City reported a liability of \$836,295 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 2017. 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 \$10,512. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0131% which was a decrease of 0.0005% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$99,647 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$304 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, 2017, 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<br>of Resources | Deferred Inflows<br>of Resources |
|---------------------------------------------------------------|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience   | \$ 27,562                         | \$ 56,552                        |
| Difference between projected and actual investment earnings   | 12,991                            |                                  |
| Changes in actuarial assumptions                              | 144,142                           | 83,839                           |
| Changes in proportion                                         |                                   | 55,339                           |
| Contributions paid to PERA subsequent to the measurement date | 31,823                            |                                  |
| Total                                                         | <u>\$ 216,518</u>                 | <u>\$ 195,730</u>                |

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

\$31,823 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending December 31 | Pension Expense Amount |
|-------------------------|------------------------|
| 2018                    | \$ 11,085              |
| 2019                    | 35,371                 |
| 2020                    | (21,992)               |
| 2021                    | (35,499)               |

Actuarial Assumptions – The total pension liability in the June 30, 2017, 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, 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 most recent five-year experience study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 044 and 2.5 percent per year thereafter.

**Police and Fire Fund**

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
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- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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:

| Asset Class          | Target Allocation | Long-Term Expected Real Rate<br>of Return |
|----------------------|-------------------|-------------------------------------------|
| Domestic Stocks      | 39%               | 5.10%                                     |
| International Stocks | 19%               | 5.30%                                     |
| Bonds                | 20%               | 0.75%                                     |
| Alternative Assets   | 20%               | 5.90%                                     |
| Cash                 | 2%                | 0.00%                                     |

Discount Rate – The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 and the Police and Fire 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.

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 |                |                    |
|---------------------------------|----------------|--------------------|
| 1% Decrease (6.5%)              | Current (7.5%) | 1% Increase (8.5%) |
| \$ 1,297,156                    | \$ 836,295     | \$ 458,997         |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

**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 and tractor in 2017. As of December 31, 2017, the total value of these capital assets was \$109,055. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been calculated at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

| Year Ending December 31,                | Governmental<br>Fund |
|-----------------------------------------|----------------------|
| 2018                                    | \$ 27,207            |
| 2019                                    | 27,207               |
| Total minimum lease payments            | 54,414               |
| Less: amount representing interest      | (2,976)              |
| Present value of minimum lease payments | \$ 51,438            |

**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 \$6,860,000. During the year, a general obligation improvement bond totaling \$605,000 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<br>Rates | Maturity<br>Dates | Amount       |
|-------------------------------|-------------------|-------------------|--------------|
| Governmental Fund             | 1.55 - 3.3%       | 2018/32           | \$ 3,841,000 |
| Governmental Fund - Refunding | 2.0 - 2.9%        | 2018/21           | 930,000      |
| Proprietary Fund - Refunding  | 1.90%             | 2018              | 40,000       |
| Total                         |                   |                   | \$ 4,811,000 |

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

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

| Year Ending<br>December 31 | Governmental Fund   |                   | Proprietary Fund |               |
|----------------------------|---------------------|-------------------|------------------|---------------|
|                            | Principal           | Interest          | Principal        | Interest      |
| 2018                       | \$ 710,000          | \$ 125,516        | \$ 40,000        | \$ 760        |
| 2019                       | 727,000             | 108,801           |                  |               |
| 2020                       | 668,000             | 91,165            |                  |               |
| 2021                       | 613,000             | 75,002            |                  |               |
| 2022                       | 469,000             | 58,399            |                  |               |
| 2023-2027                  | 1,182,000           | 131,983           |                  |               |
| 2028-2032                  | 402,000             | 33,140            |                  |               |
|                            | <u>\$ 4,771,000</u> | <u>\$ 624,006</u> | <u>\$ 40,000</u> | <u>\$ 760</u> |

**B. General Obligation Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$4,903,061. General obligation revenue bonds outstanding at year-end are as follows:

| Purpose           | Interest Rates | Maturity Dates | Amount              |
|-------------------|----------------|----------------|---------------------|
| Governmental Fund | 1.1 - 2.3%     | 2018/27        | \$ 1,808,000        |
| Proprietary Fund  | 3.3 - 4.5%     | 2018/21        | 170,000             |
|                   |                |                | <u>\$ 1,978,000</u> |

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

| Year Ending<br>December 31 | Governmental Fund   |                   | Proprietary Fund  |                  |
|----------------------------|---------------------|-------------------|-------------------|------------------|
|                            | Principal           | Interest          | Principal         | Interest         |
| 2018                       | \$ 211,000          | \$ 26,181         | \$ 40,000         | \$ 5,644         |
| 2019                       | 214,000             | 23,140            | 42,000            | 4,316            |
| 2020                       | 216,000             | 20,066            | 43,000            | 2,920            |
| 2021                       | 220,000             | 16,954            | 45,000            | 1,494            |
| 2022                       | 223,000             | 13,790            |                   |                  |
| 2023-2027                  | 724,000             | 22,810            |                   |                  |
|                            | <u>\$ 1,808,000</u> | <u>\$ 122,941</u> | <u>\$ 170,000</u> | <u>\$ 14,374</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 \$329,000. Revenue bonds outstanding at year-end are as follows:

| Purpose                      | Interest Rates | Maturity Dates | Amount     |
|------------------------------|----------------|----------------|------------|
| Proprietary Fund - Refunding | 3.25%          | 2018/27        | \$ 307,000 |

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

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

| Year Ending<br>December 31 | Proprietary Fund  |                  |
|----------------------------|-------------------|------------------|
|                            | Principal         | Interest         |
| 2018                       | \$ 24,000         | \$ 9,588         |
| 2019                       | 29,000            | 8,726            |
| 2020                       | 29,000            | 7,784            |
| 2021                       | 28,000            | 6,857            |
| 2022                       | 32,000            | 5,882            |
| 2023-2027                  | 165,000           | 13,894           |
|                            | <u>\$ 307,000</u> | <u>\$ 52,731</u> |

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

Long-term liability activity for the year ended December 31, 2017, was as follows:

|                                            | Beginning<br>Balance | Increases         | Decreases           | Ending<br>Balance   | Due Within<br>One Year |
|--------------------------------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| <b>Governmental Fund</b>                   |                      |                   |                     |                     |                        |
| General Obligation Bonds                   | \$ 4,851,000         | \$ 605,000        | \$ 685,000          | \$ 4,771,000        | \$ 710,000             |
| General Obligation Revenue Bonds           | 2,016,000            |                   | 208,000             | 1,808,000           | 211,000                |
| Capital Lease                              | 47,964               | 29,055            | 25,581              | 51,438              | 25,235                 |
| Governmental Fund Long-Term<br>Liabilities | <u>6,914,964</u>     | <u>634,055</u>    | <u>918,581</u>      | <u>6,630,438</u>    | <u>946,235</u>         |
| <b>Proprietary Fund</b>                    |                      |                   |                     |                     |                        |
| General Obligation Bonds                   | 79,000               |                   | 39,000              | 40,000              | 40,000                 |
| General Obligation Revenue Bonds           | 363,000              |                   | 193,000             | 170,000             | 40,000                 |
| Revenue Bonds                              | 329,000              |                   | 22,000              | 307,000             | 24,000                 |
| Proprietary Fund Long-Term<br>Liabilities  | <u>771,000</u>       |                   | <u>254,000</u>      | <u>517,000</u>      | <u>104,000</u>         |
| <b>Total Long-Term Liabilities</b>         | <u>\$ 7,685,964</u>  | <u>\$ 634,055</u> | <u>\$ 1,172,581</u> | <u>\$ 7,147,438</u> | <u>\$ 1,050,235</u>    |

The City's interest expense for the year ended December 31, 2017, was \$182,467.

See the Schedule of Indebtedness for detail and payment provisions.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2017, is as follows:

Due To / From Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------|
| Electric               | Liquor              | \$ 31,164     |

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

Advance From / To Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u>   | <u>Amount</u>     |
|------------------------|-----------------------|-------------------|
| Electric               | Airport               | \$ 165,000        |
| Electric               | Nonmajor Governmental | 55,002            |
| Electric               | Liquor                | 27,686            |
| Electric               | Water                 | 16,861            |
| Sewer                  | General               | 209,261           |
| Total                  |                       | <u>\$ 473,810</u> |

Based on the amortization schedules, \$233,521 will be paid in 2018.

Interfund Transfers:

| <u>Transfer In</u>    | <u>Transfer Out</u>   | <u>Amount</u>     |
|-----------------------|-----------------------|-------------------|
| General               | Liquor                | \$ 8,000          |
| General               | Sewer                 | 45,000            |
| General               | Electric              | 136,107           |
| General               | Gas                   | 54,595            |
| General               | Nonmajor Governmental | 58,000            |
| Nonmajor Governmental | Nature Lane           | 2,888             |
| Nonmajor Governmental | General               | 900               |
| Nonmajor Governmental | Nonmajor Governmental | 231,750           |
| Nonmajor Governmental | Water                 | 99,000            |
| Nonmajor Governmental | Sewer                 | 41,700            |
| Total                 |                       | <u>\$ 677,940</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, 2017**

**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 2017 was \$50,000.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

**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 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, and 2017 with Constellation Energy for its natural gas requirements. The City has multiple contracts for 66% of the monthly requirements through October 2021. The contracts consist of: two locks as of May 27, 2015 and October 28, 2015, at an average price of approximately \$3.355 per MMBtu which goes from September 2016 through October 2019; two locks as of April 21, 2016 and May 26, 2017, at an average price of approximately 3.115 per MMBtu from November 2019 to October 2020; and two locks both as of June 9, 2017, at an average price of approximately 3.033 per MMBtu from November 2020 to October 2021. The remaining gas requirement of 34% will be purchased in the Managed Procurement Fund.

