

**CITY OF HAWLEY
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

TABLE OF CONTENTS

	Page
CITY OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Balances Arising from Cash Transactions - Governmental Funds	5
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Governmental Funds	6
Statement of Net Position - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Net Position - Propriety Funds	9
Statement of Cash Flows - Proprietary Funds	10
Statement of Assets and Net Position - Custodial Funds	12
Statement of Changes in Fiduciary Assets and Net Position - Custodial Funds	13
Notes to the Financial Statements	14
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Cash Basis - General Fund	35
Budgetary Comparison Schedule - Cash Basis - Airport Fund	37
Schedule of City Contributions	38
Schedule of City's Share of Net Pension Liability	39
Note to the Pension Schedules	40
Combining Statement of Balances Arising from Cash Transactions - Nonmajor Governmental Funds	42
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Nonmajor Governmental Funds	43
Combining Statement of Balances Arising from Cash Transactions - Special Revenue Funds	44
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Special Revenue Funds	45
Combining Statement of Balances Arising from Cash Transactions - Debt Service Funds	47

Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Debt Service Funds	49
Combining Statement of Changes in Assets and Net Position - Custodial Funds	51
Schedule of Changes in Fund Balances and Changes in Net Position	52
Schedule of Indebtedness	54
OTHER INFORMATION	
Governmental Funds Receipts by Source	55
Governmental Funds Disbursements by Function	56
Assessed Valuation/Tax Capacity, Tax Levies and Rates	57
Schedule of Changes in Fiduciary Assets and Net Position - Custodial Fund - Hawley Area Emergency Response District - Joint Powers	58
Schedule of Changes in Fiduciary Assets and Net Position - Custodial Fund - Hawley Area Fire District - Joint Powers	59
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	60
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	61
Schedule of Findings	63
Corrective Action Plan	64

CITY OF HAWLEY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2020

Mayor	James Joy
Council Member	Ben Gunkelman
Council Member	David Asleson
Council Member	Sean Mork
Council Member	Brad Eldred
Clerk Treasurer	Lisa Jetvig

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, 2020, 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, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Unmodified 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, 2020, 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 other information section noted in the table of contents is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedules, combining statements and schedules, as listed supplementary information, 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.

The other information section noted in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2021, 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 solely 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 effectiveness of the City's 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 5, 2021

CITY OF HAWLEY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2020

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 3,637,391	\$ 108,754	\$ 1,440,992	\$ 5,187,137
Cash with Fiscal Agent			114,947	114,947
TOTAL ASSETS	\$ 3,637,391	\$ 108,754	\$ 1,555,939	\$ 5,302,084
FUND BALANCES				
Restricted for:				
Revolving Loan	\$	\$	\$ 130,437	\$ 130,437
Debt Service			678,522	678,522
Committed for:				
Levy Reduction	33,089			33,089
Seal Coat/Crack Fill	247,959			247,959
Plow Truck/Equipment	16,700			16,700
Street Patching	194,700			194,700
Sidewalks	48,100			48,100
Lawn Mower	6,600			6,600
Tornado Siren	21,500			21,500
Park Board Sinking Fund	136,320			136,320
Park - Brekken	1,256			1,256
Park - Disc Golf	2,000			2,000
Park Donations	11,759			11,759
Fire Building	711,185			711,185
Police - Night to Unite	2,640			2,640
Police Vehicle	28,050			28,050
Zoning Comprehensive Fund	2,960			2,960
Economic Development	16,800			16,800
River Meandering - Phase 3	20,000			20,000
Community Center	19,200			19,200
Building Demolition	19,500			19,500
Public Works Vehicle	15,000			15,000
Library	21,680			21,680
Police Building	35,000			35,000
Health Savings Account	67,975			67,975
Prosecution	8,500			8,500
Phase 3 Infrastructure Project	375,000			375,000
Municipal Airport		108,754		108,754
Garbage Service/Recycling			264,015	264,015
Deputy Registrar/Office			130,629	130,629
Storm Water Maint/Repairs			269,033	269,033
Building Upkeep/Repair			32,040	32,040
Capital Projects			51,263	51,263
Unassigned	1,573,918			1,573,918
TOTAL FUND BALANCES	\$ 3,637,391	\$ 108,754	\$ 1,555,939	\$ 5,302,084

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, 2020

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property Taxes	\$ 549,857	\$	\$ 115,646	\$ 665,503
Tax Increment Financing			253,956	253,956
Special Assessments	174,569		331,383	505,952
Licenses and Permits	19,395			19,395
Intergovernmental	887,089	35,224	73,586	995,899
Charges for Services	17,632		599,338	616,970
Fines and Forfeitures	19,145			19,145
Investment Earnings	12,340	151	6,106	18,597
Miscellaneous	127,887	87,667	47,096	262,650
TOTAL RECEIPTS	<u>1,807,914</u>	<u>123,042</u>	<u>1,427,111</u>	<u>3,358,067</u>
DISBURSEMENTS				
Current				
General Government	259,905		122,129	382,034
Public Safety	757,698			757,698
Streets and Highways	187,286			187,286
Sanitation			288,070	288,070
Culture and Recreation	127,963			127,963
Conservation of Natural Resources	34,959			34,959
Economic Development	90,056		100,512	190,568
Airport		91,677		91,677
Debt Services				
Principal			669,000	669,000
Interest and Other Charges			104,495	104,495
Capital Outlay				
General Government	4,245		21,785	26,030
Public Safety	183,820			183,820
Streets and Highways	190,247		37,533	227,780
Culture and Recreation	3,800			3,800
Economic Development	3,351			3,351
TOTAL DISBURSEMENTS	<u>1,843,330</u>	<u>91,677</u>	<u>1,343,524</u>	<u>3,278,531</u>
Receipts Over (Under) Disbursements	(35,416)	31,365	83,587	79,536
OTHER FINANCING SOURCES (USES)				
Transfer In	294,654		304,350	599,004
Transfer In - Interfund Loan	500,000			500,000
Transfer Out			(193,650)	(193,650)
Transfer Out - Interfund Loan	(149,850)	(11,750)	(17,425)	(179,025)
TOTAL OTHER FINANCING SOURCES (USES)	<u>644,804</u>	<u>(11,750)</u>	<u>93,275</u>	<u>726,329</u>
Net Change in Fund Balances	609,388	19,615	176,862	805,865
Fund Balances - Beginning	3,028,003	89,139	1,379,077	4,496,219
Fund Balances - Ending	<u>\$ 3,637,391</u>	<u>\$ 108,754</u>	<u>\$ 1,555,939</u>	<u>\$ 5,302,084</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2020

