

**CITY OF HAWLEY  
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

## TABLE OF CONTENTS

	<b>Page</b>
<b>CITY OFFICIALS</b>	<b>1</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>2</b>
<b>FINANCIAL STATEMENTS</b>	
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 Liabilities - Agency Funds	12
Notes to the Financial Statements	13
<b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule - Cash Basis - General Fund	32
Budgetary Comparison Schedule - Cash Basis - Airport Fund	34
Schedule of City Contributions	35
Schedule of City's Share of Net Pension Liability	36
Note to the Pension Schedules	37
Combining Statement of Balances Arising from Cash Transactions - Nonmajor Governmental Funds	38
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Nonmajor Governmental Funds	39
Combining Statement of Balances Arising from Cash Transactions - Special Revenue Funds	40
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances – Special Revenue Funds	41
Combining Statement of Balances Arising from Cash Transactions - Debt Service Funds	43
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Debt Service Funds	45
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Capital Project Funds	47
Combining Statement of Changes in Assets and Liabilities - Agency Funds	48

Schedule of Changes in Fund Balances and Changes in Net Position	49
Schedule of Indebtedness	51
<b>OTHER INFORMATION</b>	
Governmental Funds Receipts by Source	52
Governmental Funds Disbursements by Function	53
Assessed Valuation/Tax Capacity, Tax Levies and Rates	54
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Emergency Response District - Joint Powers	55
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Fire District - Joint Powers	56
<b>INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE</b>	<b>57</b>
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>58</b>
Schedule of Findings	60
Corrective Action Plan	61

**CITY OF HAWLEY, MINNESOTA**  
**CITY OFFICIALS**  
**DECEMBER 31, 2018**

Mayor	James Joy
Council Member	Ben Gunkelman
Council Member	Jonathan Donnelly
Council Member	Sean Mork
Council Member	Stacey Riedberger
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, 2018, 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, 2018, 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, 2018, 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 15, 2019, 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 15, 2019

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2018**

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>				
Cash and Investments	\$ 2,741,788	\$ 1,355	\$ 1,406,500	\$ 4,149,643
Cash with Fiscal Agent			133,675	133,675
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u>\$ 2,741,788</u>	<u>\$ 1,355</u>	<u>\$ 1,540,175</u>	<u>\$ 4,283,318</u>
<b>FUND BALANCES</b>				
Restricted for:				
Revolving Loan	\$	\$	\$ 142,259	\$ 142,259
Debt Service			1,000,149	1,000,149
Committed for:				
Levy Reduction	33,089			33,089
Seal Coat/Crack Fill	226,759			226,759
Plow Truck/Equipment	79,700			79,700
Street Patching	184,700			184,700
Sidewalks	38,100			38,100
Lawn Mower	600			600
Tornado Siren	21,500			21,500
Park Board Sinking Fund	61,320			61,320
Park - Brekken	1,256			1,256
Park - Disc Golf	2,000			2,000
Park Donations	11,759			11,759
Fire Building	100,000			100,000
Police - Night to Unite	1,545			1,545
Police Armor Upgrade	600			600
Police Vehicle	82,300			82,300
Zoning Comprehensive Fund	21,800			21,800
Economic Development	31,800			31,800
River Meandering - Phase 3	20,000			20,000
Community Center	19,200			19,200
Building Demolition	14,500			14,500
Library	10,180			10,180
Police Building	50,000			50,000
Health Savings Account	31,200			31,200
Prosecution	8,500			8,500
Municipal Airport		1,355		1,355
Garbage Service/Recycling			192,850	192,850
Deputy Registrar/Office			60,889	60,889
Storm Water Maint/Repairs			123,070	123,070
Building Upkeep/Repair			20,958	20,958
Unassigned	<u>1,689,380</u>			<u>1,689,380</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 2,741,788</u>	<u>\$ 1,355</u>	<u>\$ 1,540,175</u>	<u>\$ 4,283,318</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$ 497,101	\$	\$ 99,341	\$ 596,442
Tax Increment Financing			199,841	199,841
Special Assessments	78,749		540,801	619,550
Licenses and Permits	16,106			16,106
Intergovernmental	700,509	570,609		1,271,118
Charges for Services	19,635		543,292	562,927
Fines and Forfeitures	24,329			24,329
Investment Earnings	13,193	47	9,283	22,523
Miscellaneous	94,071	78,460	61,158	233,689
<b>TOTAL RECEIPTS</b>	<b>1,443,693</b>	<b>649,116</b>	<b>1,453,716</b>	<b>3,546,525</b>
<b>DISBURSEMENTS</b>				
Current				
General Government	195,770		116,705	312,475
Public Safety	530,329			530,329
Streets and Highways	187,372			187,372
Sanitation			273,830	273,830
Culture and Recreation	143,528			143,528
Conservation of Natural Resources	19,385			19,385
Economic Development	85,255		61,992	147,247
Airport		107,518		107,518
Debt Services				
Principal	25,236		1,156,000	1,181,236
Interest and Other Charges	7,204		154,422	161,626
Capital Outlay				
General Government	47,166		13,171	60,337
Public Safety	52,403			52,403
Streets and Highways	29,396		82,496	111,892
Culture and Recreation	138,254			138,254
Airport		483,523		483,523
<b>TOTAL DISBURSEMENTS</b>	<b>1,461,298</b>	<b>591,041</b>	<b>1,858,616</b>	<b>3,910,955</b>
Receipts Over (Under) Disbursements	(17,605)	58,075	(404,900)	(364,430)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	294,233		482,788	777,021
Transfer Out	(13,039)		(349,049)	(362,088)
Transfer In - Interfund Loan		90,000		90,000
Transfer Out - Interfund Loan	(24,768)	(165,000)	(19,000)	(208,768)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>256,426</b>	<b>(75,000)</b>	<b>114,739</b>	<b>296,165</b>
Net Change in Fund Balances	238,821	(16,925)	(290,161)	(68,265)
Fund Balances - Beginning	2,502,967	18,280	1,830,336	4,351,583
Fund Balances - Ending	<u>\$ 2,741,788</u>	<u>\$ 1,355</u>	<u>\$ 1,540,175</u>	<u>\$ 4,283,318</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2018**

	Water	Sewer	Electric	Gas	Liquor	Total
<b>ASSETS</b>						
Current Assets						
Cash and Investments	\$ 95,087	\$ 314,955	\$ 1,143,351	\$ 588,590	\$	\$ 2,141,983
Accounts Receivable	25,455	22,032	266,475	117,972		431,934
Due From Other Funds			11,735			11,735
Inventory	10,979		98,295	5,335	173,559	288,168
Total Current Assets	<u>131,521</u>	<u>336,987</u>	<u>1,519,856</u>	<u>711,897</u>	<u>173,559</u>	<u>2,873,820</u>
Noncurrent Assets						
Assessments Receivable		41,400				41,400
Capital Assets						
Land			22,241		55,000	77,241
Building	16,273		234,925	71,094	436,676	758,968
Improvements Other Than Building	4,850,502	4,704,518	2,406,515	1,098,536		13,060,071
Equipment	56,269	8,000	408,780	22,321	90,725	586,095
Less: Accumulated Depreciation	(2,629,560)	(3,058,057)	(2,004,097)	(657,264)	(154,773)	(8,503,751)
Net Capital Assets	<u>2,293,484</u>	<u>1,654,461</u>	<u>1,068,364</u>	<u>534,687</u>	<u>427,628</u>	<u>5,978,624</u>
Other Assets						
Cash-Restricted for Debt		104,347				104,347
Cash-Restricted for Lottery					7,286	7,286
Advance to Other Funds		184,492	145,795			330,287
Total Other Assets		<u>288,839</u>	<u>145,795</u>		<u>7,286</u>	<u>441,920</u>
<b>TOTAL ASSETS</b>	<u>2,425,005</u>	<u>2,321,687</u>	<u>2,734,015</u>	<u>1,246,584</u>	<u>608,473</u>	<u>9,335,764</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Cost Sharing Defined Benefit Pension Plan	8,675	9,293	30,981	18,589	14,871	82,409
<b>LIABILITIES</b>						
Current Liabilities						
Accounts Payable			150,019	58,703	35	208,757
Salary Payable	1,384	1,695	5,340	3,270	3,403	15,092
Due to Other Funds					11,735	11,735
Due to Other Governmental Units	7,007				7,286	14,293
Customer Deposits			38,692			38,692
Unearned Revenue			42,832			42,832
Interest Payable	1,439				2,909	4,348
Compensated Absences	7,884	10,993	22,590	14,891	16,106	72,464
Current Portion - Long-Term Liabilities	42,000				29,000	71,000
Total Current Liabilities	<u>59,714</u>	<u>12,688</u>	<u>259,473</u>	<u>76,864</u>	<u>70,474</u>	<u>479,213</u>
Long-Term Liabilities						
Advance from Other Funds					19,793	19,793
Bonds Payable	130,000				283,000	413,000
Net Pension Liability	49,707	53,257	177,523	106,514	85,211	472,212
Less: Current Portion - Long-Term Debt	(42,000)				(29,000)	(71,000)
Total Long-Term Liabilities	<u>137,707</u>	<u>53,257</u>	<u>177,523</u>	<u>106,514</u>	<u>359,004</u>	<u>834,005</u>
<b>TOTAL LIABILITIES</b>	<u>197,421</u>	<u>65,945</u>	<u>436,996</u>	<u>183,378</u>	<u>429,478</u>	<u>1,313,218</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION - CONTINUED**  
**PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2018**