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

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.

Effective November 1, 2017, the City amended the November 1, 1993 agreement with Viking Gas Transmission Company, for shipper/firm transportation agreement services to replace the provisions and extend the agreement through October 31, 2027.

At December 31, 2017, the City had construction commitments of \$464,000 for the Airport Hangar 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, 2017 was \$36,574.

**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 2017.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

**NOTE 16 TAX ABATEMENT DISCLOSURE**

| <u>Purpose of Tax Abatement</u>                                                                                                                                                       | <u>Percentage of Taxes Abated<br/>During the Fiscal Year</u> | <u>Amount of<br/>Taxes Abated</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------|
| Residential New Housing Tax Abatement-2 year duration<br>9 houses built in 2013, 6 houses built in 2014, and<br>10 houses built in 2015                                               | 100% of City taxes on the<br>first \$200,000 value           | \$ 14,064                         |
| AmericInn/Hawley Hotel Partners Tax Abatement - to<br>reimburse for certain development costs of construction<br>of much needed Nationally Franchised "AmericInn" 10<br>year duration | 75% of City taxes abated                                     | 14,515                            |
| <b>Total Abatements 2017</b>                                                                                                                                                          |                                                              | <u>\$ 28,579</u>                  |

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 AmericInn 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. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2017**

this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. 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, 2017**

|                             | 2017               |                  |                   |                              | 2016<br>Actual   |
|-----------------------------|--------------------|------------------|-------------------|------------------------------|------------------|
|                             | Original<br>Budget | Final<br>Budget  | Actual<br>Amounts | Over (Under)<br>Final Budget |                  |
| <b>RECEIPTS</b>             |                    |                  |                   |                              |                  |
| Property Taxes              | \$ 467,789         | \$ 467,789       | \$ 483,719        | \$ 15,930                    | \$ 437,497       |
| Property Taxes -            |                    |                  |                   |                              |                  |
| Tax Increment Financing     | 10,000             | 13,666           | 13,666            |                              | 17,154           |
| Special Assessments         | 60,000             | 54,560           | 54,557            | (3)                          | 58,173           |
| Licenses and Permits        | 17,950             | 17,950           | 17,037            | (913)                        | 19,129           |
| <b>Intergovernmental</b>    |                    |                  |                   |                              |                  |
| Federal                     |                    |                  |                   |                              | 2,369            |
| State                       |                    |                  |                   |                              |                  |
| Local Government Aid        | 612,225            | 612,225          | 612,225           |                              | 611,066          |
| Fire State Aid              | 27,000             | 31,840           | 31,840            |                              | 55,977           |
| Police State Aid            | 15,000             | 33,590           | 33,589            | (1)                          | 17,227           |
| PERA                        | 2,402              | 2,402            | 2,402             |                              | 2,402            |
| Small City Assistance       |                    | 20,808           | 20,808            |                              |                  |
| Other State Aid             | 1,500              | 5,029            | 4,801             | (228)                        | 5,417            |
| Local - County              | 9,000              | 9,000            | 9,665             | 665                          | 8,940            |
| Total Intergovernmental     | <u>667,127</u>     | <u>714,894</u>   | <u>715,330</u>    | <u>436</u>                   | <u>703,398</u>   |
| <b>Charges for Services</b> |                    |                  |                   |                              |                  |
| Franchise Fee - Cable       | 9,000              | 9,000            | 10,155            | 1,155                        | 9,808            |
| Street Charges and Sales    | 1,000              | 1,000            | 1,350             | 350                          |                  |
| Airport                     | 8,000              | 8,000            | 8,000             |                              | 6,500            |
| Total Charges for Services  | <u>18,000</u>      | <u>18,000</u>    | <u>19,505</u>     | <u>1,505</u>                 | <u>16,308</u>    |
| Fines and Forfeitures       | 16,000             | 19,800           | 22,341            | 2,541                        | 20,711           |
| Investment Earnings         | 2,000              | 5,150            | 5,675             | 525                          | 3,102            |
| <b>Miscellaneous</b>        |                    |                  |                   |                              |                  |
| Rents                       | 6,852              | 6,852            | 7,201             | 349                          | 6,845            |
| Donations                   |                    | 2,450            | 3,450             | 1,000                        | 1,455            |
| Insurance Proceeds          | 5,000              | 5,000            | 7,007             | 2,007                        | 25,082           |
| Other Receipts              | 13,900             | 22,300           | 25,337            | 3,037                        | 48,945           |
| <b>TOTAL RECEIPTS</b>       | <u>1,284,618</u>   | <u>1,348,411</u> | <u>1,374,825</u>  | <u>26,414</u>                | <u>1,357,799</u> |
| <b>DISBURSEMENTS</b>        |                    |                  |                   |                              |                  |
| <b>General Government</b>   |                    |                  |                   |                              |                  |
| <b>Current</b>              |                    |                  |                   |                              |                  |
| City Council                | 73,135             | 54,135           | 50,633            | (3,502)                      | 54,862           |
| Election                    |                    |                  |                   |                              | 1,752            |
| Finance                     | 53,889             | 49,989           | 49,082            | (907)                        | 50,445           |
| Assessor                    | 5,920              | 5,920            | 5,920             |                              | 5,920            |
| Legal                       | 25,000             | 20,500           | 20,413            | (87)                         | 20,951           |
| Other General Government    | 91,572             | 68,672           | 65,080            | (3,592)                      | 69,895           |
| Capital Outlay              | 9,000              | 5,000            | 4,551             | (449)                        | 389              |
| Total General Government    | <u>258,516</u>     | <u>204,216</u>   | <u>195,679</u>    | <u>(8,537)</u>               | <u>204,214</u>   |
| <b>Public Safety</b>        |                    |                  |                   |                              |                  |
| <b>Current</b>              |                    |                  |                   |                              |                  |
| Police Protection           | 511,604            | 452,066          | 431,529           | (20,537)                     | 423,256          |
| Fire Relief                 | 27,000             | 31,840           | 31,840            |                              | 55,977           |
| Fire Joint Powers District  | 52,790             | 52,790           | 52,750            | (40)                         | 51,250           |
| Animal Control              | 700                | 700              | 385               | (315)                        | 196              |

cont.

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                                 | 2017                |                     |                     |                              | 2016<br>Actual      |
|-------------------------------------------------|---------------------|---------------------|---------------------|------------------------------|---------------------|
|                                                 | Original<br>Budget  | Final<br>Budget     | Actual<br>Amounts   | Over (Under)<br>Final Budget |                     |
| DISBURSEMENTS - Continued                       |                     |                     |                     |                              |                     |
| Public Safety - Continued                       |                     |                     |                     |                              |                     |
| Current - Continued                             |                     |                     |                     |                              |                     |
| Emergency Response                              |                     |                     |                     |                              |                     |
| Joint Powers District                           | \$ 36,001           | \$ 36,001           | \$ 35,112           | \$ (889)                     | \$ 34,328           |
| Capital Outlay                                  | 45,200              | 54,605              | 53,319              | (1,286)                      | 98,996              |
| Total Public Safety                             | <u>673,295</u>      | <u>628,002</u>      | <u>604,935</u>      | <u>(23,067)</u>              | <u>664,003</u>      |
| Streets and Highways                            |                     |                     |                     |                              |                     |
| Current                                         |                     |                     |                     |                              |                     |
| Street Maintenance                              | 207,234             | 229,270             | 221,735             | (7,535)                      | 166,665             |
| Snow Removal                                    | 3,000               | 3,000               | 3,020               | 20                           |                     |
| Capital Outlay                                  | 120,000             | 219,241             | 219,162             | (79)                         |                     |
| Total Streets and Highways                      | <u>330,234</u>      | <u>451,511</u>      | <u>443,917</u>      | <u>(7,594)</u>               | <u>166,665</u>      |
| Culture and Recreation                          |                     |                     |                     |                              |                     |
| Current                                         |                     |                     |                     |                              |                     |
| Community Building                              | 19,165              | 15,965              | 13,705              | (2,260)                      | 13,569              |
| Parks                                           | 102,732             | 102,732             | 103,987             | 1,255                        | 81,926              |
| Library                                         | 11,812              | 6,990               | 5,197               | (1,793)                      | 11,079              |
| Capital Outlay                                  | 34,700              | 45,637              | 36,324              | (9,313)                      | 17,334              |
| Total Culture and Recreation                    | <u>168,409</u>      | <u>171,324</u>      | <u>159,213</u>      | <u>(12,111)</u>              | <u>123,908</u>      |
| Conservation of Natural Resources               |                     |                     |                     |                              |                     |
| Vector Control                                  | 17,500              | 17,500              | 15,510              | (1,990)                      | 17,361              |
| Forestry Shade Tree                             | 8,300               | 8,300               | 8,173               | (127)                        | 16,535              |
| Total Conservation of<br>Natural Resources      | <u>25,800</u>       | <u>25,800</u>       | <u>23,683</u>       | <u>(2,117)</u>               | <u>33,896</u>       |
| Economic Development - Current                  | 87,536              | 77,336              | 72,641              | (4,695)                      | 71,335              |
| Debt Service                                    |                     |                     |                     |                              |                     |
| Principal                                       |                     |                     | 25,581              | 25,581                       | 40,324              |
| Interest                                        |                     |                     | 1,626               | 1,626                        | 3,027               |
| Total Debt Service                              |                     |                     | <u>27,207</u>       | <u>27,207</u>                | <u>43,351</u>       |
| <b>TOTAL DISBURSEMENTS</b>                      | <u>1,543,790</u>    | <u>1,558,189</u>    | <u>1,527,275</u>    | <u>(30,914)</u>              | <u>1,307,372</u>    |
| Receipts Over (Under) Disbursements             | (259,172)           | (209,778)           | (152,450)           | 57,328                       | 50,427              |
| OTHER FINANCING SOURCES (USES)                  |                     |                     |                     |                              |                     |
| Transfer In                                     | 306,300             | 319,000             | 301,702             | (17,298)                     | 255,766             |
| Transfer In - Interfund Loan                    |                     |                     | 1,404               | 1,404                        | 19,892              |
| Transfer Out                                    | (17,084)            | (17,084)            | (900)               | 16,184                       | (25,500)            |
| Transfer Out - Interfund Loan                   | (30,000)            | (30,000)            | (30,000)            |                              | (30,065)            |
| <b>TOTAL OTHER FINANCING SOURCES<br/>(USES)</b> | <u>259,216</u>      | <u>271,916</u>      | <u>272,206</u>      | <u>290</u>                   | <u>220,093</u>      |
| Net Change in Fund Balances                     | 44                  | 62,138              | 119,756             | 57,618                       | 270,520             |
| Fund Balances - Beginning                       | 2,383,211           | 2,383,211           | 2,383,211           |                              | 2,112,691           |
| Fund Balances - Ending                          | <u>\$ 2,383,255</u> | <u>\$ 2,445,349</u> | <u>\$ 2,502,967</u> | <u>\$ 57,618</u>             | <u>\$ 2,383,211</u> |