	Water	Sewer	Electric	Gas	Liquor	Total
ASSETS						
Current Assets						
Cash and Investments	\$ 243,267	\$ 626,846	\$ 955,726	\$ 899,019	\$ 62,047	\$ 2,786,905
Accounts Receivable	27,265	23,492	243,175	110,292		404,224
Inventory	34,787		81,487	9,860	168,421	294,555
Total Current Assets	<u>305,319</u>	<u>650,338</u>	<u>1,280,388</u>	<u>1,019,171</u>	<u>230,468</u>	<u>3,485,684</u>
Noncurrent Assets						
Assessments Receivable		38,106				38,106
Capital Assets						
Land			32,241		55,000	87,241
Building	16,273		234,925	71,094	436,676	758,968
Improvements Other Than Building	4,850,502	4,704,518	2,406,515	1,271,150		13,232,685
Equipment	56,269	8,000	408,780	22,321	90,725	586,095
Less: Accumulated Depreciation	(2,872,196)	(3,407,346)	(2,171,168)	(723,655)	(186,338)	(9,360,703)
Net Capital Assets	<u>2,050,848</u>	<u>1,305,172</u>	<u>911,293</u>	<u>640,910</u>	<u>396,063</u>	<u>5,304,286</u>
Other Assets						
Cash-Restricted for Debt		115,647				115,647
Cash-Restricted for Lottery					8,329	8,329
Advance to Other Funds			572,401			572,401
Total Other Assets		<u>115,647</u>	<u>572,401</u>		<u>8,329</u>	<u>696,377</u>
TOTAL ASSETS	<u>2,356,167</u>	<u>2,109,263</u>	<u>2,764,082</u>	<u>1,660,081</u>	<u>634,860</u>	<u>9,524,453</u>
DEFERRED OUTFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	3,211	3,438	11,470	6,882	5,505	30,506
LIABILITIES						
Current Liabilities						
Accounts Payable			146,529	41,778		188,307
Salary Payable	1,690	2,479	7,434	5,068	6,144	22,815
Due to Other Governmental Units	8,784				8,329	17,113
Customer Deposits			47,232			47,232
Unearned Revenue			23,033			23,033
Interest Payable	498				2,286	2,784
Compensated Absences	7,592	14,439	32,451	22,991	25,201	102,674
Current Portion - Long-Term Liabilities	45,000				28,000	73,000
Total Current Liabilities	<u>63,564</u>	<u>16,918</u>	<u>256,679</u>	<u>69,837</u>	<u>69,960</u>	<u>476,958</u>
Long-Term Liabilities						
Bonds Payable	45,000				225,000	270,000
Net Pension Liability	49,942	53,510	178,365	107,019	85,615	474,451
Less: Current Portion - Long-Term Debt	(45,000)				(28,000)	(73,000)
Total Long-Term Liabilities	<u>49,942</u>	<u>53,510</u>	<u>178,365</u>	<u>107,019</u>	<u>282,615</u>	<u>671,451</u>
TOTAL LIABILITIES	<u>113,506</u>	<u>70,428</u>	<u>435,044</u>	<u>176,856</u>	<u>352,575</u>	<u>1,148,409</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2020

	<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	\$ 4,862	\$ 5,211	\$ 17,369	\$ 10,422	\$ 8,337	\$ 46,201
NET POSITION						
Net Investment in Capital Assets	2,005,848	1,305,172	911,293	640,910	171,063	5,034,286
Restricted for Debt Service		115,647				115,647
Unrestricted	<u>235,162</u>	<u>616,243</u>	<u>1,411,846</u>	<u>838,775</u>	<u>108,390</u>	<u>3,210,416</u>
TOTAL NET POSITION	<u>\$ 2,241,010</u>	<u>\$ 2,037,062</u>	<u>\$ 2,323,139</u>	<u>\$ 1,479,685</u>	<u>\$ 279,453</u>	<u>\$ 8,360,349</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, 2020

	Water	Sewer	Electric	Gas	Liquor	Total
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 1,504,844	\$ 1,504,844
Cost of Sales					(1,095,704)	(1,095,704)
Gross Profit					409,140	409,140
Charges for Sales and Services	374,674	290,130	2,390,236	853,122		3,908,162
Other Charges and Income	1,443	727	9,378	1,213	547	13,308
Total Operating Revenue	<u>376,117</u>	<u>290,857</u>	<u>2,399,614</u>	<u>854,335</u>	<u>409,687</u>	<u>4,330,610</u>
Operating Expenses						
Purchased Power and Gas			1,690,985	318,626		2,009,611
Salaries and Wages	44,110	70,970	217,061	134,674	156,902	623,717
Employee Benefits	15,853	17,537	70,035	45,509	46,593	195,527
Repairs and Maintenance	34,456	714	87,612	24,229	2,375	149,386
Chemicals	1,387	7,743				9,130
Utilities	15,317	3,621	9,777	4,672	14,655	48,042
Insurance	5,501	6,509	6,201	6,285	5,574	30,070
Professional Fees	3,653	28,020	20,226	10,691	5,419	68,009
Supplies	1,598	1,135	27,508	7,113	9,351	46,705
Other Expenses	1,938	2,593	63,012	17,072	50,897	135,512
Depreciation	121,318	174,645	79,996	35,354	15,782	427,095
Total Operating Expenses	<u>245,131</u>	<u>313,487</u>	<u>2,272,413</u>	<u>604,225</u>	<u>307,548</u>	<u>3,742,804</u>
Operating Income (Loss)	130,986	(22,630)	127,201	250,110	102,139	587,806
Nonoperating Income (Expense)						
Investment Earnings	407	4,546	12,698	7,437	20	25,108
Intergovernmental		136	388		144	668
Interest and Other Charges	(2,447)				(7,938)	(10,385)
Total Nonoperating Income (Expense)	<u>(2,040)</u>	<u>4,682</u>	<u>13,086</u>	<u>7,437</u>	<u>(7,774)</u>	<u>15,391</u>
Net Income (Loss) Before Transfers	128,946	(17,948)	140,287	257,547	94,365	603,197
Transfers Out	<u>(99,000)</u>	<u>(86,700)</u>	<u>(144,404)</u>	<u>(65,250)</u>	<u>(10,000)</u>	<u>(405,354)</u>
Change in Net Position	29,946	(104,648)	(4,117)	192,297	84,365	197,843
Net Position, Beginning	<u>2,211,064</u>	<u>2,141,710</u>	<u>2,327,256</u>	<u>1,287,388</u>	<u>195,088</u>	<u>8,162,506</u>
Net Position, Ending	<u>\$ 2,241,010</u>	<u>\$ 2,037,062</u>	<u>\$ 2,323,139</u>	<u>\$ 1,479,685</u>	<u>\$ 279,453</u>	<u>\$ 8,360,349</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Water	Sewer	Electric	Gas	Liquor	Total
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 377,270	\$ 290,312	\$ 2,445,837	\$ 879,656	\$ 1,509,293	\$ 5,502,368
Payments to Suppliers	(95,348)	(50,335)	(1,901,239)	(390,217)	(1,184,326)	(3,621,465)
Payments to Employees	(62,723)	(89,502)	(306,645)	(191,673)	(200,836)	(851,379)
Net Cash Provided By Operating Activities	<u>219,199</u>	<u>150,475</u>	<u>237,953</u>	<u>297,766</u>	<u>124,131</u>	<u>1,029,524</u>
Cash Flows From Noncapital Financing Activities:						
Transfers to Other Funds	(99,000)	(86,700)	(144,404)	(65,250)	(10,000)	(405,354)
Advance From (To) Other Funds		148,610	(462,116)			(313,506)
Net Cash Used By Noncapital Financing Activities	<u>(99,000)</u>	<u>61,910</u>	<u>(606,520)</u>	<u>(65,250)</u>	<u>(10,000)</u>	<u>(718,860)</u>
Cash Flows From Capital and Related Financing Activities:						
Advance from Other Funds					(11,585)	(11,585)
Intergovernmental Revenue		136	388		144	668
Special Assessment Revenue Received		1,679				1,679
Principal Paid on Debt	(43,000)				(29,000)	(72,000)
Interest and Other Charges Paid on Debt	(2,922)				(8,244)	(11,166)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(45,922)</u>	<u>1,815</u>	<u>388</u>		<u>(48,685)</u>	<u>(92,404)</u>
Cash Flows From Investing Activities:						
Investment Earnings	407	4,546	12,698	7,437	17	25,105
Net Cash Provided By Investing Activities	<u>407</u>	<u>4,546</u>	<u>12,698</u>	<u>7,437</u>	<u>17</u>	<u>25,105</u>
Net Increase (Decrease) In Cash, Cash Equivalents, and Restricted Cash	74,684	218,746	(355,481)	239,953	65,463	243,365
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	<u>168,583</u>	<u>523,747</u>	<u>1,311,207</u>	<u>659,066</u>	<u>4,913</u>	<u>2,667,516</u>
Cash, Cash Equivalents, and Restricted Cash - End of Year	<u>\$ 243,267</u>	<u>\$ 742,493</u>	<u>\$ 955,726</u>	<u>\$ 899,019</u>	<u>\$ 70,376</u>	<u>\$ 2,910,881</u>
Reconciliation of Cash, Cash Equivalents, and Restricted Cash						
Cash and Investments	\$ 243,267	\$ 626,846	\$ 955,726	\$ 899,019	\$ 62,047	\$ 2,786,905
Restricted Cash - Debt		115,647				115,647
Restricted Cash - Lottery					8,329	8,329
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 243,267</u>	<u>\$ 742,493</u>	<u>\$ 955,726</u>	<u>\$ 899,019</u>	<u>\$ 70,376</u>	<u>\$ 2,910,881</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS – CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating Income (Loss)	\$ 130,986	\$ (22,630)	\$ 127,201	\$ 250,110	\$ 102,139	\$ 587,806
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	121,318	174,645	79,996	35,354	15,782	427,095
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	(467)	(545)	33,008	25,321		57,317
Inventory	(31,390)		10,117	4,383	(351)	(17,241)
Accounts Payable	(108)		(6,035)	(5,912)		(12,055)
Salary Payable	(205)	457	487	862	1,356	2,957
Due to Other Governments	1,620				3,902	5,522
Customer Deposits			4,440			4,440
Unearned Revenue			8,775			8,775
Net Pension	2,339	2,507	8,355	5,013	4,010	22,224
Deferred Outflows	400	428	1,426	856	684	3,794
Deferred Inflows	(6,870)	(7,361)	(24,535)	(14,720)	(11,777)	(65,263)
Compensated Absences	1,576	2,974	(5,282)	(3,501)	8,386	4,153
Total Adjustments	<u>88,213</u>	<u>173,105</u>	<u>110,752</u>	<u>47,656</u>	<u>21,992</u>	<u>441,718</u>
Net Cash Provided by Operating Activities	<u>\$ 219,199</u>	<u>\$ 150,475</u>	<u>\$ 237,953</u>	<u>\$ 297,766</u>	<u>\$ 124,131</u>	<u>\$ 1,029,524</u>