	<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	\$ 14,805	\$ 15,864	\$ 52,877	\$ 31,726	\$ 25,381	\$ 140,653
NET POSITION						
Net Investment in Capital Assets	2,163,484	1,654,461	1,068,364	534,687	144,628	5,565,624
Restricted for Debt Service		104,347				104,347
Unrestricted	<u>57,970</u>	<u>490,363</u>	<u>1,206,759</u>	<u>515,382</u>	<u>23,857</u>	<u>2,294,331</u>
TOTAL NET POSITION	<u>\$ 2,221,454</u>	<u>\$ 2,249,171</u>	<u>\$ 2,275,123</u>	<u>\$ 1,050,069</u>	<u>\$ 168,485</u>	<u>\$ 7,964,302</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, 2018**

	Water	Sewer	Electric	Gas	Liquor	Total
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 1,253,389	\$ 1,253,389
Cost of Sales					(918,781)	(918,781)
Gross Profit					334,608	334,608
Charges for Sales and Services	373,643	286,177	2,516,454	937,303		4,113,577
Other Charges and Income	636	667	90,640	997	1,508	94,448
Total Operating Revenue	<u>374,279</u>	<u>286,844</u>	<u>2,607,094</u>	<u>938,300</u>	<u>336,116</u>	<u>4,542,633</u>
Operating Expenses						
Purchased Power and Gas			1,754,974	377,240		2,132,214
Salaries and Wages	57,620	73,133	231,443	137,075	138,568	637,839
Employee Benefits	20,535	20,518	81,396	50,741	44,795	217,985
Repairs and Maintenance	42,085	7,853	131,248	32,798	1,494	215,478
Chemicals	1,419	7,313				8,732
Utilities	11,977	4,120	9,686	5,253	14,652	45,688
Insurance	3,945	3,383	5,728	4,517	5,651	23,224
Professional Fees	11,382	15,907	39,805	2,471	7,381	76,946
Supplies	1,777	318	17,218	12,565	5,745	37,623
Other Expenses	2,263	6,212	106,882	17,359	40,180	172,896
Depreciation	140,746	174,644	88,788	29,599	15,783	449,560
Total Operating Expenses	<u>293,749</u>	<u>313,401</u>	<u>2,467,168</u>	<u>669,618</u>	<u>274,249</u>	<u>4,018,185</u>
Operating Income (Loss)	80,530	(26,557)	139,926	268,682	61,867	524,448
Nonoperating Income (Expense)						
Investment Earnings	370	7,927	16,094	1,727		26,118
Interest and Other Charges	(6,235)				(10,408)	(16,643)
Total Nonoperating Income (Expense)	<u>(5,865)</u>	<u>7,927</u>	<u>16,094</u>	<u>1,727</u>	<u>(10,408)</u>	<u>9,475</u>
Net Income (Loss) Before Transfers	74,665	(18,630)	156,020	270,409	51,459	533,923
Transfers Out	<u>(99,000)</u>	<u>(86,700)</u>	<u>(151,426)</u>	<u>(69,807)</u>	<u>(8,000)</u>	<u>(414,933)</u>
Change in Net Position	(24,335)	(105,330)	4,594	200,602	43,459	118,990
Net Position, Beginning	<u>2,245,789</u>	<u>2,354,501</u>	<u>2,270,529</u>	<u>849,467</u>	<u>125,026</u>	<u>7,845,312</u>
Net Position, Ending	<u>\$ 2,221,454</u>	<u>\$ 2,249,171</u>	<u>\$ 2,275,123</u>	<u>\$ 1,050,069</u>	<u>\$ 168,485</u>	<u>\$ 7,964,302</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water	Sewer	Electric	Gas	Liquor	Total
<b>Cash Flows From Operating Activities:</b>						
Receipts from Customers	\$ 376,528	\$ 288,579	\$ 2,633,426	\$ 918,223	\$ 1,256,421	\$ 5,473,177
Payments to Suppliers	(76,999)	(45,106)	(2,080,434)	(447,577)	(1,000,081)	(3,650,197)
Payments to Employees	(79,783)	(95,005)	(322,107)	(192,854)	(184,799)	(874,548)
<b>Net Cash Provided By Operating Activities</b>	<u>219,746</u>	<u>148,468</u>	<u>230,885</u>	<u>277,792</u>	<u>71,541</u>	<u>948,432</u>
<b>Cash Flows From Noncapital Financing Activities:</b>						
Due from Other Funds			19,429			19,429
Due to Other Funds					(19,429)	(19,429)
Transfers to Other Funds	(99,000)	(86,700)	(151,426)	(69,807)	(8,000)	(414,933)
Advance From (To) Other Funds		24,769	118,754			143,523
<b>Net Cash Used By Noncapital Financing Activities</b>	<u>(99,000)</u>	<u>(61,931)</u>	<u>(13,243)</u>	<u>(69,807)</u>	<u>(27,429)</u>	<u>(271,410)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>						
Purchase of Capital Assets	(28,423)		(25,781)			(54,204)
Advance from Other Funds	(16,861)				(7,893)	(24,754)
Special Assessment Revenue Received		1,553				1,553
Principal Paid on Debt	(80,000)				(24,000)	(104,000)
Interest and Other Charges Paid on Debt	(6,741)				(10,695)	(17,436)
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	<u>(132,025)</u>	<u>1,553</u>	<u>(25,781)</u>		<u>(42,588)</u>	<u>(198,841)</u>
<b>Cash Flows From Investing Activities:</b>						
Investment Earnings	369	7,927	16,094	1,728		26,118
<b>Net Cash Provided By Investing Activities</b>	<u>369</u>	<u>7,927</u>	<u>16,094</u>	<u>1,728</u>		<u>26,118</u>
<b>Net Increase (Decrease) In Cash, Cash Equivalents, and Restricted Cash</b>	(10,910)	96,017	207,955	209,713	1,524	504,299
<b>Cash, Cash Equivalents, and Restricted Cash - Beginning of Year</b>	<u>105,997</u>	<u>323,285</u>	<u>935,396</u>	<u>378,877</u>	<u>5,762</u>	<u>1,749,317</u>
<b>Cash, Cash Equivalents, and Restricted Cash - End of Year</b>	<u>\$ 95,087</u>	<u>\$ 419,302</u>	<u>\$ 1,143,351</u>	<u>\$ 588,590</u>	<u>\$ 7,286</u>	<u>\$ 2,253,616</u>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash</b>						
Cash and Investments	\$ 95,087	\$ 314,955	\$ 1,143,351	\$ 588,590		\$ 2,141,983
Restricted Cash - Debt		104,347				104,347
Restricted Cash - Lottery					7,286	7,286
<b>Total Cash, Cash Equivalents, and Restricted Cash</b>	<u>\$ 95,087</u>	<u>\$ 419,302</u>	<u>\$ 1,143,351</u>	<u>\$ 588,590</u>	<u>\$ 7,286</u>	<u>\$ 2,253,616</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS – CONTINUED**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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)	\$ 80,530	\$ (26,557)	\$ 139,926	\$ 268,682	\$ 61,867	\$ 524,448
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	140,746	174,644	88,788	29,599	15,783	449,560
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	2,174	1,735	22,657	(20,077)		6,489
Inventory	(1,773)		(9,817)	(163)	(5,641)	(17,394)
Accounts Payable	(378)		(5,076)	4,789	(556)	(1,221)
Salary Payable	(198)	(268)	(1,778)	(415)	(892)	(3,551)
Due to Other Governments	75				1,524	1,599
Customer Deposits			3,675			3,675
Net Pension	(8,834)	(9,465)	(31,551)	(18,930)	(15,144)	(83,924)
Deferred Outflows	6,482	6,945	23,148	13,889	11,111	61,575
Deferred Inflows	1,104	1,184	3,946	2,368	1,894	10,496
Compensated Absences	(182)	250	(3,033)	(1,950)	1,595	(3,320)
Total Adjustments	<u>139,216</u>	<u>175,025</u>	<u>90,959</u>	<u>9,110</u>	<u>9,674</u>	<u>423,984</u>
Net Cash Provided by Operating Activities	<u>\$ 219,746</u>	<u>\$ 148,468</u>	<u>\$ 230,885</u>	<u>\$ 277,792</u>	<u>\$ 71,541</u>	<u>\$ 948,432</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**AS OF DECEMBER 31, 2018**