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**AIRPORT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                             | 2017                         |                   |                              | 2016<br>Actual   |
|---------------------------------------------|------------------------------|-------------------|------------------------------|------------------|
|                                             | Original and Final<br>Budget | Actual<br>Amounts | Over (Under)<br>Final Budget |                  |
| <b>RECEIPTS</b>                             |                              |                   |                              |                  |
| Intergovernmental                           |                              |                   |                              |                  |
| Federal                                     | \$ 406,800                   | \$ 341,796        | \$ (65,004)                  | \$ 205,699       |
| State                                       | 21,005                       | 85,687            | 64,682                       | 87,166           |
| Total Intergovernmental                     | <u>427,805</u>               | <u>427,483</u>    | <u>(322)</u>                 | <u>292,865</u>   |
| Investment Earnings                         | 25                           | 61                | 36                           | 18               |
| Miscellaneous                               |                              |                   |                              |                  |
| Rents                                       | 47,250                       | 44,811            | (2,439)                      | 48,856           |
| Other Receipts                              | 25,000                       | 26,309            | 1,309                        | 27,246           |
| <b>TOTAL RECEIPTS</b>                       | <u>500,080</u>               | <u>498,664</u>    | <u>(1,416)</u>               | <u>368,985</u>   |
| <b>DISBURSEMENTS</b>                        |                              |                   |                              |                  |
| Airport                                     |                              |                   |                              |                  |
| Current                                     | 240,039                      | 239,519           | (520)                        | 219,557          |
| Capital Outlay                              | 265,000                      | 265,067           | 67                           | 254,765          |
| <b>TOTAL DISBURSEMENTS</b>                  | <u>505,039</u>               | <u>504,586</u>    | <u>(453)</u>                 | <u>474,322</u>   |
| Receipts Under Disbursements                | (4,959)                      | (5,922)           | (963)                        | (105,337)        |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                              |                   |                              |                  |
| Transfer In - Interfund Loan                |                              |                   |                              | 165,000          |
| Transfer Out - Interfund Loan               | (6,600)                      | (6,600)           |                              | (28,861)         |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <u>(6,600)</u>               | <u>(6,600)</u>    |                              | <u>136,139</u>   |
| Net Change in Fund Balances                 | (11,559)                     | (12,522)          | (963)                        | 30,802           |
| Fund Balances - Beginning                   | <u>30,802</u>                | <u>30,802</u>     |                              |                  |
| Fund Balances - Ending                      | <u>\$ 19,243</u>             | <u>\$ 18,280</u>  | <u>\$ (963)</u>              | <u>\$ 30,802</u> |

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

|      | Fiscal Year Ended<br>December 31 | Statutorily<br>Required<br>Contribution | Contributions in<br>Relation to the<br>Statutorily<br>Required<br>Contributions | Contribution<br>Deficiency<br>(Excess) | City's Covered-<br>Employee Payroll | Contributions as a<br>Percentage of<br>Covered-Employee<br>Payroll |
|------|----------------------------------|-----------------------------------------|---------------------------------------------------------------------------------|----------------------------------------|-------------------------------------|--------------------------------------------------------------------|
| PERA | 2015                             | \$ 64,247                               | \$ 64,247                                                                       | \$                                     | \$ 856,623                          | 7.50 %                                                             |
|      | 2016                             | 62,916                                  | 62,916                                                                          |                                        | 838,877                             | 7.50                                                               |
|      | 2017                             | 63,645                                  | 63,645                                                                          |                                        | 848,596                             | 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<br>Ended<br>June 30 | City's<br>Proportion of<br>the Net<br>Pension<br>Liability | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability | State's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability<br>Associated<br>with the City | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability<br>Associated<br>with the City | City's Covered-<br>Employee<br>Payroll | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability as a<br>Percentage of<br>its Covered-<br>Employee<br>Payroll | Plan Fiduciary<br>Net Position<br>as a<br>Percentage of<br>the Total<br>Pension<br>Liability |
|-------------|---------------------------------|------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>PERA</b> | 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                                                                                        |
|             | 2017                            | 0.0131                                                     | 836,295                                                             | 10,512                                                                                              | 846,807                                                                                            | 843,736                                | 100.36                                                                                                                           | 75.90                                                                                        |

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, 2017**

**NOTE 1    DEFINED BENEFIT PLANS**

**PERA**

**General Employees Fund**

*2017 Changes*

Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

*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, 2017**

Exhibit A-1

|                            | Special<br>Revenue<br>Exhibit B-1 | Debt<br>Service<br>Exhibit B-3 | Capital<br>Project<br>Exhibit B-5 | Total<br>Nonmajor<br>Governmental<br>Funds |
|----------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------------------|
| <b>ASSETS</b>              |                                   |                                |                                   |                                            |
| Cash and Investments       | \$ 335,550                        | \$ 1,285,637                   | \$ 29,931                         | \$ 1,651,118                               |
| Cash with Fiscal Agent     | 111,462                           |                                |                                   | 111,462                                    |
| <b>TOTAL ASSETS</b>        | <b>\$ 447,012</b>                 | <b>\$ 1,285,637</b>            | <b>\$ 29,931</b>                  | <b>\$ 1,762,580</b>                        |
| <b>FUND BALANCES</b>       |                                   |                                |                                   |                                            |
| Restricted for:            |                                   |                                |                                   |                                            |
| Revolving Loan             | \$ 116,949                        | \$                             | \$                                | \$ 116,949                                 |
| Debt Service               |                                   | 1,285,637                      |                                   | 1,285,637                                  |
| Committed for:             |                                   |                                |                                   |                                            |
| Garbage Service/Recycling  | 147,355                           |                                |                                   | 147,355                                    |
| Deputy Registrar/Office    | 68,381                            |                                |                                   | 68,381                                     |
| Storm Water Maint/Repairs  | 85,071                            |                                |                                   | 85,071                                     |
| Building Upkeep/Repair     | 29,256                            |                                |                                   | 29,256                                     |
| Assigned for:              |                                   |                                |                                   |                                            |
| Capital Projects           |                                   |                                | 29,931                            | 29,931                                     |
| <b>TOTAL FUND BALANCES</b> | <b>\$ 447,012</b>                 | <b>\$ 1,285,637</b>            | <b>\$ 29,931</b>                  | <b>\$ 1,762,580</b>                        |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit A-2