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF ASSETS AND NET POSITION
CUSTODIAL FUNDS
DECEMBER 31, 2020

	Custodial
ASSETS	
Cash and Investments	\$ 44,063
TOTAL ASSETS	\$ 44,063
NET POSITION	
Restricted for Other Governments	\$ 44,063
TOTAL RESTRICTED FOR OTHER GOVERNMENTS	\$ 44,063

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND NET POSITION
CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 95,082
Townships	76,260
Fire Relief	20,000
Grant	2,575
Investment Earnings	89
Miscellaneous	17,775
Interfund Transfer - Fire District Checking Account	11,499
	<hr/>
TOTAL ADDITIONS	223,280
DEDUCTIONS	
Current	
Insurance	10,098
Professional Services	55,625
Training	6,824
Supplies	12,227
Fuel and Additives	1,986
Repairs and Maintenance	1,011
Utilities	4,477
Salaries and Benefits	31,699
Fire Relief Contribution	9,100
RRR Dispatch	1,594
Miscellaneous	10,509
Capital Outlay	203,109
	<hr/>
TOTAL DEDUCTIONS	348,259
CHANGES IN ASSETS AND NET POSITION	(124,979)
ASSETS AND NET POSITION, BEGINNING	<hr/> 169,042
ASSETS AND NET POSITION, ENDING	<hr/> <hr/> \$ 44,063

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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.

The custodial funds have no measurement focus but utilize the cash basis of accounting for reporting their assets and net position.

Major Governmental Funds

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

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

Major Proprietary Funds

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

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

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

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

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

Additionally, the City reports the following fiduciary fund type:

Custodial Funds – Custodial funds are used to account for assets held by the City as custodian for other governmental units. The City has two custodial 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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

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

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

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

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 of 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 acquisition 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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

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

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

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

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

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

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2020, 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, 2020, 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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

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

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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.

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, 2020, was \$43,707. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 5,187,137
Proprietary Funds	2,910,881
Fiduciary Funds	44,063
	<u>\$ 8,142,081</u>
Deposits	
Cash, Checking and Change Funds	\$ 87,158
Certificates of Deposits	1,247,161
Savings	6,354,068
Investments	453,694
	<u>\$ 8,142,081</u>

As of December 31, 2020, the City had the following investments:

Investments	Maturities	Level	Fair Value
4-M External Investment Pool	N/A	N/A	\$ 453,694

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 pool's shares.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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

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

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt 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, 2020, 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

NOTE 4 RESTRICTED CASH

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

	Capital Replacement Account
Balance, Beginning of Year	\$ 109,921
Additions	
Flow payment	5,527
Interest	199
Balance, End of Year	\$ 115,647

The liquor fund is also required to have a reserve account of \$8,329 for the lottery account.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Proprietary Fund				
Capital Assets, Not Being Depreciated:				
Land	\$ 87,241	\$	\$	\$ 87,241
Capital Assets, Being Depreciated:				
Building	758,968			758,968
Improvements Other Than Buildings	13,232,685			13,232,685
Equipment	586,095			586,095
Total Capital Assets, Being Depreciated	14,577,748			14,577,748
Less Accumulated Depreciation for:				
Building	277,805	18,899		296,704
Improvements Other Than Buildings	8,241,714	363,566		8,605,280
Equipment	414,089	44,630		458,719
Total Accumulated Depreciation	8,933,608	427,095		9,360,703
Total Capital Assets, Being Depreciated, Net	5,644,140	(427,095)		5,217,045
Proprietary Fund Capital Assets, Net	\$ 5,731,381	\$ (427,095)	\$	\$ 5,304,286

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 121,318
Sewer	174,645
Electric	79,996
Gas	35,354
Liquor	<u>15,782</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 427,095</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS-STATEWIDE

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

Plan Description – The City of Hawley participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City of Hawley are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations 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. 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years 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.

Benefit increases are provided to benefit recipients each January. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of June 30 before the effective date of the increase will receive a reduced prorated increase.

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2020 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2020, were \$64,086. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 11.3% of pay to 11.8% and employer rates increased from 16.95% to 17.70% on January 1, 2020. The City's contributions to the Police and Fire Fund for the year ended December 31, 2020, were \$52,936. The City's contributions were equal to the required contributions as set by state statute.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

Pension Costs – General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$713,459 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 \$16,000,000. 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 \$22,060. The net pension liability was measured as of June 30, 2020, 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 proportionate share 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0119% at the end of the measurement period and 0.0123% for the beginning of the period.

City's proportionate share of the net pension liability	\$	713,459
State of Minnesota's proportionate share of the net pension liability associated with the City		<u>22,060</u>
Total	\$	<u><u>735,519</u></u>

For the year ended December 31, 2020, the City recognized pension expense of \$83 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,920 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16,000,000 to the General Employees Fund.

At December 31, 2020, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 6,735	\$ 2,699
Difference between projected and actual investment earnings	7,097	
Changes in actuarial assumptions		27,282
Changes in proportion		39,499
Contributions paid to PERA subsequent to the measurement date	<u>32,043</u>	
Total	<u>\$ 45,875</u>	<u>\$ 69,480</u>

\$32,043 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>		<u>Pension Expense Amount</u>
2021	\$	(64,280)
2022		(15,837)
2023		7,230
2024		17,239

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

Actuarial Assumptions – The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for Police and Fire Plan was completed in 2020. The recommended assumptions for the plan were adopted by the Board and will be effective with the July 1, 2021 actuarial valuation if approved by the Legislature.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2018 to MP-2019.

Changes in Plan provisions:

- There have been no changes since the prior valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35.50%	5.10%
International Equity	17.50%	5.30%
Fixed Income	20.00%	0.75%
Private Markets	25.00%	5.90%
Cash Equivalents	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2020 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 were 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		
<u>1% Decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% Increase (8.5%)</u>
\$ 1,143,428	\$ 713,459	\$ 358,770

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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

NOTE 7 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 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 \$5,171,000.