	<u>Agency</u>
<b>ASSETS</b>	
Cash and Investments	\$ <u>208,861</u>
TOTAL ASSETS	\$ <u><u>208,861</u></u>
<b>LIABILITIES</b>	
Due to Other Governments	\$ <u>208,861</u>
TOTAL LIABILITIES	\$ <u><u>208,861</u></u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separated entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

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

**B. Fund Financial Statements**

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

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

The financial statements of the City of Hawley have been prepared in conformity with the regulatory basis of accounting of the State of Minnesota. This basis differs from accounting principles generally accepted in the United States of America primarily because the governmental funds are presented on a cash basis of accounting. In addition, the regulatory basis of accounting does not require the presentation of the Management's Discussion and Analysis or the government-wide financial statements (Statement of Net Cash Assets and the Statement of Activities), or the budgetary comparison schedule for major special revenue funds. Also, the regulatory basis of accounting allows the general fund budgetary comparison schedule to be included as supplementary information.

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Nonoperating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

**Major Governmental Funds**

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

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

**Major Proprietary Funds**

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

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

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

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

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

Additionally, the City reports the following fiduciary fund type:

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

**D. Specific Account Information**

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

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

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

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

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

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

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

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

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

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

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

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

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

Capital Assets – Proprietary Funds – Capital assets are recorded in the proprietary funds only. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their 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.

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

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, 2018, 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, 2018, a liability for unused sick leave has been set up for the proprietary fund employees and is included in the compensated absences.

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

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

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

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

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

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

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

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

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

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

**E. Use of Estimates**

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the proprietary fund during the reporting period. Ultimate results could differ from those estimates.

**NOTE 2 BUDGETARY DATA**

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

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

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

**NOTE 3 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended December 31, 2018, expenditures exceeded appropriations by \$1,989 in the airport fund.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

**NOTE 4 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, 2018, was \$48,638. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 4,149,643
Proprietary Funds	2,253,616
Fiduciary Funds	208,861
	<u>\$ 6,612,120</u>
Deposits	
Cash, Checking and Change Funds	\$ 70,088
Certificates of Deposits	1,190,955
Savings	4,907,823
Investments	443,254
	<u>\$ 6,612,120</u>

As of December 31, 2018, the City had the following investments:

Investments	Maturities	Level	Fair Value
4-M External Investment Pool	N/A	N/A	\$ 443,254

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

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

- (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, 2018, the City was not exposed to custodial credit risk.

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

**NOTE 5 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	\$ 98,559
Additions	
Flow payment	5,543
Interest	244
Balance, End of Year	\$ 104,346

The liquor fund is also required to have a reserve account of \$7,286 for the lottery account.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

**NOTE 6 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Proprietary Fund				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,241	\$	\$	\$ 77,241
Capital Assets, Being Depreciated:				
Building	758,968			758,968
Improvements Other Than Buildings	13,060,071			13,060,071
Equipment	<u>531,891</u>	<u>54,204</u>		<u>586,095</u>
Total Capital Assets, Being Depreciated	<u>14,350,930</u>	<u>54,204</u>		<u>14,405,134</u>
Less Accumulated Depreciation for:				
Building	240,008	18,899		258,907
Improvements Other Than Buildings	7,504,719	377,745		7,882,464
Equipment	<u>309,464</u>	<u>52,916</u>		<u>362,380</u>
Total Accumulated Depreciation	<u>8,054,191</u>	<u>449,560</u>		<u>8,503,751</u>
Total Capital Assets, Being Depreciated, Net	<u>6,296,739</u>	<u>(395,356)</u>		<u>5,901,383</u>
Proprietary Fund Capital Assets, Net	<u>\$ 6,373,980</u>	<u>\$ (395,356)</u>		<u>\$ 5,978,624</u>

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 140,746
Sewer	174,644
Electric	88,788
Gas	29,599
Liquor	<u>15,783</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 449,560</u>

**NOTE 7 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,

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2018

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

*General Employees Retirement Plan (General Employees Plan (accounted or in the General Employees Fund))*  
All full-time and certain part-time employees of the City of Hawley are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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 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. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment (COLA), not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

*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.

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

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

*General Employees Fund Contributions*

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018. 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, 2018, were \$65,273. The City’s contributions were equal to the required contributions as set by state statute.

*Police and Fire Fund Contributions*

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.8% of pay to 11.3% and employer rates increased from 16.2% to 16.95% on January 1, 2018. On January 1, 2020, employee rates increase to 11.8% and employer rates increase to 17.7%. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$40,043. The City’s contributions were equal to the required contributions as set by state statute.

Pension Costs – General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$710,092 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 to the fund in 2018. 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 \$23,257. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the City’s proportion was 0.0128% which was a decrease of 0.0003% from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the City recognized pension expense of \$47,436 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$5,424 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, 2018, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,216	\$ 22,005
Difference between projected and actual investment earnings		68,343
Changes in actuarial assumptions	72,071	81,067
Changes in proportion		40,099
Contributions paid to PERA subsequent to the measurement date	32,637	
Total	\$ 123,924	\$ 211,514

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

\$32,637 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 7,609
2020	(49,753)
2021	(63,263)
2022	(14,820)

Actuarial Assumptions – The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Growth	3.25% after 26 years of service
Investment Rate of Return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

- 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.

**Police and Fire Fund**

- The mortality projection scale was changed from MP-2016 to MP-2017. Assumed rates of retirement were changed, resulting in fewer retirements.

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

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

City Proportionate Share of NPL		
<u>1% Decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% Increase (8.5%)</u>
\$ 1,153,990	\$ 710,092	\$ 343,666

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

**NOTE 8 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 9 CAPITAL LEASE**

The City entered into a lease agreement as lessee for financing the acquisition of a street sweeper in 2015 and tractor in 2017. As of December 31, 2018, the total value of these capital assets was \$109,055. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been calculated at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

<u>Year Ending December 31,</u>	<u>Governmental Fund</u>
2019	\$ 27,207
Less: amount representing interest	(1,004)
Present value of minimum lease payments	<u>\$ 26,203</u>

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

**NOTE 10 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 \$7,465,000.

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%	2019/32	\$ 3,411,000
Governmental Fund - Refunding	2.00%	2019/21	415,000
Total			<u>\$ 3,826,000</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>
2019	\$ 597,000	\$ 101,515
2020	618,000	87,648
2021	558,000	73,161
2022	469,000	58,399
2023	480,000	45,012
2024-2028	786,000	98,285
2029-2032	318,000	21,825
	<u>\$ 3,826,000</u>	<u>\$ 485,845</u>

**B. General Obligation Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$4,519,061. 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%	2019/27	\$ 1,597,000
Proprietary Fund	3.30%	2019/21	130,000
			<u>\$ 1,727,000</u>

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

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

Year Ending December 31	Governmental Fund		Proprietary Fund	
	Principal	Interest	Principal	Interest
2019	\$ 214,000	\$ 23,145	\$ 42,000	\$ 4,316
2020	216,000	20,066	43,000	2,920
2021	220,000	16,954	45,000	1,494
2022	223,000	13,790		
2023	226,000	10,570		
2024-2027	498,000	12,235		
	<u>\$ 1,597,000</u>	<u>\$ 96,760</u>	<u>\$ 130,000</u>	<u>\$ 8,730</u>

**C. Revenue Bonds**

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$329,000. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Proprietary Fund - Refunding	3.25%	2019/27	\$ 283,000

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

Year Ending December 31	Proprietary Fund	
	Principal	Interest
2019	\$ 29,000	\$ 8,727
2020	29,000	7,784
2021	28,000	6,857
2022	32,000	5,882
2023	31,000	4,859
2024-2027	134,000	9,034
	<u>\$ 283,000</u>	<u>\$ 43,143</u>