|                                             | Special<br>Revenue<br>Exhibit B-2 | Debt<br>Service<br>Exhibit B-4 | Capital<br>Project<br>Exhibit B-6 | Total<br>Nonmajor<br>Governmental<br>Funds |
|---------------------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------------------|
| <b>RECEIPTS</b>                             |                                   |                                |                                   |                                            |
| Property Taxes                              | \$                                | \$ 89,915                      | \$                                | \$ 89,915                                  |
| Tax Increment Financing                     | 255,498                           |                                |                                   | 255,498                                    |
| Special Assessments                         |                                   | 669,498                        | 49,829                            | 719,327                                    |
| Charges for Services                        | 517,908                           |                                |                                   | 517,908                                    |
| Investment Earnings                         | 3,078                             | 1,797                          | 88                                | 4,963                                      |
| Miscellaneous                               |                                   |                                |                                   |                                            |
| Rent                                        | 38,815                            |                                |                                   | 38,815                                     |
| Other Receipts                              | 23,924                            |                                |                                   | 23,924                                     |
|                                             | 839,223                           | 761,210                        | 49,917                            | 1,650,350                                  |
| <b>TOTAL RECEIPTS</b>                       |                                   |                                |                                   |                                            |
| <b>DISBURSEMENTS</b>                        |                                   |                                |                                   |                                            |
| Current                                     |                                   |                                |                                   |                                            |
| General Government                          | 108,485                           |                                |                                   | 108,485                                    |
| Sanitation                                  | 274,286                           |                                |                                   | 274,286                                    |
| Economic Development                        | 111,891                           |                                |                                   | 111,891                                    |
| Debt Service                                |                                   |                                |                                   |                                            |
| Principal                                   |                                   | 893,000                        |                                   | 893,000                                    |
| Interest and Other Charges                  |                                   | 161,693                        |                                   | 161,693                                    |
| Capital Outlay                              |                                   |                                |                                   |                                            |
| General Government                          | 6,953                             |                                |                                   | 6,953                                      |
| Streets and Highways                        |                                   |                                | 104,113                           | 104,113                                    |
|                                             | 501,615                           | 1,054,693                      | 104,113                           | 1,660,421                                  |
| <b>TOTAL DISBURSEMENTS</b>                  |                                   |                                |                                   |                                            |
| Receipts Over (Under) Disbursements         | 337,608                           | (293,483)                      | (54,196)                          | (10,071)                                   |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                                   |                                |                                   |                                            |
| Debt Issued                                 |                                   | 39,027                         |                                   | 39,027                                     |
| Transfer In                                 |                                   | 376,238                        |                                   | 376,238                                    |
| Transfer Out                                | (289,750)                         |                                |                                   | (289,750)                                  |
| Transfer Out - Interfund Loan               | (21,558)                          |                                |                                   | (21,558)                                   |
|                                             | (311,308)                         | 415,265                        |                                   | 103,957                                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> |                                   |                                |                                   |                                            |
| Net Change in Fund Balances                 | 26,300                            | 121,782                        | (54,196)                          | 93,886                                     |
| Fund Balances - Beginning                   | 420,712                           | 1,163,855                      | 84,127                            | 1,668,694                                  |
| Fund Balances - Ending                      | \$ 447,012                        | \$ 1,285,637                   | \$ 29,931                         | \$ 1,762,580                               |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2017**

Exhibit B-1

|                            | Nonmajor Funds    |                   |                     |                  |                  | Total Nonmajor<br>Special Revenue<br>Exhibit A-1 | Major Fund<br>Airport | Total<br>Special<br>Revenue |
|----------------------------|-------------------|-------------------|---------------------|------------------|------------------|--------------------------------------------------|-----------------------|-----------------------------|
|                            | Revolving<br>Loan | Garbage           | Deputy<br>Registrar | Storm<br>Water   | Clinic           |                                                  |                       |                             |
| <b>ASSETS</b>              |                   |                   |                     |                  |                  |                                                  |                       |                             |
| Cash and Investments       | \$ 5,487          | \$ 147,355        | \$ 68,381           | \$ 85,071        | \$ 29,256        | \$ 335,550                                       | \$ 18,280             | \$ 353,830                  |
| Cash with Fiscal Agent     | 111,462           |                   |                     |                  |                  | 111,462                                          |                       | 111,462                     |
| <b>TOTAL ASSETS</b>        | <u>\$ 116,949</u> | <u>\$ 147,355</u> | <u>\$ 68,381</u>    | <u>\$ 85,071</u> | <u>\$ 29,256</u> | <u>\$ 447,012</u>                                | <u>\$ 18,280</u>      | <u>\$ 465,292</u>           |
| <b>FUND BALANCES</b>       |                   |                   |                     |                  |                  |                                                  |                       |                             |
| Restricted for:            |                   |                   |                     |                  |                  |                                                  |                       |                             |
| Revolving Loan             | \$ 116,949        |                   |                     |                  |                  | \$ 116,949                                       |                       | \$ 116,949                  |
| Committed for:             |                   |                   |                     |                  |                  |                                                  |                       |                             |
| Municipal Airport          |                   |                   |                     |                  |                  |                                                  | 18,280                | 18,280                      |
| Garbage Service/Recycling  |                   | 147,355           |                     |                  |                  | 147,355                                          |                       | 147,355                     |
| Deputy Registrar/Office    |                   |                   | 68,381              |                  |                  | 68,381                                           |                       | 68,381                      |
| Storm Water Maint/Repairs  |                   |                   |                     | 85,071           |                  | 85,071                                           |                       | 85,071                      |
| Building Upkeep/Repair     |                   |                   |                     |                  | 29,256           | 29,256                                           |                       | 29,256                      |
| <b>TOTAL FUND BALANCES</b> | <u>\$ 116,949</u> | <u>\$ 147,355</u> | <u>\$ 68,381</u>    | <u>\$ 85,071</u> | <u>\$ 29,256</u> | <u>\$ 447,012</u>                                | <u>\$ 18,280</u>      | <u>\$ 465,292</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, 2017**

Exhibit B-2

|                                     | Nonmajor Funds    |               |                   |                     |                  |                  |
|-------------------------------------|-------------------|---------------|-------------------|---------------------|------------------|------------------|
|                                     | Revolving<br>Loan | GN Property   | Garbage           | Deputy<br>Registrar | Storm<br>Water   |                  |
| RECEIPTS                            |                   |               |                   |                     |                  |                  |
| Tax Increment Financing             | \$                | \$ 25,544     | \$                | \$                  | \$               | \$               |
| Intergovernmental - Federal         |                   |               |                   |                     |                  |                  |
| Intergovernmental - State           |                   |               |                   |                     |                  |                  |
| Charges for Services                |                   |               | 321,024           | 91,194              | 105,690          |                  |
| Investment Earnings                 | 2,443             |               | 156               | 215                 | 134              | 130              |
| Miscellaneous                       |                   |               |                   |                     |                  |                  |
| Rent                                | 10,490            |               |                   |                     |                  | 28,325           |
| Other Receipts                      | 21,001            |               | 2,259             | 664                 |                  |                  |
| <b>TOTAL RECEIPTS</b>               | <b>33,934</b>     | <b>25,544</b> | <b>323,439</b>    | <b>92,073</b>       | <b>105,824</b>   | <b>28,455</b>    |
| DISBURSEMENTS                       |                   |               |                   |                     |                  |                  |
| Current                             |                   |               |                   |                     |                  |                  |
| General Government                  |                   |               |                   | 99,857              |                  | 8,628            |
| Sanitation                          |                   |               | 274,286           |                     |                  |                  |
| Economic Development                | 20,143            | 25,544        |                   |                     |                  |                  |
| Airport                             |                   |               |                   |                     |                  |                  |
| Capital Outlay                      |                   |               |                   |                     |                  |                  |
| General Government                  |                   |               |                   | 6,953               |                  |                  |
| Airport                             |                   |               |                   |                     |                  |                  |
| <b>TOTAL DISBURSEMENTS</b>          | <b>20,143</b>     | <b>25,544</b> | <b>274,286</b>    | <b>106,810</b>      |                  | <b>8,628</b>     |
| Receipts Over (Under) Disbursements | 13,791            |               | 49,153            | (14,737)            | 105,824          | 19,827           |
| OTHER FINANCING USES                |                   |               |                   |                     |                  |                  |
| Transfer Out                        |                   |               | (20,000)          |                     | (106,000)        |                  |
| Transfer Out - Interfund Loan       | (1,404)           |               |                   |                     |                  | (20,154)         |
| <b>TOTAL OTHER FINANCING USES</b>   | <b>(1,404)</b>    |               | <b>(20,000)</b>   |                     | <b>(106,000)</b> | <b>(20,154)</b>  |
| Net Change in Fund Balances         | 12,387            |               | 29,153            | (14,737)            | (176)            | (327)            |
| Fund Balances - Beginning           | 104,562           |               | 118,202           | 83,118              | 85,247           | 29,583           |
| Fund Balances - Ending              | <u>\$ 116,949</u> | <u>\$</u>     | <u>\$ 147,355</u> | <u>\$ 68,381</u>    | <u>\$ 85,071</u> | <u>\$ 29,256</u> |