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Fund	1.55 - 3.3%	2021/32	<u>\$ 2,516,000</u>
Total			<u>\$ 2,516,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 463,000	\$ 71,262
2022	469,000	58,399
2023	480,000	45,012
2024	231,000	31,167
2025	236,000	24,607
2026-2030	490,000	58,408
2031-2032	<u>147,000</u>	<u>5,930</u>
	<u>\$ 2,516,000</u>	<u>\$ 294,785</u>

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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 \$4,519,061. General obligation revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Fund	1.1 - 2.3%	2021/27	\$ 1,167,000
Proprietary Fund	3.30%	2021	45,000
			<u>\$ 1,212,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Fund</u>		<u>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 220,000	\$ 16,958	\$ 45,000	\$ 1,494
2022	223,000	13,790		
2023	226,000	10,570		
2024	230,000	7,306		
2025	233,000	3,988		
2026-2027	35,000	942		
	<u>\$ 1,167,000</u>	<u>\$ 53,554</u>	<u>\$ 45,000</u>	<u>\$ 1,494</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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Proprietary Fund - Refunding	3.25%	2021/27	\$ 225,000

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

<u>Year Ending December 31</u>	<u>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 28,000	\$ 6,857
2022	32,000	5,882
2023	31,000	4,859
2024	30,000	3,868
2025	34,000	2,828
2026-2027	70,000	2,339
	<u>\$ 225,000</u>	<u>\$ 26,633</u>

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Fund					
General Obligation Bonds	\$ 2,969,000	\$	\$ 453,000	\$ 2,516,000	\$ 463,000
General Obligation Revenue Bonds	<u>1,383,000</u>	<u></u>	<u>216,000</u>	<u>1,167,000</u>	<u>220,000</u>
Governmental Fund Long-Term Liabilities	<u>4,352,000</u>	<u></u>	<u>669,000</u>	<u>3,683,000</u>	<u>683,000</u>
Proprietary Fund					
General Obligation Revenue Bonds	88,000	<u></u>	43,000	45,000	45,000
Revenue Bonds	<u>254,000</u>	<u></u>	<u>29,000</u>	<u>225,000</u>	<u>28,000</u>
Proprietary Fund Long-Term Liabilities	<u>342,000</u>	<u></u>	<u>72,000</u>	<u>270,000</u>	<u>73,000</u>
Total Long-Term Liabilities	\$ <u>4,694,000</u>	\$ <u></u>	\$ <u>741,000</u>	\$ <u>3,953,000</u>	\$ <u>756,000</u>

The City's interest expense for the year ended December 31, 2020, was \$112,899.

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2020, is as follows:

Advance From / To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Airport	\$ 72,401
Electric	General	<u>500,000</u>
Total		<u>\$ 572,401</u>

In 2020, the Electric fund issued an interfund loan to the General fund for \$500,000 for the fire hall demolition and addition project. The interfund loan was approved to be paid back over 15 years at 2% interest.

Based on the amortization schedules, \$49,578 will be paid in 2021.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor	\$ 10,000
General	Sewer	45,000
General	Electric	144,404
General	Gas	65,250
General	Nonmajor Governmental	30,000
Nonmajor Governmental	Nonmajor Governmental	163,650
Nonmajor Governmental	Water	99,000
Nonmajor Governmental	Sewer	41,700
Total		<u>\$ 599,004</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.

NOTE 10 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 firefighting 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

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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 2020 was \$50,000.

NOTE 11 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 12 COMMITTED CONTRACTS

The City entered into several agreements in 2016, 2017, 2019, and 2020 with Constellation Energy for its natural gas requirements. The City has multiple contracts for 66% of the monthly requirements through October 2028. The contracts consist of: 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; a lock of 1/3 as of June 9, 2017, at an average price of approximately 3.033 per MMBtu from November 2020 to October 2021; a lock of 1/3 as of June 19, 2019, at an average price of approximately 2.976 per MMBtu from November 2023 to October 2024; a lock of 2/3rds of usage as of May 22, 2018, at an average price of approximately 3.00 per MMBtu which goes from November 2021 to October 2023; a lock of 2/3rds of usage as of June 19, 2019, at an average price of approximately 2.97 per MMBtu which goes from November 2023 to October 2024; a lock of 1/3 as of June 19, 2019 at an average price of approximately 2.976 MMBtu from November 2023 to October 31, 2024; a lock of 2/3rds of usage as of August 13, 2019, at an average price of approximately 2.99 per MMBtu which goes from November 2024 to October 2025, and a 2/3 lock on January 15, 2020 at approximately 2.89 per MMBtu for November 2025 to October 2028. 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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

The City extended the Firm Transportation Agreement with Viking Gas Transmission Company for additional capacity on November 1, 2020 for five more years, now ending October 31, 2025.

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.

NOTE 13 CONSTRUCTION COMMITMENTS

As of December 31, 2020, the City had construction commitments of approximately \$691,000 for the fire hall.

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, 2020 was \$29,765.

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; and workers compensation for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the City’s insurance coverage in fiscal 2020.

NOTE 16 TAX ABATEMENT DISCLOSURE

<u>Purpose of Tax Abatement</u>	<u>Percentage of Taxes Abated During the Fiscal Year</u>	<u>Amount of Taxes Abated</u>
Residential New Housing Tax Abatement-2 year duration 2 houses built in 2015, 10 homes built in 2016	100% of City taxes on the first \$200,000 value	\$ 4,531
AmericInn/Hawley Hotel Partners Tax Abatement - to reimburse for certain development costs of construction of much needed Nationally Franchised "AmericInn" 10 year duration	75% of City taxes abated	10,072
Total Abatements 2020		<u>\$ 14,603</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.

City provided Housing Abatement on the first \$200,000 of value for new homes built in 2018 and prior. In 2019 the City increased the Housing Abatement to cover the first \$400,000 of value for new homes built in 2019 and 2020.

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.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

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. 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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

CITY OF HAWLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined the effect these Statements 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, 2020

	2020				2019 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
RECEIPTS					
Property Taxes	\$ 536,745	\$ 549,745	\$ 549,857	\$ 112	\$ 523,672
Special Assessments	202,899	174,599	174,569	(30)	236,917
Licenses and Permits	17,250	19,050	19,395	345	19,911
Intergovernmental					
Federal		160,738	160,738		
State					
Local Government Aid	642,245	642,245	643,080	835	625,865
Fire State Aid	36,000	30,000	30,046	46	35,702
Police State Aid	35,000	37,800	37,804	4	36,638
PERA	2,402	2,402		(2,402)	2,402
Market Value Credit					366
Other State Aid	4,000	4,000	4,705	705	3,977
Local - County	10,500	10,500	10,716	216	10,686
Other Local Aid					1,401
Total Intergovernmental	<u>730,147</u>	<u>887,685</u>	<u>887,089</u>	<u>(596)</u>	<u>717,037</u>
Charges for Services					
Franchise Fee - Cable	9,000	9,000	8,632	(368)	9,768
Street Charges and Sales	1,000	1,000		(1,000)	3,935
Airport	8,000	8,000	9,000	1,000	9,000
Total Charges for Services	<u>18,000</u>	<u>18,000</u>	<u>17,632</u>	<u>(368)</u>	<u>22,703</u>
Fines and Forfeitures	15,000	18,100	19,145	1,045	23,075
Investment Earnings	11,000	11,000	12,340	1,340	21,778
Miscellaneous					
Rents	7,101	3,901	3,974	73	17,629
Donations	2,500		452	452	58,229
Insurance Proceeds	7,000	17,200	18,523	1,323	7,131
Other Receipts	<u>38,824</u>	<u>65,554</u>	<u>104,938</u>	<u>39,384</u>	<u>74,213</u>
TOTAL RECEIPTS	<u>1,586,466</u>	<u>1,764,834</u>	<u>1,807,914</u>	<u>43,080</u>	<u>1,722,295</u>
DISBURSEMENTS					
General Government					
Current					
City Council	70,610	55,610	48,160	(7,450)	47,709
Election	7,559	5,359	4,458	(901)	
Finance	55,982	54,602	54,469	(133)	51,715
Assessor	6,400	6,400	7,199	799	6,348
Legal	31,000	31,000	27,336	(3,664)	24,850
COVID-19		35,519	35,517	(2)	
Other General Government	108,726	88,920	82,766	(6,154)	116,776
Capital Outlay	91,000	4,200	4,245	45	5,441
Total General Government	<u>371,277</u>	<u>281,610</u>	<u>264,150</u>	<u>(17,460)</u>	<u>252,839</u>
Public Safety					
Current					
Police Protection	587,203	580,403	568,737	(11,666)	513,953
Fire Relief	36,000	30,000	30,046	46	35,702
Fire Joint Powers District	55,650	55,650	55,650		54,250
Fire Hall		61,772	61,984	212	
Animal Control	700	1,800	1,849	49	257

cont.