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

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

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Fund</b>					
General Obligation Bonds	\$ 4,771,000	\$	\$ 945,000	\$ 3,826,000	\$ 597,000
General Obligation Revenue Bonds	1,808,000		211,000	1,597,000	214,000
Capital Lease	<u>51,438</u>		<u>25,235</u>	<u>26,203</u>	<u>26,203</u>
Governmental Fund Long-Term Liabilities	<u>6,630,438</u>		<u>1,181,235</u>	<u>5,449,203</u>	<u>837,203</u>
<b>Proprietary Fund</b>					
General Obligation Bonds	40,000		40,000		
General Obligation Revenue Bonds	170,000		40,000	130,000	42,000
Revenue Bonds	<u>307,000</u>		<u>24,000</u>	<u>283,000</u>	<u>29,000</u>
Proprietary Fund Long-Term Liabilities	<u>517,000</u>		<u>104,000</u>	<u>413,000</u>	<u>71,000</u>
<b>Total Long-Term Liabilities</b>	<b><u>\$ 7,147,438</u></b>	<b><u>\$</u></b>	<b><u>\$ 1,285,235</u></b>	<b><u>\$ 5,862,203</u></b>	<b><u>\$ 908,203</u></b>

The City's interest expense for the year ended December 31, 2018, was \$170,309.

See the Schedule of Indebtedness for detail and payment provisions.

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

The composition of interfund balances as of December 31, 2018, is as follows:

Due To / From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Liquor	\$ 11,735

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

Advance From / To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Airport	\$ 90,000
Electric	Nonmajor Governmental	36,000
Electric	Liquor	19,793
Sewer	General	184,492
General	Nonmajor Governmental	<u>8,980</u>
Total		<u>\$ 339,265</u>

Based on the amortization schedules, \$63,896 will be paid in 2019.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Liquor	\$ 8,000
General	Sewer	45,000
General	Electric	151,426
General	Gas	69,807
General	Nonmajor Governmental	20,000
Nonmajor Governmental	General	13,039
Nonmajor Governmental	Nonmajor Governmental	329,049
Nonmajor Governmental	Water	99,000
Nonmajor Governmental	Sewer	41,700
Total		<u>\$ 777,021</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 12 JOINT POWERS AGREEMENT**

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

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

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

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 2018 was \$50,000.

**NOTE 13 CONTINGENCIES**

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

**NOTE 14 COMMITTED CONTRACTS**

The City entered into several agreements in 2015, 2016, and 2017 with Constellation Energy for its natural gas requirements. The City has multiple contracts for 66% of the monthly requirements through October 2023. The contracts consist of: two locks as of May 27, 2015 and October 28, 2015, at an average price of approximately \$3.355 per MMBtu which goes from September 2016 through October 2019; two locks as of April 21, 2016 and May 26, 2017, at an average price of approximately 3.115 per MMBtu from November 2019 to October 2020; two locks both as of June 9, 2017, at an average price of approximately 3.033 per MMBtu from November 2020 to October 2021; and 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. The remaining gas requirement of 34% will be purchased in the Managed Procurement Fund.

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

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

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

**NOTE 15 IN-KIND PAYMENTS**

The electric fund provides street lighting for the City of Hawley at no charge. The total in-kind payment to the City of Hawley for the year ended December 31, 2018 was \$37,920.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

**NOTE 16 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; natural disasters; workers; and compensation for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the City’s insurance coverage in fiscal 2018.

**NOTE 17 TAX ABATEMENT DISCLOSURE**

<b>Purpose of Tax Abatement</b>	<b>Percentage of Taxes Abated During the Fiscal Year</b>	<b>Amount of Taxes Abated</b>
Residential New Housing Tax Abatement-2 year duration 10 houses built in 2015, 4 homes built in 2016	100% of City taxes on the first \$200,000 value	\$ 9,922
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	13,577
<b>Total Abatements 2018</b>		<b>\$ 23,499</b>

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

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

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

**NOTE 18 NEW PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2018**

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. 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, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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, 2018**

	2018				2017 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
<b>RECEIPTS</b>					
Property Taxes	\$ 491,411	\$ 491,411	\$ 497,101	\$ 5,690	\$ 483,719
Property Taxes - Tax Increment Financing					13,666
Special Assessments	20,000	20,000	78,749	58,749	54,557
Licenses and Permits	18,950	16,350	16,106	(244)	17,037
<b>Intergovernmental</b>					
<b>State</b>					
Local Government Aid	625,042	625,042	625,042		612,225
Fire State Aid	27,000				31,840
Police State Aid	17,000	34,800	34,800		33,589
PERA	2,402	2,402	2,402		2,402
Market Value Credit			288	288	
Small City Assistance	20,808	20,808	21,098	290	20,808
Other State Aid	1,500	7,050	7,080	30	4,801
Local - County	9,500	9,500	9,799	299	9,665
Total Intergovernmental	<u>703,252</u>	<u>699,602</u>	<u>700,509</u>	<u>907</u>	<u>715,330</u>
<b>Charges for Services</b>					
Franchise Fee - Cable	9,000	9,000	10,135	1,135	10,155
Street Charges and Sales	2,000	2,000	1,500	(500)	1,350
Airport	8,000	8,000	8,000		8,000
Total Charges for Services	<u>19,000</u>	<u>19,000</u>	<u>19,635</u>	<u>635</u>	<u>19,505</u>
Fines and Forfeitures	20,000	22,500	24,329	1,829	22,341
Investment Earnings	2,000	12,000	13,193	1,193	5,675
<b>Miscellaneous</b>					
Rents	6,852	7,702	8,607	905	7,201
Donations		30,544	28,544	(2,000)	3,450
Insurance Proceeds	5,000	5,000	5,318	318	7,007
Other Receipts	16,900	23,075	51,602	28,527	25,337
<b>TOTAL RECEIPTS</b>	<u>1,303,365</u>	<u>1,347,184</u>	<u>1,443,693</u>	<u>96,509</u>	<u>1,374,825</u>
<b>DISBURSEMENTS</b>					
<b>General Government</b>					
<b>Current</b>					
City Council	71,210	57,110	51,191	(5,919)	50,633
Election	3,300	3,300	2,597	(703)	
Finance	51,818	50,727	50,147	(580)	49,082
Assessor	5,920	6,420	6,348	(72)	5,920
Legal	27,000	18,500	18,366	(134)	20,413
Other General Government	87,810	70,510	67,121	(3,389)	65,080
Capital Outlay	67,350	45,111	47,166	2,055	4,551
Total General Government	<u>314,408</u>	<u>251,678</u>	<u>242,936</u>	<u>(8,742)</u>	<u>195,679</u>
<b>Public Safety</b>					
<b>Current</b>					
Police Protection	510,515	453,250	441,097	(12,153)	431,529
Fire Relief	27,000				31,840
Fire Joint Powers District	53,000	53,000	53,000		52,750
Animal Control	700	700	209	(491)	385

cont.

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018				2017 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	\$ 36,023	\$ 36,023	\$ 36,023	\$	\$ 35,112
Capital Outlay	40,500	52,250	52,403	153	53,319
Total Public Safety	<u>667,738</u>	<u>595,223</u>	<u>582,732</u>	<u>(12,491)</u>	<u>604,935</u>
Streets and Highways					
Current					
Street Maintenance	216,159	188,313	187,372	(941)	221,735
Snow Removal					3,020
Capital Outlay	100,000	29,200	29,396	196	219,162
Total Streets and Highways	<u>316,159</u>	<u>217,513</u>	<u>216,768</u>	<u>(745)</u>	<u>443,917</u>
Culture and Recreation					
Current					
Community Building	19,330	16,780	15,663	(1,117)	13,705
Parks	102,010	123,576	122,675	(901)	103,987
Library	9,490	6,110	5,190	(920)	5,197
Capital Outlay	70,123	149,042	138,254	(10,788)	36,324
Total Culture and Recreation	<u>200,953</u>	<u>295,508</u>	<u>281,782</u>	<u>(13,726)</u>	<u>159,213</u>
Conservation of Natural Resources					
Vector Control	17,200	12,400	12,344	(56)	15,510
Forestry Shade Tree	8,800	7,450	7,041	(409)	8,173
Total Conservation of Natural Resources	<u>26,000</u>	<u>19,850</u>	<u>19,385</u>	<u>(465)</u>	<u>23,683</u>
Economic Development - Current	66,000	89,274	85,255	(4,019)	72,641
Debt Service					
Principal			25,236	25,236	25,581
Interest			7,204	7,204	1,626
Total Debt Service			<u>32,440</u>	<u>32,440</u>	<u>27,207</u>
<b>TOTAL DISBURSEMENTS</b>	<u>1,591,258</u>	<u>1,469,046</u>	<u>1,461,298</u>	<u>(7,748)</u>	<u>1,527,275</u>
Receipts Over (Under) Disbursements	(287,893)	(121,862)	(17,605)	104,257	(152,450)
OTHER FINANCING SOURCES (USES)					
Transfer In	335,000	366,661	294,233	(72,428)	301,702
Transfer In - Interfund Loan					1,404
Transfer Out	(17,084)	(26,064)	(13,039)	13,025	(900)
Transfer Out - Interfund Loan	(30,000)	(30,000)	(24,768)	5,232	(30,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>287,916</u>	<u>310,597</u>	<u>256,426</u>	<u>(54,171)</u>	<u>272,206</u>
Net Change in Fund Balances	23	188,735	238,821	50,086	119,756
Fund Balances - Beginning	<u>2,502,967</u>	<u>2,502,967</u>	<u>2,502,967</u>		<u>2,383,211</u>
Fund Balances - Ending	<u>\$ 2,502,990</u>	<u>\$ 2,691,702</u>	<u>\$ 2,741,788</u>	<u>\$ 50,086</u>	<u>\$ 2,502,967</u>