**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, 2017**

|                                     | Nonmajor Funds  |                 | Total Nonmajor<br>Special Revenue<br>Exhibit A-2 | Major Fund<br>Airport | Exhibit B-2        |
|-------------------------------------|-----------------|-----------------|--------------------------------------------------|-----------------------|--------------------|
|                                     | TIF             | TIF             |                                                  |                       | Total              |
|                                     | RDO             | Cretext         |                                                  |                       | Special<br>Revenue |
| <b>RECEIPTS</b>                     |                 |                 |                                                  |                       |                    |
| Tax Increment Financing             | \$ 108,382      | \$ 121,572      | \$ 255,498                                       | \$                    | \$ 255,498         |
| Intergovernmental - Federal         |                 |                 |                                                  | 341,796               | 341,796            |
| Intergovernmental - State           |                 |                 |                                                  | 85,687                | 85,687             |
| Charges for Services                |                 |                 | 517,908                                          |                       | 517,908            |
| Investment Earnings                 |                 |                 | 3,078                                            | 61                    | 3,139              |
| Miscellaneous                       |                 |                 |                                                  |                       |                    |
| Rent                                |                 |                 | 38,815                                           | 44,811                | 83,626             |
| Other Receipts                      |                 |                 | 23,924                                           | 26,309                | 50,233             |
| <b>TOTAL RECEIPTS</b>               | <u>108,382</u>  | <u>121,572</u>  | <u>839,223</u>                                   | <u>498,664</u>        | <u>1,337,887</u>   |
| <b>DISBURSEMENTS</b>                |                 |                 |                                                  |                       |                    |
| Current                             |                 |                 |                                                  |                       |                    |
| General Government                  |                 |                 | 108,485                                          |                       | 108,485            |
| Sanitation                          |                 |                 | 274,286                                          |                       | 274,286            |
| Economic Development                | 21,232          | 44,972          | 111,891                                          |                       | 111,891            |
| Airport                             |                 |                 |                                                  | 239,519               | 239,519            |
| Capital Outlay                      |                 |                 |                                                  |                       |                    |
| General Government                  |                 |                 | 6,953                                            |                       | 6,953              |
| Airport                             |                 |                 |                                                  | 265,067               | 265,067            |
| <b>TOTAL DISBURSEMENTS</b>          | <u>21,232</u>   | <u>44,972</u>   | <u>501,615</u>                                   | <u>504,586</u>        | <u>1,006,201</u>   |
| Receipts Over (Under) Disbursements | 87,150          | 76,600          | 337,608                                          | (5,922)               | 331,686            |
| <b>OTHER FINANCING USES</b>         |                 |                 |                                                  |                       |                    |
| Transfer Out                        | (87,150)        | (76,600)        | (289,750)                                        |                       | (289,750)          |
| Transfer Out - Interfund Loan       |                 |                 | (21,558)                                         | (6,600)               | (28,158)           |
| <b>TOTAL OTHER FINANCING USES</b>   | <u>(87,150)</u> | <u>(76,600)</u> | <u>(311,308)</u>                                 | <u>(6,600)</u>        | <u>(317,908)</u>   |
| Net Change in Fund Balances         |                 |                 | 26,300                                           | (12,522)              | 13,778             |
| Fund Balances - Beginning           |                 |                 | 420,712                                          | 30,802                | 451,514            |
| Fund Balances - Ending              | <u>\$</u>       | <u>\$</u>       | <u>\$ 447,012</u>                                | <u>\$ 18,280</u>      | <u>\$ 465,292</u>  |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS**  
**DECEMBER 31, 2017**

Exhibit B-3

|                             | Nonmajor Funds    |                      |                      |                    |                    |                      |
|-----------------------------|-------------------|----------------------|----------------------|--------------------|--------------------|----------------------|
|                             | 11 Refund (04)    | 2006<br>PFA<br>Water | 2006<br>PFA<br>Sewer | 11 Refund<br>(06A) | 11 Refund<br>(06B) | 2008<br>PFA<br>Water |
| ASSETS                      |                   |                      |                      |                    |                    |                      |
| Cash and Investments        | \$ 194,666        | \$ 197,095           | \$ 144,337           | \$ 42,009          | \$ 33,498          | \$ 10,428            |
| TOTAL ASSETS                | <u>\$ 194,666</u> | <u>\$ 197,095</u>    | <u>\$ 144,337</u>    | <u>\$ 42,009</u>   | <u>\$ 33,498</u>   | <u>\$ 10,428</u>     |
| FUND BALANCES               |                   |                      |                      |                    |                    |                      |
| Restricted for Debt Service | \$ 194,666        | \$ 197,095           | \$ 144,337           | \$ 42,009          | \$ 33,498          | \$ 10,428            |
| TOTAL FUND BALANCES         | <u>\$ 194,666</u> | <u>\$ 197,095</u>    | <u>\$ 144,337</u>    | <u>\$ 42,009</u>   | <u>\$ 33,498</u>   | <u>\$ 10,428</u>     |

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS – CONTINUED**  
**DECEMBER 31, 2017**

Exhibit B-3

Nonmajor Funds

|                             | 2008<br>PFA<br>Sewer | 11 Street<br>Rebuild | 13 Cretex/<br>Hwy 10 | Bond<br>TIF      | 15<br>Refund      | Autumn<br>View   | Nature<br>Lane   | Total Nonmajor<br>Debt Service<br>Exhibit A-1 |
|-----------------------------|----------------------|----------------------|----------------------|------------------|-------------------|------------------|------------------|-----------------------------------------------|
| ASSETS                      |                      |                      |                      |                  |                   |                  |                  |                                               |
| Cash and Investments        | \$ 2,124             | \$ 64,560            | \$ 224,102           | \$ 19,494        | \$ 304,443        | \$ 12,774        | \$ 36,107        | \$ 1,285,637                                  |
| TOTAL ASSETS                | <u>\$ 2,124</u>      | <u>\$ 64,560</u>     | <u>\$ 224,102</u>    | <u>\$ 19,494</u> | <u>\$ 304,443</u> | <u>\$ 12,774</u> | <u>\$ 36,107</u> | <u>\$ 1,285,637</u>                           |
| FUND BALANCES               |                      |                      |                      |                  |                   |                  |                  |                                               |
| Restricted for Debt Service | \$ 2,124             | \$ 64,560            | \$ 224,102           | \$ 19,494        | \$ 304,443        | \$ 12,774        | \$ 36,107        | \$ 1,285,637                                  |
| TOTAL FUND BALANCES         | <u>\$ 2,124</u>      | <u>\$ 64,560</u>     | <u>\$ 224,102</u>    | <u>\$ 19,494</u> | <u>\$ 304,443</u> | <u>\$ 12,774</u> | <u>\$ 36,107</u> | <u>\$ 1,285,637</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, 2017**

Exhibit B-4

|                                      | Nonmajor Funds    |                      |                      |                    |                    |                  |
|--------------------------------------|-------------------|----------------------|----------------------|--------------------|--------------------|------------------|
|                                      | 11 Refund (04)    | 2006<br>PFA<br>Water | 2006<br>PFA<br>Sewer | 11 Refund<br>(06A) | 11 Refund<br>(06B) |                  |
| <b>RECEIPTS</b>                      |                   |                      |                      |                    |                    |                  |
| Property Taxes                       | \$                | \$                   | \$                   | \$                 | \$                 | \$               |
| Special Assessments                  | 91,746            | 92,478               | 42,843               | 44,444             | 25,903             |                  |
| Investment Earnings                  | 224               | 193                  | 150                  | 48                 | 34                 | 12               |
| <b>TOTAL RECEIPTS</b>                | <u>91,970</u>     | <u>92,671</u>        | <u>42,993</u>        | <u>44,492</u>      | <u>25,937</u>      | <u>12</u>        |
| <b>DISBURSEMENTS</b>                 |                   |                      |                      |                    |                    |                  |
| Debt Service                         |                   |                      |                      |                    |                    |                  |
| Principal                            | 75,000            | 137,000              | 56,000               | 30,000             | 20,000             | 8,000            |
| Interest and Other Charges           | 6,565             | 20,467               | 5,607                | 4,380              | 3,088              | 1,174            |
| <b>TOTAL DISBURSEMENTS</b>           | <u>81,565</u>     | <u>157,467</u>       | <u>61,607</u>        | <u>34,380</u>      | <u>23,088</u>      | <u>9,174</u>     |
| Receipts Over (Under) Disbursements  | 10,405            | (64,796)             | (18,614)             | 10,112             | 2,849              | (9,162)          |
| <b>OTHER FINANCING SOURCES</b>       |                   |                      |                      |                    |                    |                  |
| Debt Issued                          |                   |                      |                      |                    |                    |                  |
| Transfer In                          |                   | 89,000               | 33,000               |                    |                    | 10,000           |
| <b>TOTAL OTHER FINANCING SOURCES</b> |                   | <u>89,000</u>        | <u>33,000</u>        |                    |                    | <u>10,000</u>    |
| Net Change in Fund Balances          | 10,405            | 24,204               | 14,386               | 10,112             | 2,849              | 838              |
| Fund Balances - Beginning            | 184,261           | 172,891              | 129,951              | 31,897             | 30,649             | 9,590            |
| Fund Balances - Ending               | <u>\$ 194,666</u> | <u>\$ 197,095</u>    | <u>\$ 144,337</u>    | <u>\$ 42,009</u>   | <u>\$ 33,498</u>   | <u>\$ 10,428</u> |