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020				2019 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	\$ 39,432	\$ 39,432	\$ 39,432	\$	\$ 39,323
Capital Outlay	22,500	184,164	183,820	(344)	60,523
Total Public Safety	<u>741,485</u>	<u>953,221</u>	<u>941,518</u>	<u>(11,703)</u>	<u>704,008</u>
Streets and Highways					
Current					
Street Maintenance	217,224	187,969	187,286	(683)	188,191
Capital Outlay	166,500	192,800	190,247	(2,553)	300,580
Total Streets and Highways	<u>383,724</u>	<u>380,769</u>	<u>377,533</u>	<u>(3,236)</u>	<u>488,771</u>
Culture and Recreation					
Current					
Community Building	18,781	23,381	21,761	(1,620)	16,366
Parks	113,910	107,080	101,501	(5,579)	92,841
Library	9,290	4,790	4,701	(89)	4,856
Capital Outlay	44,000	3,800	3,800		5,295
Total Culture and Recreation	<u>185,981</u>	<u>139,051</u>	<u>131,763</u>	<u>(7,288)</u>	<u>119,358</u>
Conservation of Natural Resources					
Vector Control	17,200	14,700	14,692	(8)	12,025
Forestry Shade Tree	9,300	20,300	20,267	(33)	17,338
Total Conservation of Natural Resources	<u>26,500</u>	<u>35,000</u>	<u>34,959</u>	<u>(41)</u>	<u>29,363</u>
Economic Development					
Current					
Economic Development	83,200	98,100	90,056	(8,044)	72,093
Capital Outlay		3,350	3,351	1	
Total Economic Development	<u>83,200</u>	<u>101,450</u>	<u>93,407</u>	<u>(8,043)</u>	<u>72,093</u>
Debt Service					
Principal					26,203
Interest					1,004
Total Debt Service					<u>27,207</u>
TOTAL DISBURSEMENTS	<u>1,792,167</u>	<u>1,891,101</u>	<u>1,843,330</u>	<u>(47,771)</u>	<u>1,693,639</u>
Receipts Over (Under) Disbursements	(205,701)	(126,267)	(35,416)	90,851	28,656
OTHER FINANCING SOURCES (USES)					
Transfer In	297,000	823,250	294,654	(528,596)	293,441
Transfer In - Interfund Loan			500,000	500,000	
Transfer Out	(35,000)				
Transfer Out - Interfund Loan	(55,000)	(149,850)	(149,850)		(35,882)
TOTAL OTHER FINANCING SOURCES (USES)	<u>207,000</u>	<u>673,400</u>	<u>644,804</u>	<u>(28,596)</u>	<u>257,559</u>
Net Change in Fund Balances	1,299	547,133	609,388	62,255	286,215
Fund Balances - Beginning	<u>3,028,003</u>	<u>3,028,003</u>	<u>3,028,003</u>		<u>2,741,788</u>
Fund Balances - Ending	<u>\$ 3,029,302</u>	<u>\$ 3,575,136</u>	<u>\$ 3,637,391</u>	<u>\$ 62,255</u>	<u>\$ 3,028,003</u>

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
AIRPORT FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020			2019 Actual
	Original and Final Budget	Actual Amounts	Over (Under) Final Budget	
RECEIPTS				
Intergovernmental				
Federal	\$ 28,886	\$ 28,886	\$	\$ 70,289
State	6,570	6,338	(232)	19,902
Total Intergovernmental	<u>35,456</u>	<u>35,224</u>	<u>(232)</u>	<u>90,191</u>
Investment Earnings		151	151	110
Miscellaneous				
Rents	59,590	61,826	2,236	58,725
Other Receipts	25,300	25,841	541	28,536
TOTAL RECEIPTS	<u>120,346</u>	<u>123,042</u>	<u>2,696</u>	<u>177,562</u>
DISBURSEMENTS				
Airport				
Current	91,883	91,677	(206)	81,478
TOTAL DISBURSEMENTS	<u>91,883</u>	<u>91,677</u>	<u>(206)</u>	<u>81,478</u>
Receipts Over Disbursements	28,463	31,365	2,902	96,084
OTHER FINANCING USES				
Transfer Out - Interfund Loan	(11,750)	(11,750)		(8,300)
TOTAL OTHER FINANCING USES	<u>(11,750)</u>	<u>(11,750)</u>		<u>(8,300)</u>
Net Change in Fund Balances	16,713	19,615	2,902	87,784
Fund Balances - Beginning	89,139	89,139		1,355
Fund Balances - Ending	<u>\$ 105,852</u>	<u>\$ 108,754</u>	<u>\$ 2,902</u>	<u>\$ 89,139</u>

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

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered 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
	2018	65,273	65,273		870,302	7.50
	2019	64,300	64,300		857,336	7.50
	2020	64,086	64,086		854,475	7.50

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

See Note to the Pension Schedules

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

	Fiscal Year Ended June 30	City's Proportionate Share of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	2015	0.0144 %	\$ 746,283	\$ 14,445	\$ 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
	2018	0.0128	710,092	23,257	733,349	859,449	85.33	79.53
	2019	0.0123	680,039	21,166	701,205	863,819	81.17	80.23
	2020	0.0119	713,459	22,060	735,519	855,906	85.93	79.06

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, 2020

NOTE 1 DEFINED BENEFIT PLANS

PERA

General Employees Fund

2020 Changes

Changes in Plan Provisions: Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Changes in Actuarial Assumptions: The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 Changes

Changes in Plan provisions: The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Plan provisions: The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after

CITY OF HAWLEY, MINNESOTA
NOTE TO THE PENSION SCHEDULES - CONTINUED
DECEMBER 31, 2020

January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

Changes in Plan Provisions: The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

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; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

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, 2020

Exhibit A-1

	Special Revenue Exhibit B-1	Debt Service Exhibit B-3	Capital Project Phase 3 Project	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 711,207	\$ 678,522	\$ 51,263	\$ 1,440,992
Cash with Fiscal Agent	114,947			114,947
TOTAL ASSETS	\$ 826,154	\$ 678,522	\$ 51,263	\$ 1,555,939
FUND BALANCES				
Restricted for:				
Revolving Loan	\$ 130,437	\$	\$	\$ 130,437
Debt Service		678,522		678,522
Committed for:				
Garbage Service/Recycling	264,015			264,015
Deputy Registrar/Office	130,629			130,629
Storm Water Maint/Repairs	269,033			269,033
Building Upkeep/Repair	32,040			32,040
Capital Projects			51,263	51,263
TOTAL FUND BALANCES	\$ 826,154	\$ 678,522	\$ 51,263	\$ 1,555,939