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**AIRPORT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018			2017 Actual
	Original and Final Budget	Actual Amounts	Over (Under) Final Budget	
<b>RECEIPTS</b>				
Intergovernmental				
Federal	\$ 540,177	\$ 484,129	\$ (56,048)	\$ 341,796
State	30,431	86,480	56,049	85,687
Total Intergovernmental	<u>570,608</u>	<u>570,609</u>	<u>1</u>	<u>427,483</u>
Investment Earnings	20	47	27	61
Miscellaneous				
Rents	55,900	53,796	(2,104)	44,811
Other Receipts	24,400	24,664	264	26,309
<b>TOTAL RECEIPTS</b>	<u>650,928</u>	<u>649,116</u>	<u>(1,812)</u>	<u>498,664</u>
<b>DISBURSEMENTS</b>				
Airport				
Current	105,528	107,518	1,990	239,519
Capital Outlay	483,524	483,523	(1)	265,067
<b>TOTAL DISBURSEMENTS</b>	<u>589,052</u>	<u>591,041</u>	<u>1,989</u>	<u>504,586</u>
Receipts Over (Under) Disbursements	61,876	58,075	(3,801)	(5,922)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In - Interfund Loan	90,000	90,000		
Transfer Out - Interfund Loan	(171,000)	(165,000)	6,000	(6,600)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(81,000)</u>	<u>(75,000)</u>	<u>6,000</u>	<u>(6,600)</u>
Net Change in Fund Balances	(19,124)	(16,925)	2,199	(12,522)
Fund Balances - Beginning	18,280	18,280		30,802
Fund Balances - Ending	<u>\$ (844)</u>	<u>\$ 1,355</u>	<u>\$ 2,199</u>	<u>\$ 18,280</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

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

See Note to the Pension Schedules

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

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered 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
<b>PERA</b>	2015	0.0144 %	\$ 746,283	\$	\$ 746,283	\$ 839,866	88.86 %	78.19 %
	2016	0.0136	1,104,253	14,445	1,118,698	847,750	131.96	68.90
	2017	0.0131	836,295	10,512	846,807	843,736	100.36	75.90
	2018	0.0128	710,092	23,257	733,349	859,449	85.33	79.53

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, 2018**

**NOTE 1    DEFINED BENEFIT PLANS**

**PERA**

**General Employees Fund**

*2018 Changes*

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

*2016 Changes*

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

*2015 Changes*

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

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

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

Exhibit A-1

	Special Revenue <u>Exhibit B-1</u>	Debt Service <u>Exhibit B-3</u>	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 406,351	\$ 1,000,149	\$ 1,406,500
Cash with Fiscal Agent	<u>133,675</u>		<u>133,675</u>
<b>TOTAL ASSETS</b>	<u>\$ 540,026</u>	<u>\$ 1,000,149</u>	<u>\$ 1,540,175</u>
<b>FUND BALANCES</b>			
Restricted for:			
Revolving Loan	\$ 142,259		\$ 142,259
Debt Service		1,000,149	1,000,149
Committed for:			
Garbage Service/Recycling	192,850		192,850
Deputy Registrar/Office	60,889		60,889
Storm Water Maint/Repairs	123,070		123,070
Building Upkeep/Repair	<u>20,958</u>		<u>20,958</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 540,026</u>	<u>\$ 1,000,149</u>	<u>\$ 1,540,175</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Capital Project Exhibit B-5	Total Nonmajor Governmental Funds
Exhibit A-2				
<b>RECEIPTS</b>				
Property Taxes	\$	\$ 99,341	\$	\$ 99,341
Tax Increment Financing	199,841			199,841
Special Assessments		540,801		540,801
Charges for Services	543,292			543,292
Investment Earnings	4,491	4,673	119	9,283
Miscellaneous				
Rent	38,302			38,302
Other Receipts	22,856			22,856
<b>TOTAL RECEIPTS</b>	<u>808,782</u>	<u>644,815</u>	<u>119</u>	<u>1,453,716</u>
<b>DISBURSEMENTS</b>				
Current				
General Government	116,705			116,705
Sanitation	273,830			273,830
Economic Development	61,992			61,992
Debt Service				
Principal		1,156,000		1,156,000
Interest and Other Charges		154,422		154,422
Capital Outlay				
General Government	13,171			13,171
Streets and Highways			82,496	82,496
<b>TOTAL DISBURSEMENTS</b>	<u>465,698</u>	<u>1,310,422</u>	<u>82,496</u>	<u>1,858,616</u>
Receipts Over (Under) Disbursements	343,084	(665,607)	(82,377)	(404,900)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In		478,729	4,059	482,788
Transfer Out	(231,070)	(98,610)	(19,369)	(349,049)
Transfer Out - Interfund Loan	(19,000)			(19,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(250,070)</u>	<u>380,119</u>	<u>(15,310)</u>	<u>114,739</u>
Net Change in Fund Balances	93,014	(285,488)	(97,687)	(290,161)
Fund Balances - Beginning	447,012	1,285,637	97,687	1,830,336
Fund Balances - Ending	<u>\$ 540,026</u>	<u>\$ 1,000,149</u>	<u>\$</u>	<u>\$ 1,540,175</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2018**

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			
<b>ASSETS</b>								
Cash and Investments	\$ 8,584	\$ 192,850	\$ 60,889	\$ 123,070	\$ 20,958	\$ 406,351	\$ 1,355	\$ 407,706
Cash with Fiscal Agent	133,675					133,675		133,675
<b>TOTAL ASSETS</b>	<u>\$ 142,259</u>	<u>\$ 192,850</u>	<u>\$ 60,889</u>	<u>\$ 123,070</u>	<u>\$ 20,958</u>	<u>\$ 540,026</u>	<u>\$ 1,355</u>	<u>\$ 541,381</u>
<b>FUND BALANCES</b>								
Restricted for:								
Revolving Loan	\$ 142,259					\$ 142,259		\$ 142,259
Committed for:								
Municipal Airport							1,355	1,355
Garbage Service/Recycling		192,850				192,850		192,850
Deputy Registrar/Office			60,889			60,889		60,889
Storm Water Maint/Repairs				123,070		123,070		123,070
Building Upkeep/Repair					20,958	20,958		20,958
<b>TOTAL FUND BALANCES</b>	<u>\$ 142,259</u>	<u>\$ 192,850</u>	<u>\$ 60,889</u>	<u>\$ 123,070</u>	<u>\$ 20,958</u>	<u>\$ 540,026</u>	<u>\$ 1,355</u>	<u>\$ 541,381</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, 2018**