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit B-4

|                                      | Nonmajor Funds       |                      |                        |                  |                   |                  |                  | Total Nonmajor<br>Debt Service<br>Exhibit A-2 |
|--------------------------------------|----------------------|----------------------|------------------------|------------------|-------------------|------------------|------------------|-----------------------------------------------|
|                                      | 2008<br>PFA<br>Sewer | 11 Street<br>Rebuild | 13<br>Cretex/<br>Hwy10 | Bond<br>TIF      | 15<br>Refund      | Autumn<br>View   | Nature<br>Lane   |                                               |
| <b>RECEIPTS</b>                      |                      |                      |                        |                  |                   |                  |                  |                                               |
| Property Taxes                       | \$                   | \$ 26,107            | \$ 63,808              | \$               | \$                | \$               | \$               | \$ 89,915                                     |
| Special Assessments                  |                      | 45,686               | 105,316                |                  | 221,082           |                  |                  | 669,498                                       |
| Investment Earnings                  | 2                    | 77                   | 405                    | 32               | 592               | 12               | 16               | 1,797                                         |
| <b>TOTAL RECEIPTS</b>                | <u>2</u>             | <u>71,870</u>        | <u>169,529</u>         | <u>32</u>        | <u>221,674</u>    | <u>12</u>        | <u>16</u>        | <u>761,210</u>                                |
| <b>DISBURSEMENTS</b>                 |                      |                      |                        |                  |                   |                  |                  |                                               |
| Debt Service                         |                      |                      |                        |                  |                   |                  |                  |                                               |
| Principal                            | 7,000                | 110,000              | 165,000                | 135,000          | 150,000           |                  |                  | 893,000                                       |
| Interest and Other Charges           | 1,926                | 22,508               | 37,845                 | 29,245           | 14,895            | 8,169            | 5,824            | 161,693                                       |
| <b>TOTAL DISBURSEMENTS</b>           | <u>8,926</u>         | <u>132,508</u>       | <u>202,845</u>         | <u>164,245</u>   | <u>164,895</u>    | <u>8,169</u>     | <u>5,824</u>     | <u>1,054,693</u>                              |
| Receipts Over (Under) Disbursements  | (8,924)              | (60,638)             | (33,316)               | (164,213)        | 56,779            | (8,157)          | (5,808)          | (293,483)                                     |
| <b>OTHER FINANCING SOURCES</b>       |                      |                      |                        |                  |                   |                  |                  |                                               |
| Debt Issued                          |                      |                      |                        |                  |                   |                  | 39,027           | 39,027                                        |
| Transfer In                          | 8,700                | 68,000               | 900                    | 163,750          |                   |                  | 2,888            | 376,238                                       |
| <b>TOTAL OTHER FINANCING SOURCES</b> | <u>8,700</u>         | <u>68,000</u>        | <u>900</u>             | <u>163,750</u>   |                   |                  | <u>41,915</u>    | <u>415,265</u>                                |
| Net Change in Fund Balances          | (224)                | 7,362                | (32,416)               | (463)            | 56,779            | (8,157)          | 36,107           | 121,782                                       |
| Fund Balances - Beginning            | 2,348                | 57,198               | 256,518                | 19,957           | 247,664           | 20,931           |                  | 1,163,855                                     |
| Fund Balances - Ending               | <u>\$ 2,124</u>      | <u>\$ 64,560</u>     | <u>\$ 224,102</u>      | <u>\$ 19,494</u> | <u>\$ 304,443</u> | <u>\$ 12,774</u> | <u>\$ 36,107</u> | <u>\$ 1,285,637</u>                           |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**CAPITAL PROJECT FUNDS**  
**DECEMBER 31, 2017**

Exhibit B-5

|                               | Nonmajor Fund<br>Exhibit A-1<br>Autumn View | Major Fund<br>Nature Lane | Total<br>Capital Project |
|-------------------------------|---------------------------------------------|---------------------------|--------------------------|
| <b>ASSETS</b>                 |                                             |                           |                          |
| Cash and Investments          | \$ 29,931                                   | \$ 67,756                 | \$ 97,687                |
| <b>TOTAL ASSETS</b>           | \$ 29,931                                   | \$ 67,756                 | \$ 97,687                |
| <b>FUND BALANCES</b>          |                                             |                           |                          |
| Assigned for Capital Projects | \$ 29,931                                   | \$ 67,756                 | \$ 97,687                |
| <b>TOTAL FUND BALANCES</b>    | \$ 29,931                                   | \$ 67,756                 | \$ 97,687                |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit B-6

|                                             | Nonmajor Fund<br>Exhibit A-2<br>Autumn View | Major Fund<br>Nature Lane | Total<br>Capital<br>Project |
|---------------------------------------------|---------------------------------------------|---------------------------|-----------------------------|
| <b>RECEIPTS</b>                             |                                             |                           |                             |
| Special Assessments                         | \$ 49,829                                   | \$                        | \$ 49,829                   |
| Investment Earnings                         | 88                                          | 41                        | 129                         |
| <b>TOTAL RECEIPTS</b>                       | <b>49,917</b>                               | <b>41</b>                 | <b>49,958</b>               |
| <b>DISBURSEMENTS</b>                        |                                             |                           |                             |
| Capital Outlay                              |                                             |                           |                             |
| Streets and Highways                        | 104,113                                     | 495,370                   | 599,483                     |
| <b>TOTAL DISBURSEMENTS</b>                  | <b>104,113</b>                              | <b>495,370</b>            | <b>599,483</b>              |
| Receipts Under Disbursements                | (54,196)                                    | (495,329)                 | (549,525)                   |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                                             |                           |                             |
| Debt Issued                                 |                                             | 565,973                   | 565,973                     |
| Transfers Out                               |                                             | (2,888)                   | (2,888)                     |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> |                                             | <b>563,085</b>            | <b>563,085</b>              |
| Net Change in Fund Balances                 | (54,196)                                    | 67,756                    | 13,560                      |
| Fund Balances - Beginning                   | 84,127                                      |                           | 84,127                      |
| Fund Balances - Ending                      | \$ 29,931                                   | \$ 67,756                 | \$ 97,687                   |

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                                                       | Balance<br>01/01/17 | Additions  | Deductions | Balance<br>12/31/17 |
|-----------------------------------------------------------------------|---------------------|------------|------------|---------------------|
| <b>HAWLEY AREA FIRE DISTRICT - JOINT POWERS</b>                       |                     |            |            |                     |
| <b>ASSETS</b>                                                         |                     |            |            |                     |
| Cash and Investments                                                  | \$ 129,864          | \$ 170,435 | \$ 158,662 | \$ 141,637          |
| Total Assets                                                          | \$ 129,864          | \$ 170,435 | \$ 158,662 | \$ 141,637          |
| <b>LIABILITIES</b>                                                    |                     |            |            |                     |
| Due to Other Governments                                              | \$ 129,864          | \$ 170,435 | \$ 158,662 | \$ 141,637          |
| Total Liabilities                                                     | \$ 129,864          | \$ 170,435 | \$ 158,662 | \$ 141,637          |
| <br><b>HAWLEY AREA EMERGENCY RESPONSE DISTRICT<br/>- JOINT POWERS</b> |                     |            |            |                     |
| <b>ASSETS</b>                                                         |                     |            |            |                     |
| Cash and Investments                                                  | \$ (780)            | \$ 51,453  | \$ 52,668  | \$ (1,995)          |
| <b>LIABILITIES</b>                                                    |                     |            |            |                     |
| Due to Other Governments                                              | \$ (780)            | \$ 51,453  | \$ 52,668  | \$ (1,995)          |
| <br><b>TOTAL</b>                                                      |                     |            |            |                     |
| <b>ASSETS</b>                                                         |                     |            |            |                     |
| Cash and Investments                                                  | \$ 129,084          | \$ 221,888 | \$ 211,330 | \$ 139,642          |
| <b>LIABILITIES</b>                                                    |                     |            |            |                     |
| Due to Other Governments                                              | \$ 129,084          | \$ 221,888 | \$ 211,330 | \$ 139,642          |