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

Exhibit A-2

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Capital Project Phase 3 Project	Total Nonmajor Governmental Funds
RECEIPTS				
Property Taxes	\$	\$ 115,646	\$	\$ 115,646
Tax Increment Financing	253,956			253,956
Intergovernmental	7,055		66,531	73,586
Special Assessments		331,383		331,383
Charges for Services	599,338			599,338
Investment Earnings	4,285	1,821		6,106
Miscellaneous				
Rent	43,967			43,967
Other Receipts	3,129			3,129
	911,730	448,850	66,531	1,427,111
DISBURSEMENTS				
Current				
General Government	122,129			122,129
Sanitation	288,070			288,070
Economic Development	100,512			100,512
Debt Service				
Principal		669,000		669,000
Interest and Other Charges		104,495		104,495
Capital Outlay				
General Government	21,785			21,785
Streets and Highways	22,265		15,268	37,533
	554,761	773,495	15,268	1,343,524
Receipts Over (Under) Disbursements	356,969	(324,645)	51,263	83,587
OTHER FINANCING SOURCES (USES)				
Transfer In		304,350		304,350
Transfer Out	(193,650)			(193,650)
Transfer Out - Interfund Loan	(17,425)			(17,425)
	(211,075)	304,350		93,275
Net Change in Fund Balances	145,894	(20,295)	51,263	176,862
Fund Balances - Beginning	680,260	698,817		1,379,077
Fund Balances - Ending	\$ 826,154	\$ 678,522	\$ 51,263	\$ 1,555,939

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2020

Exhibit B-1

	Nonmajor Funds					Total Nonmajor Special Revenue Exhibit A-1	Major Fund Airport	Total Special Revenue
	Revolving Loan	Garbage	Deputy Registrar	Storm Water	Clinic			
ASSETS								
Cash and Investments	\$ 15,490	\$ 264,015	\$ 130,629	\$ 269,033	\$ 32,040	\$ 711,207	\$ 108,754	\$ 819,961
Cash with Fiscal Agent	114,947					114,947		114,947
TOTAL ASSETS	<u>\$ 130,437</u>	<u>\$ 264,015</u>	<u>\$ 130,629</u>	<u>\$ 269,033</u>	<u>\$ 32,040</u>	<u>\$ 826,154</u>	<u>\$ 108,754</u>	<u>\$ 934,908</u>
FUND BALANCES								
Restricted for:								
Revolving Loan	\$ 130,437					\$ 130,437		\$ 130,437
Committed for:								
Municipal Airport							108,754	108,754
Garbage Service/Recycling		264,015				264,015		264,015
Deputy Registrar/Office			130,629			130,629		130,629
Storm Water Maint/Repairs				269,033		269,033		269,033
Building Upkeep/Repair					32,040	32,040		32,040
TOTAL FUND BALANCES	<u>\$ 130,437</u>	<u>\$ 264,015</u>	<u>\$ 130,629</u>	<u>\$ 269,033</u>	<u>\$ 32,040</u>	<u>\$ 826,154</u>	<u>\$ 108,754</u>	<u>\$ 934,908</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, 2020

Exhibit B-2

	Nonmajor Funds					
	Revolving Loan	GN Property TIF	Garbage	Deputy Registrar	Storm Water	Clinic
RECEIPTS						
Tax Increment Financing	\$	\$ 36,195	\$	\$	\$	\$
Intergovernmental - Federal				7,055		
Intergovernmental - State						
Charges for Services			338,112	153,854	107,372	
Investment Earnings	2,726		412	660	427	60
Miscellaneous						
Rent	10,492					33,475
Other Receipts	266		1,945	918		
TOTAL RECEIPTS	<u>13,484</u>	<u>36,195</u>	<u>340,469</u>	<u>162,487</u>	<u>107,799</u>	<u>33,535</u>
DISBURSEMENTS						
Current						
General Government				116,061		6,068
Sanitation			288,070			
Economic Development	10,206	36,195				
Airport						
Capital Outlay						
General Government				21,785		
Streets and Highways					22,265	
TOTAL DISBURSEMENTS	<u>10,206</u>	<u>36,195</u>	<u>288,070</u>	<u>137,846</u>	<u>22,265</u>	<u>6,068</u>
Receipts Over Disbursements	3,278		52,399	24,641	85,534	27,467
OTHER FINANCING USES						
Transfer Out			(20,000)	(10,000)		
Transfer Out - Interfund Loan						(17,425)
TOTAL OTHER FINANCING USES			<u>(20,000)</u>	<u>(10,000)</u>		<u>(17,425)</u>
Net Change in Fund Balances	3,278		32,399	14,641	85,534	10,042
Fund Balances - Beginning	127,159		231,616	115,988	183,499	21,998
Fund Balances - Ending	<u>\$ 130,437</u>	<u>\$</u>	<u>\$ 264,015</u>	<u>\$ 130,629</u>	<u>\$ 269,033</u>	<u>\$ 32,040</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, 2020

	Nonmajor Funds			Total Nonmajor Special Revenue Exhibit A-2	Major Fund Airport	Exhibit B-2 Total Special Revenue
	TIF RDO	TIF Cretex	TIF			
RECEIPTS						
Tax Increment Financing	\$ 106,719	\$ 99,547	\$ 11,495	\$ 253,956	\$	\$ 253,956
Intergovernmental - Federal				7,055	28,886	35,941
Intergovernmental - State					6,338	6,338
Charges for Services				599,338		599,338
Investment Earnings				4,285	151	4,436
Miscellaneous						
Rent				43,967	61,826	105,793
Other Receipts				3,129	25,841	28,970
TOTAL RECEIPTS	<u>106,719</u>	<u>99,547</u>	<u>11,495</u>	<u>911,730</u>	<u>123,042</u>	<u>1,034,772</u>
DISBURSEMENTS						
Current						
General Government				122,129		122,129
Sanitation				288,070		288,070
Economic Development	23,769	18,847	11,495	100,512		100,512
Airport					91,677	91,677
Capital Outlay						
General Government				21,785		21,785
Streets and Highways				22,265		22,265
TOTAL DISBURSEMENTS	<u>23,769</u>	<u>18,847</u>	<u>11,495</u>	<u>554,761</u>	<u>91,677</u>	<u>646,438</u>
Receipts Over Disbursements	82,950	80,700		356,969	31,365	388,334
OTHER FINANCING USES						
Transfer Out	(82,950)	(80,700)		(193,650)		(193,650)
Transfer Out - Interfund Loan				(17,425)	(11,750)	(29,175)
TOTAL OTHER FINANCING USES	<u>(82,950)</u>	<u>(80,700)</u>		<u>(211,075)</u>	<u>(11,750)</u>	<u>(222,825)</u>
Net Change in Fund Balances				145,894	19,615	165,509
Fund Balances - Beginning				680,260	89,139	769,399
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 826,154</u>	<u>\$ 108,754</u>	<u>\$ 934,908</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS
DECEMBER 31, 2020

Exhibit B-3

	Nonmajor Funds				
	2006 PFA Water	2006 PFA Sewer	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild
ASSETS					
Cash and Investments	\$ 225,416	\$ 165,364	\$ 13,606	\$ 2,409	\$ 52,292
TOTAL ASSETS	<u>\$ 225,416</u>	<u>\$ 165,364</u>	<u>\$ 13,606</u>	<u>\$ 2,409</u>	<u>\$ 52,292</u>
FUND BALANCES					
Restricted for Debt Service	\$ 225,416	\$ 165,364	\$ 13,606	\$ 2,409	\$ 52,292
TOTAL FUND BALANCES	<u>\$ 225,416</u>	<u>\$ 165,364</u>	<u>\$ 13,606</u>	<u>\$ 2,409</u>	<u>\$ 52,292</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS – CONTINUED
DECEMBER 31, 2020

Exhibit B-3

	Nonmajor Funds				
	13 Cretex/ Hwy 10	Bond TIF	Autumn View	Nature Lane	Total Nonmajor Debt Service Exhibit A-1
ASSETS					
Cash and Investments	\$ 147,168	\$ 21,198	\$ 23,495	\$ 27,574	\$ 678,522
TOTAL ASSETS	\$ 147,168	\$ 21,198	\$ 23,495	\$ 27,574	\$ 678,522
FUND BALANCES					
Restricted for Debt Service	\$ 147,168	\$ 21,198	\$ 23,495	\$ 27,574	\$ 678,522
TOTAL FUND BALANCES	\$ 147,168	\$ 21,198	\$ 23,495	\$ 27,574	\$ 678,522