Exhibit B-2

	Nonmajor Funds					
	Revolving Loan	GN Property	Garbage	Deputy Registrar	Storm Water	
RECEIPTS						
Tax Increment Financing	\$	\$ 31,997	\$	\$	\$	\$
Intergovernmental - Federal						
Intergovernmental - State						
Charges for Services			337,352	100,298	105,642	
Investment Earnings	2,805		426	648	357	255
Miscellaneous						
Rent	7,402					30,900
Other Receipts	20,324		1,547	985		
TOTAL RECEIPTS	<u>30,531</u>	<u>31,997</u>	<u>339,325</u>	<u>101,931</u>	<u>105,999</u>	<u>31,155</u>
DISBURSEMENTS						
Current						
General Government				96,252		20,453
Sanitation			273,830			
Economic Development	5,221	31,997				
Airport						
Capital Outlay						
General Government				13,171		
Airport						
TOTAL DISBURSEMENTS	<u>5,221</u>	<u>31,997</u>	<u>273,830</u>	<u>109,423</u>		<u>20,453</u>
Receipts Over (Under) Disbursements	25,310		65,495	(7,492)	105,999	10,702
OTHER FINANCING SOURCES (USES)						
Transfer In - Interfund Loan						
Transfer Out			(20,000)		(68,000)	
Transfer Out - Interfund Loan						(19,000)
TOTAL OTHER FINANCING SOURCES (USES)			<u>(20,000)</u>		<u>(68,000)</u>	<u>(19,000)</u>
Net Change in Fund Balances	25,310		45,495	(7,492)	37,999	(8,298)
Fund Balances - Beginning	116,949		147,355	68,381	85,071	29,256
Fund Balances - Ending	<u>\$ 142,259</u>	<u>\$</u>	<u>\$ 192,850</u>	<u>\$ 60,889</u>	<u>\$ 123,070</u>	<u>\$ 20,958</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, 2018**

	Nonmajor Funds			Total Nonmajor Special Revenue Exhibit A-2	Major Fund Airport	Exhibit B-2 Total Special Revenue
	TIF RDO	TIF Cretex	TIF			
<b>RECEIPTS</b>						
Tax Increment Financing	\$ 97,964	\$ 58,208	\$ 11,672	\$ 199,841	\$	\$ 199,841
Intergovernmental - Federal					484,129	484,129
Intergovernmental - State					86,480	86,480
Charges for Services				543,292		543,292
Investment Earnings				4,491	47	4,538
Miscellaneous						
Rent				38,302	53,796	92,098
Other Receipts				22,856	24,664	47,520
<b>TOTAL RECEIPTS</b>	<u>97,964</u>	<u>58,208</u>	<u>11,672</u>	<u>808,782</u>	<u>649,116</u>	<u>1,457,898</u>
<b>DISBURSEMENTS</b>						
Current						
General Government				116,705		116,705
Sanitation				273,830		273,830
Economic Development	12,214	888	11,672	61,992		61,992
Airport					107,518	107,518
Capital Outlay						
General Government				13,171		13,171
Airport					483,523	483,523
<b>TOTAL DISBURSEMENTS</b>	<u>12,214</u>	<u>888</u>	<u>11,672</u>	<u>465,698</u>	<u>591,041</u>	<u>1,056,739</u>
Receipts Over (Under) Disbursements	85,750	57,320		343,084	58,075	401,159
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In - Interfund Loan					90,000	90,000
Transfer Out	(85,750)	(57,320)		(231,070)		(231,070)
Transfer Out - Interfund Loan				(19,000)	(165,000)	(184,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(85,750)</u>	<u>(57,320)</u>		<u>(250,070)</u>	<u>(75,000)</u>	<u>(325,070)</u>
Net Change in Fund Balances				93,014	(16,925)	76,089
Fund Balances - Beginning				447,012	18,280	465,292
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 540,026</u>	<u>\$ 1,355</u>	<u>\$ 541,381</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS**  
**DECEMBER 31, 2018**

Exhibit B-3

	Nonmajor Funds					
	2006 PFA Water	2006 PFA Sewer	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy 10
ASSETS						
Cash and Investments	\$ <u>208,097</u>	\$ <u>152,213</u>	\$ <u>11,385</u>	\$ <u>2,058</u>	\$ <u>59,293</u>	\$ <u>190,325</u>
TOTAL ASSETS	\$ <u><u>208,097</u></u>	\$ <u><u>152,213</u></u>	\$ <u><u>11,385</u></u>	\$ <u><u>2,058</u></u>	\$ <u><u>59,293</u></u>	\$ <u><u>190,325</u></u>
FUND BALANCES						
Restricted for Debt Service	\$ <u>208,097</u>	\$ <u>152,213</u>	\$ <u>11,385</u>	\$ <u>2,058</u>	\$ <u>59,293</u>	\$ <u>190,325</u>
TOTAL FUND BALANCES	\$ <u><u>208,097</u></u>	\$ <u><u>152,213</u></u>	\$ <u><u>11,385</u></u>	\$ <u><u>2,058</u></u>	\$ <u><u>59,293</u></u>	\$ <u><u>190,325</u></u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS – CONTINUED**  
**DECEMBER 31, 2018**

Exhibit B-3

	Nonmajor Funds				
	Bond TIF	15 Refund	Autumn View	Nature Lane	Total Nonmajor Debt Service Exhibit A-1
ASSETS					
Cash and Investments	\$ 10,087	\$ 294,221	\$ 31,763	\$ 40,707	\$ 1,000,149
TOTAL ASSETS	\$ 10,087	\$ 294,221	\$ 31,763	\$ 40,707	\$ 1,000,149
FUND BALANCES					
Restricted for Debt Service	\$ 10,087	\$ 294,221	\$ 31,763	\$ 40,707	\$ 1,000,149
TOTAL FUND BALANCES	\$ 10,087	\$ 294,221	\$ 31,763	\$ 40,707	\$ 1,000,149

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit B-4

	Nonmajor Funds					
	11 Refund (04)	2006 PFA Water	2006 PFA Sewer	11 Refund (06A)	11 Refund (06B)	
<b>RECEIPTS</b>						
Property Taxes	\$	\$	\$	\$	\$	\$
Special Assessments	63,097	78,887	36,546	24,073	12,951	
Investment Earnings	405	445	344	90	62	28
<b>TOTAL RECEIPTS</b>	<u>63,502</u>	<u>79,332</u>	<u>36,890</u>	<u>24,163</u>	<u>13,013</u>	<u>28</u>
<b>DISBURSEMENTS</b>						
Debt Service						
Principal	155,000	139,000	57,000	120,000	85,000	8,000
Interest and Other Charges	4,558	18,330	5,014	3,675	2,618	1,071
<b>TOTAL DISBURSEMENTS</b>	<u>159,558</u>	<u>157,330</u>	<u>62,014</u>	<u>123,675</u>	<u>87,618</u>	<u>9,071</u>
Receipts Over (Under) Disbursements	(96,056)	(77,998)	(25,124)	(99,512)	(74,605)	(9,043)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In		89,000	33,000	57,503	41,107	10,000
Transfer Out	(98,610)					
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(98,610)</u>	<u>89,000</u>	<u>33,000</u>	<u>57,503</u>	<u>41,107</u>	<u>10,000</u>
Net Change in Fund Balances	(194,666)	11,002	7,876	(42,009)	(33,498)	957
Fund Balances - Beginning	194,666	197,095	144,337	42,009	33,498	10,428
Fund Balances - Ending	<u>\$</u>	<u>\$ 208,097</u>	<u>\$ 152,213</u>	<u>\$</u>	<u>\$</u>	<u>\$ 11,385</u>

**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, 2018**

Exhibit B-4

	Nonmajor Funds							Total Nonmajor Debt Service Exhibit A-2
	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy10	Bond TIF	15 Refund	Autumn View	Nature Lane	
<b>RECEIPTS</b>								
Property Taxes	\$	\$ 36,656	\$ 62,685	\$	\$	\$	\$	\$ 99,341
Special Assessments		35,223	105,316		154,849	29,859		540,801
Investment Earnings		162	1,117	88	1,824	22	86	4,673
<b>TOTAL RECEIPTS</b>		<u>72,041</u>	<u>169,118</u>	<u>88</u>	<u>156,673</u>	<u>29,881</u>	<u>86</u>	<u>644,815</u>
<b>DISBURSEMENTS</b>								
Debt Service								
Principal	7,000	125,000	170,000	135,000	155,000			1,156,000
Interest and Other Charges	1,766	20,308	32,895	26,545	11,895	10,892	14,855	154,422
<b>TOTAL DISBURSEMENTS</b>	<u>8,766</u>	<u>145,308</u>	<u>202,895</u>	<u>161,545</u>	<u>166,895</u>	<u>10,892</u>	<u>14,855</u>	<u>1,310,422</u>
Receipts Over (Under) Disbursements	(8,766)	(73,267)	(33,777)	(161,457)	(10,222)	18,989	(14,769)	(665,607)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer In	8,700	68,000		152,050			19,369	478,729
Transfer Out								(98,610)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>8,700</u>	<u>68,000</u>		<u>152,050</u>			<u>19,369</u>	<u>380,119</u>
Net Change in Fund Balances	(66)	(5,267)	(33,777)	(9,407)	(10,222)	18,989	4,600	(285,488)
Fund Balances - Beginning	2,124	64,560	224,102	19,494	304,443	12,774	36,107	1,285,637
Fund Balances - Ending	<u>\$ 2,058</u>	<u>\$ 59,293</u>	<u>\$ 190,325</u>	<u>\$ 10,087</u>	<u>\$ 294,221</u>	<u>\$ 31,763</u>	<u>\$ 40,707</u>	<u>\$ 1,000,149</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit B-5