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                              | Balance<br>Beginning<br>of Year | Revenues         | Expenditures     | Transfers      | Transfers<br>Interfund<br>Loan | Debt<br>Issued | Capital<br>Contribution | Balance<br>End of<br>Year |
|------------------------------|---------------------------------|------------------|------------------|----------------|--------------------------------|----------------|-------------------------|---------------------------|
| <b>Governmental Funds</b>    |                                 |                  |                  |                |                                |                |                         |                           |
| <b>General Fund</b>          |                                 |                  |                  |                |                                |                |                         |                           |
| Committed for:               |                                 |                  |                  |                |                                |                |                         |                           |
| 2016 Levy Reduction          | \$ 51,800                       |                  |                  |                |                                |                |                         | \$ 51,800                 |
| Public Works                 | 37                              |                  | 37               |                |                                |                |                         |                           |
| 15th Street Top Lift         | 18,941                          |                  | 18,941           |                |                                |                |                         |                           |
| Seal Coat/Crack Fill         | 235,459                         |                  | 90,000           | 6,300          |                                |                |                         | 151,759                   |
| Hwy 10 31/33 Project         | 900                             |                  | 900              |                |                                |                |                         |                           |
| Plow Truck/Equipment         | 50,100                          |                  | 7,100            | 14,700         |                                |                |                         | 57,700                    |
| Street Patching              | 94,000                          |                  |                  | 65,200         |                                |                |                         | 159,200                   |
| Sidewalks                    | 23,600                          |                  |                  | 7,700          |                                |                |                         | 31,300                    |
| Lawn Mower                   | 7,600                           |                  | 7,000            |                |                                |                |                         | 600                       |
| Tornado Siren                | 14,500                          |                  |                  | 5,000          |                                |                |                         | 19,500                    |
| Park Board Sinking Fund      | 109,600                         |                  |                  | 5,600          |                                |                |                         | 115,200                   |
| Park - Brekken               | 1,256                           |                  |                  |                |                                |                |                         | 1,256                     |
| Park - Disc Golf             | 2,000                           |                  |                  |                |                                |                |                         | 2,000                     |
| Park Donations               | 11,759                          |                  |                  |                |                                |                |                         | 11,759                    |
| Fire Building                | 51,900                          |                  |                  | 15,000         |                                |                |                         | 66,900                    |
| Police - Night to Unite      | 180                             |                  |                  | 168            |                                |                |                         | 348                       |
| Police Armor Upgrade         | 600                             |                  |                  |                |                                |                |                         | 600                       |
| Police Vehicle               | 25,000                          |                  |                  | 66,500         |                                |                |                         | 91,500                    |
| Zoning Comprehensive Plan    | 12,300                          |                  |                  |                |                                |                |                         | 12,300                    |
| Economic Development         | 9,300                           |                  |                  | 12,500         |                                |                |                         | 21,800                    |
| River Remeandering - Phase 3 | 20,000                          |                  |                  |                |                                |                |                         | 20,000                    |
| Community Center             | 5,800                           |                  |                  | 9,100          |                                |                |                         | 14,900                    |
| Building Demolition          | 4,500                           |                  |                  | 5,000          |                                |                |                         | 9,500                     |
| City Hall Roof               | 9,000                           |                  |                  | 5,400          |                                |                |                         | 14,400                    |
| Public Works Vehicle         |                                 |                  |                  | 26,200         |                                |                |                         | 26,200                    |
| Library                      |                                 |                  |                  | 4,800          |                                |                |                         | 4,800                     |
| Unassigned                   | 1,623,079                       | 1,374,825        | 1,403,297        | 51,634         | (28,596)                       |                |                         | 1,617,645                 |
| <b>Total General Fund</b>    | <b>2,383,211</b>                | <b>1,374,825</b> | <b>1,527,275</b> | <b>300,802</b> | <b>(28,596)</b>                |                |                         | <b>2,502,967</b>          |
| <b>Special Revenue</b>       |                                 |                  |                  |                |                                |                |                         |                           |
| Revolving Loan               | 104,562                         | 33,934           | 20,143           |                | (1,404)                        |                |                         | 116,949                   |
| TIF RDO                      |                                 | 108,382          | 21,232           | (87,150)       |                                |                |                         |                           |
| TIF Cretex                   |                                 | 121,572          | 44,972           | (76,600)       |                                |                |                         |                           |
| GN Property                  |                                 | 25,544           | 25,544           |                |                                |                |                         |                           |
| Garbage                      | 118,202                         | 323,439          | 274,286          | (20,000)       |                                |                |                         | 147,355                   |
| Deputy Registrar             | 83,118                          | 92,073           | 106,810          |                |                                |                |                         | 68,381                    |
| Airport                      | 30,802                          | 498,664          | 504,586          |                | (6,600)                        |                |                         | 18,280                    |
| Storm Water                  | 85,247                          | 105,824          |                  | (106,000)      |                                |                |                         | 85,071                    |
| Clinic                       | 29,583                          | 28,455           | 8,628            |                | (20,154)                       |                |                         | 29,256                    |

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                 | Balance<br>Beginning<br>of Year | Revenues            | Expenditures        | Transfers         | Transfers<br>Interfund<br>Loan | Debt<br>Issued    | Capital<br>Contribution | Balance<br>End of<br>Year |
|---------------------------------|---------------------------------|---------------------|---------------------|-------------------|--------------------------------|-------------------|-------------------------|---------------------------|
| <b>Debt Service</b>             |                                 |                     |                     |                   |                                |                   |                         |                           |
| 11 Refund (04)                  | \$ 184,261                      | \$ 91,970           | \$ 81,565           | \$                | \$                             | \$                | \$                      | \$ 194,666                |
| 11 Refund (06A)                 | 31,897                          | 44,492              | 34,380              |                   |                                |                   |                         | 42,009                    |
| 2006 PFA Water                  | 172,891                         | 92,671              | 157,467             | 89,000            |                                |                   |                         | 197,095                   |
| 2006 PFA Sewer                  | 129,951                         | 42,993              | 61,607              | 33,000            |                                |                   |                         | 144,337                   |
| 11 Refund (06B)                 | 30,649                          | 25,937              | 23,088              |                   |                                |                   |                         | 33,498                    |
| 2008 PFA Water                  | 9,590                           | 12                  | 9,174               | 10,000            |                                |                   |                         | 10,428                    |
| 2008 PFA Sewer                  | 2,348                           | 2                   | 8,926               | 8,700             |                                |                   |                         | 2,124                     |
| 11 Street Rebuild               | 57,198                          | 71,870              | 132,508             | 68,000            |                                |                   |                         | 64,560                    |
| 13 Cretex/Hwy10                 | 256,518                         | 169,529             | 202,845             | 900               |                                |                   |                         | 224,102                   |
| Bond TIF                        | 19,957                          | 32                  | 164,245             | 163,750           |                                |                   |                         | 19,494                    |
| 15 Refund                       | 247,664                         | 221,674             | 164,895             |                   |                                |                   |                         | 304,443                   |
| Autumn View Bond                | 20,931                          | 12                  | 8,169               |                   |                                |                   |                         | 12,774                    |
| Nature Lane Bond                |                                 | 16                  | 5,824               | 2,888             |                                | 39,027            |                         | 36,107                    |
| <b>Capital Projects</b>         |                                 |                     |                     |                   |                                |                   |                         |                           |
| Autumn View                     | 84,127                          | 49,917              | 104,113             |                   |                                |                   |                         | 29,931                    |
| Nature Lane                     |                                 | 41                  | 495,370             | (2,888)           |                                | 565,973           |                         | 67,756                    |
| <b>Total Governmental Funds</b> | <b>\$ 4,082,707</b>             | <b>\$ 3,523,880</b> | <b>\$ 4,187,652</b> | <b>\$ 384,402</b> | <b>\$ (56,754)</b>             | <b>\$ 605,000</b> | <b>\$</b>               | <b>\$ 4,351,583</b>       |

|                                | Balance<br>Beginning<br>of Year | Revenues            | Expenditures        | Transfers           | Transfers<br>Interfund<br>Loan | Debt<br>Issued | Capital<br>Contribution | Balance<br>End of<br>Year |
|--------------------------------|---------------------------------|---------------------|---------------------|---------------------|--------------------------------|----------------|-------------------------|---------------------------|
| <b>Proprietary Funds</b>       |                                 |                     |                     |                     |                                |                |                         |                           |
| Water                          | \$ 2,089,668                    | \$ 378,149          | \$ 304,367          | \$ (99,000)         | \$                             | \$             | \$ 181,339              | \$ 2,245,789              |
| Sewer                          | 2,275,653                       | 298,168             | 306,764             | (86,700)            |                                |                | 174,144                 | 2,354,501                 |
| Electric                       | 2,190,294                       | 2,495,262           | 2,278,920           | (136,107)           |                                |                |                         | 2,270,529                 |
| Gas                            | 785,856                         | 724,624             | 606,418             | (54,595)            |                                |                |                         | 849,467                   |
| Liquor                         | 94,938                          | 1,222,966           | 1,184,878           | (8,000)             |                                |                |                         | 125,026                   |
| <b>Total Proprietary Funds</b> | <b>\$ 7,436,409</b>             | <b>\$ 5,119,169</b> | <b>\$ 4,681,347</b> | <b>\$ (384,402)</b> | <b>\$</b>                      | <b>\$</b>      | <b>\$ 355,483</b>       | <b>\$ 7,845,312</b>       |