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

Exhibit B-4

	Nonmajor Funds				
	2006 PFA Water	2006 PFA Sewer	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild
RECEIPTS					
Property Taxes	\$	\$	\$	\$	\$ 37,007
Special Assessments	71,716	33,224			34,654
Investment Earnings	383	281	21	1	126
TOTAL RECEIPTS	72,099	33,505	21	1	71,787
DISBURSEMENTS					
Debt Service					
Principal	143,000	58,000	8,000	7,000	65,000
Interest and Other Charges	13,962	3,795	864	1,445	15,708
TOTAL DISBURSEMENTS	156,962	61,795	8,864	8,445	80,708
Receipts Over (Under) Disbursements	(84,863)	(28,290)	(8,843)	(8,444)	(8,921)
OTHER FINANCING SOURCES					
Transfer In	89,000	33,000	10,000	8,700	
TOTAL OTHER FINANCING SOURCES	89,000	33,000	10,000	8,700	
Net Change in Fund Balances	4,137	4,710	1,157	256	(8,921)
Fund Balances - Beginning	221,279	160,654	12,449	2,153	61,213
Fund Balances - Ending	\$ 225,416	\$ 165,364	\$ 13,606	\$ 2,409	\$ 52,292

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, 2020

Exhibit B-4

	Nonmajor Funds				Total Nonmajor Debt Service Exhibit A-2
	13 Cretex/ Hwy10	Bond TIF	Autumn View	Nature Lane	
RECEIPTS					
Property Taxes	\$ 78,639	\$	\$	\$	\$ 115,646
Special Assessments	105,219		30,150	56,420	331,383
Investment Earnings	882	27	44	56	1,821
TOTAL RECEIPTS	<u>184,740</u>	<u>27</u>	<u>30,194</u>	<u>56,476</u>	<u>448,850</u>
DISBURSEMENTS					
Debt Service					
Principal	180,000	140,000	28,000	40,000	669,000
Interest and Other Charges	22,545	21,145	10,176	14,855	104,495
TOTAL DISBURSEMENTS	<u>202,545</u>	<u>161,145</u>	<u>38,176</u>	<u>54,855</u>	<u>773,495</u>
Receipts Over (Under) Disbursements	(17,805)	(161,118)	(7,982)	1,621	(324,645)
OTHER FINANCING SOURCES					
Transfer In		163,650			304,350
TOTAL OTHER FINANCING SOURCES		<u>163,650</u>			<u>304,350</u>
Net Change in Fund Balances	(17,805)	2,532	(7,982)	1,621	(20,295)
Fund Balances - Beginning	164,973	18,666	31,477	25,953	698,817
Fund Balances - Ending	<u>\$ 147,168</u>	<u>\$ 21,198</u>	<u>\$ 23,495</u>	<u>\$ 27,574</u>	<u>\$ 678,522</u>

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND NET POSITION
CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Balance 01/01/20	Additions	Deductions	Balance 12/31/20
HAWLEY AREA FIRE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	\$ 169,936	\$ 163,238	\$ 289,111	\$ 44,063
Total Assets	\$ 169,936	\$ 163,238	\$ 289,111	\$ 44,063
NET POSITION				
Restricted for Other Governments	\$ 169,936	\$ 163,238	\$ 289,111	\$ 44,063
Total Restricted for Other Governments	\$ 169,936	\$ 163,238	\$ 289,111	\$ 44,063
 HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	\$ (894)	\$ 60,042	\$ 59,148	\$
NET POSITION				
Restricted for Other Government	\$ (894)	\$ 60,042	\$ 59,148	\$
 TOTAL				
ASSETS				
Cash and Investments	\$ 169,042	\$ 223,280	\$ 348,259	\$ 44,063
	\$ 169,042	\$ 223,280	\$ 348,259	\$ 44,063
NET POSITION				
Restricted for Other Government	\$ 169,042	\$ 223,280	\$ 348,259	\$ 44,063
	\$ 169,042	\$ 223,280	\$ 348,259	\$ 44,063

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
Governmental Funds						
General Fund						
Committed for:						
2016 Levy Reduction	\$ 33,089	\$	\$	\$	\$	\$ 33,089
Seal Coat/Crack Fill	151,459			96,500		247,959
Plow Truck/Equipment	109,700		93,000			16,700
Street Patching	194,700					194,700
Sidewalks	48,100					48,100
Lawn Mower	6,600					6,600
Tornado Siren	21,500					21,500
Park Board Sinking Fund	116,320			20,000		136,320
Park - Brekken	1,256					1,256
Park - Disc Golf	2,000					2,000
Park Donations	11,759					11,759
Fire Building	130,000			81,185	500,000	711,185
Police - Night to Unite	2,640					2,640
Police Armor Upgrade	600			(600)		
Police Vehicle	82,300			(54,250)		28,050
Zoning Comprehensive Plan	2,960					2,960
Economic Development	31,800			(15,000)		16,800
River Remeandering - Phase 3	20,000					20,000
Community Center	19,200					19,200
Building Demolition	19,500					19,500
Public Works Vehicle	15,000					15,000
Library	15,180			6,500		21,680
Police Building	50,000			(15,000)		35,000
Health Savings Account	49,100			18,875		67,975
Prosecution	8,500					8,500
City Hall Office Flooring	10,000		10,000			
Phase 3 Infrastructure Project	375,000					375,000
Unassigned	1,499,740	1,807,914	1,740,330	156,444	(149,850)	1,573,918
Total General Fund	3,028,003	1,807,914	1,843,330	294,654	350,150	3,637,391
Special Revenue						
Revolving Loan	127,159	13,484	10,206			130,437
TIF RDO		106,719	23,769	(82,950)		
TIF Cretex		99,547	18,847	(80,700)		
GN Property		36,195	36,195			
TIF		11,495	11,495			
Garbage	231,616	340,469	288,070	(20,000)		264,015
Deputy Registrar	115,988	162,487	137,846	(10,000)		130,629
Airport	89,139	123,042	91,677		(11,750)	108,754
Storm Water	183,499	107,799	22,265			269,033
Clinic	21,998	33,535	6,068		(17,425)	32,040
Capital Project						
Phase 3		66,531	15,268			51,263

CITY OF HAWLEY, MINNESOTA

**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
Debt Service						
2006 PFA Water	\$ 221,279	\$ 72,099	\$ 156,962	\$ 89,000	\$	\$ 225,416
2006 PFA Sewer	160,654	33,505	61,795	33,000		165,364
2008 PFA Water	12,449	21	8,864	10,000		13,606
2008 PFA Sewer	2,153	1	8,445	8,700		2,409
11 Street Rebuild	61,213	71,787	80,708			52,292
13 Cretex/Hwy10	164,973	184,740	202,545			147,168
Bond TIF	18,666	27	161,145	163,650		21,198
Autumn View Bond	31,477	30,194	38,176			23,495
Nature Lane Bond	25,953	56,476	54,855			27,574
Total Governmental Funds	\$ 4,496,219	\$ 3,358,067	\$ 3,278,531	\$ 405,354	\$ 320,975	\$ 5,302,084

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
Proprietary Funds						
Water	\$ 2,211,064	\$ 376,524	\$ 247,578	\$ (99,000)	\$	\$ 2,241,010
Sewer	2,141,710	295,539	313,487	(86,700)		2,037,062
Electric	2,327,256	2,412,700	2,272,413	(144,404)		2,323,139
Gas	1,287,388	861,772	604,225	(65,250)		1,479,685
Liquor	195,088	1,505,555	1,411,190	(10,000)		279,453
Total Proprietary Funds	\$ 8,162,506	\$ 5,452,090	\$ 4,848,893	\$ (405,354)	\$	\$ 8,360,349