	Nonmajor Fund Exhibit A-2		Total Capital Project
	Autumn View	Nature Lane	
RECEIPTS			
Investment Earnings	\$ 27	\$ 92	\$ 119
TOTAL RECEIPTS	27	92	119
DISBURSEMENTS			
Capital Outlay			
Streets and Highways	34,017	48,479	82,496
TOTAL DISBURSEMENTS	34,017	48,479	82,496
Receipts Under Disbursements	(33,990)	(48,387)	(82,377)
OTHER FINANCING SOURCES (USES)			
Transfers In	4,059		4,059
Transfers Out		(19,369)	(19,369)
TOTAL OTHER FINANCING SOURCES (USES)	4,059	(19,369)	(15,310)
Net Change in Fund Balances	(29,931)	(67,756)	(97,687)
Fund Balances - Beginning	29,931	67,756	97,687
Fund Balances - Ending	\$	\$	\$

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance 01/01/18	Additions	Deductions	Balance 12/31/18
<b>HAWLEY AREA FIRE DISTRICT - JOINT POWERS</b>				
<b>ASSETS</b>				
Cash and Investments	\$ 141,637	\$ 181,929	\$ 114,705	\$ 208,861
Total Assets	\$ 141,637	\$ 181,929	\$ 114,705	\$ 208,861
<b>LIABILITIES</b>				
Due to Other Governments	\$ 141,637	\$ 181,929	\$ 114,705	\$ 208,861
Total Liabilities	\$ 141,637	\$ 181,929	\$ 114,705	\$ 208,861
 <b>HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS</b>				
<b>ASSETS</b>				
Cash and Investments	\$ (1,995)	\$ 56,029	\$ 54,034	\$
<b>LIABILITIES</b>				
Due to Other Governments	\$ (1,995)	\$ 56,029	\$ 54,034	\$
 <b>TOTAL</b>				
<b>ASSETS</b>				
Cash and Investments	\$ 139,642	\$ 237,958	\$ 168,739	\$ 208,861
Total Assets	\$ 139,642	\$ 237,958	\$ 168,739	\$ 208,861
<b>LIABILITIES</b>				
Due to Other Governments	\$ 139,642	\$ 237,958	\$ 168,739	\$ 208,861
Total Liabilities	\$ 139,642	\$ 237,958	\$ 168,739	\$ 208,861

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
<b>Governmental Funds</b>						
<b>General Fund</b>						
Committed for:						
2016 Levy Reduction	\$ 51,800		\$ 18,711			\$ 33,089
Seal Coat/Crack Fill	151,759			75,000		226,759
Plow Truck/Equipment	57,700			22,000		79,700
Street Patching	159,200			25,500		184,700
Sidewalks	31,300			6,800		38,100
Lawn Mower	600					600
Tornado Siren	19,500			2,000		21,500
Park Board Sinking Fund	115,200		53,880			61,320
Park - Brekken	1,256					1,256
Park - Disc Golf	2,000					2,000
Park Donations	11,759					11,759
Fire Building	66,900			33,100		100,000
Police - Night to Unite	348			1,197		1,545
Police Armor Upgrade	600					600
Police Vehicle	91,500		9,200			82,300
Zoning Comprehensive Plan	12,300			9,500		21,800
Economic Development	21,800			10,000		31,800
River Remeandering - Phase 3	20,000					20,000
Community Center	14,900			4,300		19,200
Building Demolition	9,500			5,000		14,500
City Hall Roof	14,400		14,400			
Public Works Vehicle	26,200		26,200			
Library	4,800			5,380		10,180
Police Building				50,000		50,000
Health Savings Account				31,200		31,200
Prosecution				8,500		8,500
Unassigned	1,617,645	1,443,693	1,338,907	(8,283)	(24,768)	1,689,380
<b>Total General Fund</b>	<b>2,502,967</b>	<b>1,443,693</b>	<b>1,461,298</b>	<b>281,194</b>	<b>(24,768)</b>	<b>2,741,788</b>
<b>Special Revenue</b>						
Revolving Loan	116,949	30,531	5,221			142,259
TIF RDO		97,964	12,214	(85,750)		
TIF Cretex		58,208	888	(57,320)		
GN Property		31,997	31,997			
TIF		11,672	11,672			
Garbage	147,355	339,325	273,830	(20,000)		192,850
Deputy Registrar	68,381	101,931	109,423			60,889
Airport	18,280	649,116	591,041		(75,000)	1,355
Storm Water	85,071	105,999		(68,000)		123,070
Clinic	29,256	31,155	20,453		(19,000)	20,958

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
<b>Debt Service</b>						
11 Refund (04)	\$ 194,666	\$ 63,502	\$ 159,558	\$ (98,610)	\$	\$
11 Refund (06A)	42,009	24,163	123,675	57,503		
2006 PFA Water	197,095	79,332	157,330	89,000		208,097
2006 PFA Sewer	144,337	36,890	62,014	33,000		152,213
11 Refund (06B)	33,498	13,013	87,618	41,107		
2008 PFA Water	10,428	28	9,071	10,000		11,385
2008 PFA Sewer	2,124		8,766	8,700		2,058
11 Street Rebuild	64,560	72,041	145,308	68,000		59,293
13 Cretex/Hwy10	224,102	169,118	202,895			190,325
Bond TIF	19,494	88	161,545	152,050		10,087
15 Refund	304,443	156,673	166,895			294,221
Autumn View Bond	12,774	29,881	10,892			31,763
Nature Lane Bond	36,107	86	14,855	19,369		40,707
<b>Capital Projects</b>						
Autumn View	29,931	27	34,017	4,059		
Nature Lane	67,756	92	48,479	(19,369)		
<b>Total Governmental Funds</b>	<b>\$ 4,351,583</b>	<b>\$ 3,546,525</b>	<b>\$ 3,910,955</b>	<b>\$ 414,933</b>	<b>\$ (118,768)</b>	<b>\$ 4,283,318</b>
	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
<b>Proprietary Funds</b>						
Water	\$ 2,245,789	\$ 374,649	\$ 299,984	\$ (99,000)	\$	\$ 2,221,454
Sewer	2,354,501	294,771	313,401	(86,700)		2,249,171
Electric	2,270,529	2,623,188	2,467,168	(151,426)		2,275,123
Gas	849,467	940,027	669,618	(69,807)		1,050,069
Liquor	125,026	1,254,897	1,203,438	(8,000)		168,485
<b>Total Proprietary Funds</b>	<b>\$ 7,845,312</b>	<b>\$ 5,487,532</b>	<b>\$ 4,953,609</b>	<b>\$ (414,933)</b>	<b>\$</b>	<b>\$ 7,964,302</b>