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

|                                               | Interest Rate | Date of Issue | Maturity Dates | Amount of Issue | Balance 12/31/2016  | Issued 2017       | Retired 2017        | Balance 12/31/2017  | Principal Due In 2018 | Interest Due In 2018 |
|-----------------------------------------------|---------------|---------------|----------------|-----------------|---------------------|-------------------|---------------------|---------------------|-----------------------|----------------------|
| <b>General Obligation Bonds</b>               |               |               |                |                 |                     |                   |                     |                     |                       |                      |
| G.O. Improvement Bonds, 2011B                 | 2.0 - 3.3%    | 2011          | 2018/26        | \$ 1,260,000    | \$ 850,000          | \$                | \$ 110,000          | \$ 740,000          | \$ 125,000            | \$ 19,813            |
| G.O. Refunding Bonds, 2011A                   | 2.65 - 2.9%   | 2011          | 2018/21        | 585,000         | 230,000             |                   | 75,000              | 155,000             | 75,000                | 4,308                |
| G.O. Refunding Bonds, 2011A                   | 2.65 - 2.9%   | 2011          | 2018/21        | 335,000         | 150,000             |                   | 30,000              | 120,000             | 30,000                | 3,675                |
| G.O. Refunding Bonds, 2011A                   | 2.65 - 2.9%   | 2011          | 2018/21        | 205,000         | 105,000             |                   | 20,000              | 85,000              | 20,000                | 2,618                |
| G.O. Refunding Note, 2012A                    | 1.90%         | 2012          | 2018           | 229,000         | 79,000              |                   | 39,000              | 40,000              | 40,000                | 760                  |
| G.O. Improvement Bonds, 2013A                 | 3.00%         | 2013          | 2018/23        | 1,625,000       | 1,245,000           |                   | 165,000             | 1,080,000           | 170,000               | 32,400               |
| G.O. TIF Bonds 2014A                          | 2.0 - 3.0%    | 2014          | 2018/25        | 1,270,000       | 1,140,000           |                   | 135,000             | 1,005,000           | 135,000               | 26,050               |
| G.O. Improvement Refunding, 2015A             | 2.00%         | 2015          | 2018/21        | 940,000         | 720,000             |                   | 150,000             | 570,000             | 155,000               | 11,400               |
| G.O. Improvement Note 2016A                   | 2.65%         | 2016          | 2019/31        | 411,000         | 411,000             |                   |                     | 411,000             |                       | 10,892               |
| G.O. Improvement Bonds 2017A                  | 1.55 - 3.0%   | 2017          | 2020/32        | 605,000         |                     | 605,000           |                     | 605,000             |                       | 14,360               |
| <b>Total General Obligation Bonds</b>         |               |               |                |                 | <u>4,930,000</u>    | <u>605,000</u>    | <u>724,000</u>      | <u>4,811,000</u>    | <u>750,000</u>        | <u>126,276</u>       |
| <b>General Obligation Revenue Bonds</b>       |               |               |                |                 |                     |                   |                     |                     |                       |                      |
| G.O. Water Revenue Note, 2006A                | 1.56%         | 2006          | 2018/25        | 2,565,987       | 1,312,000           |                   | 137,000             | 1,175,000           | 139,000               | 18,330               |
| G.O. Sewer Revenue Note, 2006B                | 1.06%         | 2006          | 2018/25        | 1,010,110       | 529,000             |                   | 56,000              | 473,000             | 57,000                | 5,014                |
| G.O. Water Revenue Note, 2008A                | 1.29%         | 2008          | 2018/27        | 150,010         | 91,000              |                   | 8,000               | 83,000              | 8,000                 | 1,071                |
| G.O. Sewer Revenue Note, 2008B                | 2.29%         | 2008          | 2018/27        | 132,954         | 84,000              |                   | 7,000               | 77,000              | 7,000                 | 1,766                |
| G.O. Water Revenue Note, 2001                 | 3.32%         | 2001          | 2018/21        | 660,000         | 209,000             |                   | 39,000              | 170,000             | 40,000                | 5,644                |
| G.O. Gas Transmission Revenue, 2005           | 4.4 - 4.5%    | 2005          | 2018/21        | 384,000         | 154,000             |                   | 154,000             |                     |                       |                      |
| <b>Total General Obligation Revenue Bonds</b> |               |               |                |                 | <u>2,379,000</u>    |                   | <u>401,000</u>      | <u>1,978,000</u>    | <u>251,000</u>        | <u>31,825</u>        |
| <b>Revenue Bonds</b>                          |               |               |                |                 |                     |                   |                     |                     |                       |                      |
| Refunding Revenue Note, 2016A                 | 3.25%         | 2016          | 2018/27        | 329,000         | 329,000             |                   | 22,000              | 307,000             | 24,000                | 9,588                |
| <b>Total Revenue Bonds</b>                    |               |               |                |                 | <u>329,000</u>      |                   | <u>22,000</u>       | <u>307,000</u>      | <u>24,000</u>         | <u>9,588</u>         |
| <b>Other Long-Term Debt</b>                   |               |               |                |                 |                     |                   |                     |                     |                       |                      |
| Capital Lease - Street Sweeper                |               | 2015          | 2018/19        | 80,000          | 47,964              |                   | 15,458              | 32,506              | 15,982                | 1,102                |
| Capital Lease - Tractor                       | 4.50%         | 2017          | 2018/19        | 29,055          |                     | 29,055            | 10,123              | 18,932              | 9,253                 | 870                  |
| <b>Total Other Long-Term Debt</b>             |               |               |                |                 | <u>47,964</u>       | <u>29,055</u>     | <u>25,581</u>       | <u>51,438</u>       | <u>25,235</u>         | <u>1,972</u>         |
| <b>Total</b>                                  |               |               |                |                 | <u>\$ 7,685,964</u> | <u>\$ 634,055</u> | <u>\$ 1,172,581</u> | <u>\$ 7,147,438</u> | <u>\$ 1,050,235</u>   | <u>\$ 169,661</u>    |

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

| Fiscal Year | Taxes      | Licenses and Permits | Inter-governmental | Charges for Services | Fines & Forfeitures | Special Assessments | Interest  | Tax Increment Financing | Lease Payment for Debt Service | Miscellaneous | Total         |
|-------------|------------|----------------------|--------------------|----------------------|---------------------|---------------------|-----------|-------------------------|--------------------------------|---------------|---------------|
| 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) |
| 2017        | 573,634    | 17,037               | 1,142,813          | 537,413              | 22,341              | 773,884             | 10,740    | 269,164                 |                                | 176,854       | 3,523,880 (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)**

| Fiscal<br>Year | General<br>Government | Public<br>Safety | Streets and<br>Highways | Sanitation | Culture and<br>Recreation | Debt<br>Service | Capital<br>Outlay | Other     | Total         |
|----------------|-----------------------|------------------|-------------------------|------------|---------------------------|-----------------|-------------------|-----------|---------------|
| 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) |
| 2017           | 299,613               | 551,616          | 224,755                 | 274,286    | 122,889                   | 1,081,900       | 1,184,859         | 447,734   | 4,187,652 (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)**

| Lewy<br>Year | Tax Capacity | Tax Levy | Tax Capacity Rates |        |        |                        | Total   |         |
|--------------|--------------|----------|--------------------|--------|--------|------------------------|---------|---------|
|              |              |          | City               | School | County | Water Shed<br>District |         | EDA/HRA |
| 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 |         |
| 2017         | 1,381,939    | 566,300  | 40.979             | 23.203 | 46.477 | 1.697                  | 112.356 |         |

\* 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, 2017**  
**(UNAUDITED)**

|                                   |                   |
|-----------------------------------|-------------------|
| ADDITIONS                         |                   |
| Operating Reimbursements          |                   |
| City of Hawley                    | \$ 35,112         |
| Townships                         | <u>16,341</u>     |
| TOTAL ADDITIONS                   | <u>51,453</u>     |
| DEDUCTIONS                        |                   |
| Current                           |                   |
| Professional Services             | 50,000            |
| RRR Dispatch                      | <u>2,668</u>      |
| TOTAL DEDUCTIONS                  | <u>52,668</u>     |
| CHANGES IN ASSETS AND LIABILITIES | (1,215)           |
| ASSETS AND LIABILITIES, BEGINNING | <u>(780)</u>      |
| ASSETS AND LIABILITIES, ENDING    | <u>\$ (1,995)</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, 2017**  
**(UNAUDITED)**

|                                                     |             |
|-----------------------------------------------------|-------------|
| ADDITIONS                                           |             |
| Intergovernmental                                   |             |
| City of Hawley                                      | \$ 52,750   |
| Townships                                           | 52,750      |
| Fire Relief                                         | 51,700      |
| Investment Earnings                                 | 253         |
| Miscellaneous                                       | 3,948       |
| Interfund Transfer - Fire District Checking Account | 9,034       |
|                                                     | <hr/>       |
| TOTAL ADDITIONS                                     | 170,435     |
|                                                     | <hr/>       |
| DEDUCTIONS                                          |             |
| Current                                             |             |
| Insurance                                           | 10,022      |
| Professional Services                               | 200         |
| Training                                            | 4,326       |
| Supplies                                            | 22,986      |
| Fuel and Additives                                  | 3,126       |
| Repairs and Maintenance                             | 1,526       |
| Utilities                                           | 6,363       |
| Salaries and Benefits                               | 31,497      |
| Fire Relief Contribution                            | 9,100       |
| RRR Dispatch                                        | 1,028       |
| Miscellaneous                                       | 7,821       |
| Capital Outlay                                      | 60,667      |
|                                                     | <hr/>       |
| TOTAL DEDUCTIONS                                    | 158,662     |
|                                                     | <hr/>       |
| CHANGES IN ASSETS AND LIABILITIES                   | 11,773      |
| ASSETS AND LIABILITIES, BEGINNING                   | 129,864     |
|                                                     | <hr/>       |
| ASSETS AND LIABILITIES, ENDING                      | \$ 141,637  |
|                                                     | <hr/> <hr/> |



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, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 15, 2018. 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 cursive script that reads "Brady Martz".

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

February 15, 2018



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, 2017, and the related notes to the financial statements, which collectively comprise the City of Hawley's financial statements and have issued our report thereon dated February 15, 2018. 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 2017-001 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**

February 15, 2018

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2017**

**2017-001 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, 2017, 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, 2017**

**2017-001 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