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2019	Issued 2020	Retired 2020	Balance 12/31/2020	Principal Due In 2021	Interest Due In 2021
General Obligation Bonds										
G.O. Improvement Bonds, 2011B	2.5 - 3.3%	2011	2021/26	\$ 1,260,000	\$ 510,000	\$	\$ 65,000	\$ 445,000	\$ 70,000	\$ 13,588
G.O. Improvement Bonds, 2013A	3.00%	2013	2021/23	1,625,000	735,000		180,000	555,000	180,000	16,650
G.O. TIF Bonds 2014A	3.00%	2014	2021/25	1,270,000	735,000		140,000	595,000	145,000	17,850
G.O. Improvement Note 2016B	2.65%	2016	2021/31	411,000	384,000		28,000	356,000	28,000	9,434
G.O. Improvement Bonds 2017A	1.55 - 3.0%	2017	2021/32	605,000	605,000		40,000	565,000	40,000	13,740
Total General Obligation Bonds					<u>2,969,000</u>		<u>453,000</u>	<u>2,516,000</u>	<u>463,000</u>	<u>71,262</u>
General Obligation Revenue Bonds										
G.O. Water Revenue Note, 2006A	1.56%	2006	2021/25	2,565,987	895,000		143,000	752,000	146,000	11,732
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2021/25	1,010,110	358,000		58,000	300,000	59,000	3,180
G.O. Water Revenue Note, 2008A	1.29%	2008	2021/27	150,010	67,000		8,000	59,000	8,000	762
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2021/27	132,954	63,000		7,000	56,000	7,000	1,284
G.O. Water Revenue Note, 2001	3.32%	2001	2021	660,000	88,000		43,000	45,000	45,000	1,494
Total General Obligation Revenue Bonds					<u>1,471,000</u>		<u>259,000</u>	<u>1,212,000</u>	<u>265,000</u>	<u>18,452</u>
Revenue Bonds										
Refunding Revenue Note, 2016A	3.25%	2016	2021/27	329,000	254,000		29,000	225,000	28,000	6,857
Total Revenue Bonds					<u>254,000</u>		<u>29,000</u>	<u>225,000</u>	<u>28,000</u>	<u>6,857</u>
Total					<u>\$ 4,694,000</u>	<u>\$</u>	<u>\$ 741,000</u>	<u>\$ 3,953,000</u>	<u>\$ 756,000</u>	<u>\$ 96,571</u>

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

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>	<u>Fines & Forfeitures</u>	<u>Special Assessments</u>	<u>Interest</u>	<u>Tax Increment Financing</u>	<u>Miscellaneous</u>	<u>Total</u>
2011	\$ 432,565	\$ 13,410	\$ 666,560	\$ 410,507	\$ 35,666	\$ 765,375	\$ 15,440	\$	\$ 156,896	\$ 2,496,419
2012	445,132	14,565	909,389	390,310	48,678	710,895	8,792		161,430	2,689,191
2013	469,930	19,170	1,002,695	415,314	21,867	731,903	5,904		195,174	2,861,957
2014	505,529	23,721	903,166	438,474	22,518	636,666	5,515		172,731	2,708,320
2015	491,586	20,304	1,004,614	485,480	29,237	777,959	5,630	17,665	155,333	2,987,808
2016	519,475	19,129	996,263	492,685	20,711	708,555	6,394	264,069	221,162	3,248,443
2017	573,634	17,037	1,142,813	537,413	22,341	773,884	10,740	269,164	176,854	3,523,880
2018	596,442	16,106	1,271,118	562,927	24,329	619,550	22,523	199,841	233,689	3,546,525
2019	630,837	19,911	807,228	597,336	23,075	666,953	32,297	249,728	342,546	3,369,911
2020	665,503	19,395	995,899	616,970	19,145	505,952	18,597	253,956	262,650	3,358,067

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

Fiscal Year	General Government	Public Safety	Streets and Highways	Sanitation	Culture and Recreation	Debt Service	Capital Outlay	Other	Total
2011	\$ 255,634	\$ 418,393	\$ 145,416	\$ 207,053	\$ 92,088	\$ 710,846	\$ 1,549,006	\$ 164,820	\$ 3,543,256
2012	276,370	445,933	171,789	206,049	84,576	1,428,371 (a)	925,547	183,979	3,722,614
2013	279,059	419,166	158,763	195,544	87,250	758,837	2,387,410	224,901	4,510,930
2014	320,254	547,069	142,558	198,071	100,971	877,139	665,773	303,049	3,154,884
2015	323,724	468,973	123,623	215,228	102,171	1,227,501	940,211	264,168	3,665,599
2016	308,992	565,007	166,665	227,400	106,574	1,111,805	722,094	456,387	3,664,924
2017	299,613	551,616	224,755	274,286	122,889	1,081,900	1,184,859	447,734	4,187,652
2018	312,475	530,329	187,372	273,830	143,528	1,342,862	846,409	274,150	3,910,955
2019	359,258	643,675	188,191	282,262	114,063	1,225,592	382,178	303,770	3,498,989
2020	382,034	757,698	187,286	288,070	127,963	773,495	444,781	317,204	3,278,531

(a) 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)

Ley Year	Tax Capacity	Tax Levy	Tax Capacity Rates					Total
			City	School	County	Water Shed District	EDA/HRA	
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
2018	1,567,890	601,000	38.332	22.360	47.888	1.706		110.286
2019	1,584,181	631,000	39.831	26.774	48.859	1.674	0.563	117.701
2020	1,631,309	662,500	40.612	26.617	51.180	1.694	0.326	120.429

Note: Information obtained from the Clay County Auditor

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND NET POSITION – CUSTODIAL FUND –
HAWLEY AREA EMERGENCY RESPONSE DISTRICT – JOINT POWERS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

ADDITIONS	
Operating Reimbursements	
City of Hawley	\$ 39,432
Townships	<u>20,610</u>
TOTAL ADDITIONS	<u>60,042</u>
DEDUCTIONS	
Current	
Professional Services	55,000
RRR Dispatch	<u>4,148</u>
TOTAL DEDUCTIONS	<u>59,148</u>
CHANGES IN ASSETS AND NET POSITION	894
ASSETS AND NET POSITION, BEGINNING	<u>(894)</u>
ASSETS AND NET POSITION, ENDING	<u><u>\$</u></u>

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND NET POSITION – CUSTODIAL FUND –
HAWLEY AREA FIRE DISTRICT – JOINT POWERS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 55,650
Townships	55,650
Fire Relief	20,000
Grant	2,575
Investment Earnings	89
Miscellaneous	17,775
Interfund Transfer - Fire District Checking Account	11,499
	<hr/>
TOTAL ADDITIONS	163,238
DEDUCTIONS	
Current	
Insurance	10,098
Professional Services	625
Training	6,824
Supplies	12,227
Fuel and Additives	1,986
Repairs and Maintenance	1,011
Utilities	4,477
Salaries and Benefits	31,699
Fire Relief Contribution	9,100
RRR Dispatch	1,594
Miscellaneous	6,361
Capital Outlay	203,109
	<hr/>
TOTAL DEDUCTIONS	289,111
	<hr/>
CHANGES IN ASSETS AND NET POSITION	(125,873)
ASSETS AND NET POSITION, BEGINNING	169,936
	<hr/>
ASSETS AND NET POSITION, ENDING	\$ <u>44,063</u>

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, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2021. 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

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 insofar as they relate to accounting matters.

Purpose of the Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

February 5, 2021

**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, 2020, and the related notes to the financial statements, which collectively comprise the City of Hawley's basic financial statements and have issued our report thereon dated February 5, 2021. 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) as a basis for designing 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 2020-001 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 financial statements. 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 5, 2021

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2020

2020-001 FINDING

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance 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. However, the City currently does not prepare the financial statements, including the accompanying note disclosures, as required by the regulatory basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to have the auditors assist with the preparation of the financial statements for efficiency.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and to review the financial statements disclosure checklist.

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, 2020

2020-001 FINDING

Contact Person – Lisa Jetvig, City Clerk/Treasurer

Corrective Action Plan - Will establish a policy to document review of financial statements and notes.

Completion Date - Ongoing