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2017	Issued 2018	Retired 2018	Balance 12/31/2018	Principal Due In 2019	Interest Due In 2019
<b>General Obligation Bonds</b>										
G.O. Improvement Bonds, 2011B	2.0 - 3.3%	2011	2019/26	\$ 1,260,000	\$ 740,000	\$	\$ 125,000	\$ 615,000	\$ 105,000	\$ 17,313
G.O. Refunding Bonds, 2011A	2.65 - 2.9%	2011		585,000	155,000		155,000			
G.O. Refunding Bonds, 2011A	2.65 - 2.9%	2011		335,000	120,000		120,000			
G.O. Refunding Bonds, 2011A	2.65 - 2.9%	2011		205,000	85,000		85,000			
G.O. Refunding Note, 2012A	1.90%	2012		229,000	40,000		40,000			
G.O. Improvement Bonds, 2013A	3.00%	2013	2019/23	1,625,000	1,080,000		170,000	910,000	175,000	27,300
G.O. TIF Bonds 2014A	2.0 - 3.0%	2014	2019/25	1,270,000	1,005,000		135,000	870,000	135,000	23,350
G.O. Improvement Refunding, 2015A	2.00%	2015	2019/21	940,000	570,000		155,000	415,000	155,000	8,300
G.O. Improvement Note 2016B	2.65%	2016	2019/31	411,000	411,000			411,000	27,000	10,892
G.O. Improvement Bonds 2017A	1.55 - 3.0%	2017	2020/32	605,000	605,000			605,000		14,360
Total General Obligation Bonds					<u>4,811,000</u>		<u>985,000</u>	<u>3,826,000</u>	<u>597,000</u>	<u>101,515</u>
<b>General Obligation Revenue Bonds</b>										
G.O. Water Revenue Note, 2006A	1.56%	2006	2019/25	2,565,987	1,175,000		139,000	1,036,000	141,000	16,162
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2019/25	1,010,110	473,000		57,000	416,000	58,000	4,410
G.O. Water Revenue Note, 2008A	1.29%	2008	2019/27	150,010	83,000		8,000	75,000	8,000	968
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2019/27	132,954	77,000		7,000	70,000	7,000	1,605
G.O. Water Revenue Note, 2001	3.32%	2001	2019/21	660,000	170,000		40,000	130,000	42,000	4,316
Total General Obligation Revenue Bonds					<u>1,978,000</u>		<u>251,000</u>	<u>1,727,000</u>	<u>256,000</u>	<u>27,461</u>
<b>Revenue Bonds</b>										
Refunding Revenue Note, 2016A	3.25%	2016	2019/27	329,000	307,000		24,000	283,000	29,000	8,727
Total Revenue Bonds					<u>307,000</u>		<u>24,000</u>	<u>283,000</u>	<u>29,000</u>	<u>8,727</u>
<b>Other Long-Term Debt</b>										
Capital Lease - Street Sweeper		2015	2019	80,000	32,506		15,982	16,524	16,524	560
Capital Lease - Tractor	4.50%	2017	2019	29,055	18,932		9,253	9,679	9,679	444
Total Other Long-Term Debt					<u>51,438</u>		<u>25,235</u>	<u>26,203</u>	<u>26,203</u>	<u>1,004</u>
Total					<u>\$ 7,147,438</u>	<u>\$</u>	<u>\$ 1,285,235</u>	<u>\$ 5,862,203</u>	<u>\$ 908,203</u>	<u>\$ 138,707</u>

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

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines & Forfeitures	Special Assessments	Interest	Tax Increment Financing	Lease Payment for Debt Service	Miscellaneous	Total
2009	\$ 391,728	\$ 12,454	\$ 763,080	\$ 326,240	\$ 45,030	\$ 630,062	\$ 28,895		\$ 28,835	\$ 337,682	\$ 2,564,006 (a)
2010	402,117	13,515	955,879	383,178	34,298	632,505	18,821		28,835	92,697	2,561,845 (a)
2011	432,565	13,410	666,560	410,507	35,666	765,375	15,440			156,896	2,496,419 (a)
2012	445,132	14,565	909,389	390,310	48,678	710,895	8,792			161,430	2,689,191 (a)
2013	469,930	19,170	1,002,695	415,314	21,867	731,903	5,904			195,174	2,861,957 (a)
2014	505,529	23,721	903,166	438,474	22,518	636,666	5,515			172,731	2,708,320 (a)
2015	491,586	20,304	1,004,614	485,480	29,237	777,959	5,630	17,665		155,333	2,987,808 (a)
2016	519,475	19,129	996,263	492,685	20,711	708,555	6,394	264,069		221,162	3,248,443 (a)
2017	573,634	17,037	1,142,813	537,413	22,341	773,884	10,740	269,164		176,854	3,523,880 (a)
2018	596,442	16,106	1,271,118	562,927	24,329	619,550	22,523	199,841		233,689	3,546,525 (a)

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

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

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Streets and Highways</u>	<u>Sanitation</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Other</u>	<u>Total</u>
2009	\$ 246,438	\$ 397,017	\$ 188,186	\$ 204,295	\$ 89,813	\$ 836,865	\$ 979,281	\$ 124,650	\$ 3,066,545 (a)
2010	265,295	387,452	112,843	208,151	87,593	809,601	629,153	180,207	2,680,295 (a)
2011	255,634	418,393	145,416	207,053	92,088	710,846	1,549,006	164,820	3,543,256 (a)
2012	276,370	445,933	171,789	206,049	84,576	1,428,371 (b)	925,547	183,979	3,722,614 (a)
2013	279,059	419,166	158,763	195,544	87,250	758,837	2,387,410	224,901	4,510,930 (a)
2014	320,254	547,069	142,558	198,071	100,971	877,139	665,773	303,049	3,154,884 (a)
2015	323,724	468,973	123,623	215,228	102,171	1,227,501	940,211	264,168	3,665,599 (a)
2016	308,992	565,007	166,665	227,400	106,574	1,111,805	722,094	456,387	3,664,924 (a)
2017	299,613	551,616	224,755	274,286	122,889	1,081,900	1,184,859	447,734	4,187,652 (a)
2018	312,475	530,329	187,372	273,830	143,528	1,342,862	846,409	274,150	3,910,955 (a)

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

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

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

Lew Year	Tax Capacity	Tax Levy	Tax Capacity Rates				Total	
			City	School	County	Water Shed District		EDA/HRA
2009	971,769	393,000	40.559	34.902	58.619	2.795	136.875	
2010	990,285	412,700	41.664	33.760	55.930	2.366 *	133.720	
2011	991,582	433,500	43.718	36.384	56.167	2.125	138.394	
2012	902,413	400,000	44.326	35.751	55.719	2.235	138.031	
2013	908,972	420,000	46.206	33.761	53.736	2.215	135.918	
2014	1,012,934	441,000	43.537	27.391	50.223	1.776	0.707	123.634
2015	1,095,403	476,500	43.500	26.942	46.032	1.733	118.207	
2016	1,249,225	519,500	41.586	25.435	45.173	1.724	113.918	
2017	1,381,939	566,300	40.979	23.203	46.477	1.697	112.356	
2018	1,567,890	601,000	38.332	22.360	47.888	1.706	110.286	

\* Includes watershed and Clay County HRA

Note:  
Information obtained from the Clay County Auditor

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND –**  
**HAWLEY AREA EMERGENCY RESPONSE DISTRICT – JOINT POWERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(UNAUDITED)**

ADDITIONS	
Operating Reimbursements	
City of Hawley	\$ 36,023
Townships	<u>20,006</u>
TOTAL ADDITIONS	<u>56,029</u>
DEDUCTIONS	
Current	
Professional Services	50,000
RRR Dispatch	<u>4,034</u>
TOTAL DEDUCTIONS	<u>54,034</u>
CHANGES IN ASSETS AND LIABILITIES	1,995
ASSETS AND LIABILITIES, BEGINNING	<u>(1,995)</u>
ASSETS AND LIABILITIES, ENDING	<u><u>\$</u></u>

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND –**  
**HAWLEY AREA FIRE DISTRICT – JOINT POWERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(UNAUDITED)**

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 53,000
Townships	53,000
Fire Relief	50,000
Grant	15,189
Investment Earnings	601
Miscellaneous	2,784
Interfund Transfer - Fire District Checking Account	7,355
	<hr/>
TOTAL ADDITIONS	181,929
DEDUCTIONS	
Current	
Insurance	9,434
Professional Services	1,800
Training	7,272
Supplies	11,421
Fuel and Additives	2,755
Repairs and Maintenance	5,486
Utilities	6,990
Salaries and Benefits	26,822
Fire Relief Contribution	9,100
RRR Dispatch	1,552
Miscellaneous	6,754
Capital Outlay	25,319
	<hr/>
TOTAL DEDUCTIONS	114,705
CHANGES IN ASSETS AND LIABILITIES	67,224
ASSETS AND LIABILITIES, BEGINNING	141,637
	<hr/>
ASSETS AND LIABILITIES, ENDING	\$ 208,861
	<hr/> <hr/>

## 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated February 15, 2019. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### Legal Compliance

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

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

### Purpose of the Report

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



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

February 15, 2019

**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, 2018, 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 15, 2019. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2018-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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



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

February 15, 2019

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2018**

**2018-001 FINDING**

Criteria

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

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2018, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The city council is aware of this significant deficiency and addresses it by obtaining the auditor's assistance in the preparation of the City's annual financial statements.

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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

**CITY OF HAWLEY, MINNESOTA**  
**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2018**

**2018-001 FINDING**

Contact Person – Lisa Jetvig, City Clerk/Treasurer

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

Completion Date - Ongoing