

**CITY OF HAWLEY  
HAWLEY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

## TABLE OF CONTENTS

	Pages
<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 Fiduciary Net Position - Agency Funds	12
Notes to 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
Combining Statement of Balances Arising from Cash Transactions - Nonmajor Governmental Funds	37
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Nonmajor Governmental Funds	38
Combining Statement of Balances Arising from Cash Transactions - Special Revenue Funds	39
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Special Revenue Funds	40
Combining Statement of Balances Arising from Cash Transactions - Debt Service Funds	42
Combining Statement of Cash Receipts, Disbursement, and Changes in Fund Balances - Debt Service Funds	44
Combining Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Capital Project Funds	46
Combining Statement of Changes in Assets and Liabilities - Agency Funds	47
Schedule of Changes in Fund Balances and Changes in Net Position	48

Schedule of Indebtedness	50
<b>OTHER INFORMATION</b>	
Governmental Funds Receipts by Source	51
Governmental Funds Disbursements by Function	52
Assessed Valuation/Tax Capacity, Tax Levies and Rates	53
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Emergency Response District - Joint Powers	54
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund - Hawley Area Fire District - Joint Powers	55
<b>INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE</b>	<b>56</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>57</b>
Schedule of Finding and Responses	59

**CITY OF HAWLEY, MINNESOTA**  
CITY OFFICIALS  
DECEMBER 31, 2015

Mayor	Gary E. Johnson
Council Member	Ben Gunkelman
Council Member	John Young, Jr.
Council Member	Sean Mork
Council Member	James Joy
Clerk Treasurer	Lisa Jetvig



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2015, 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of each major governmental fund and the aggregate remaining fund information and the financial position of each major proprietary fund of the City of Hawley, as of December 31, 2015, 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.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for each proprietary fund. As discussed in Note 2 to the financial statements, the City has retroactively restated the previously reported in Net Position in accordance with these statements.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawley’s basic financial statements. The budgetary comparison schedules, combining statements and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, combining statements, and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole as described in the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016, on our consideration of the City of Hawley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

February 24, 2016

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2015**

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 2,112,691	\$	\$ 1,436,743	\$ 3,549,434
Cash with Fiscal Agent			98,653	98,653
	<u>\$ 2,112,691</u>	<u>\$</u>	<u>\$ 1,535,396</u>	<u>\$ 3,648,087</u>
<b>TOTAL ASSETS</b>				
	<u>\$ 2,112,691</u>	<u>\$</u>	<u>\$ 1,535,396</u>	<u>\$ 3,648,087</u>
<b>FUND BALANCES</b>				
Resticted for:				
Revolving Loan	\$	\$	\$ 98,653	\$ 98,653
Debt Service			1,142,604	1,142,604
Committed for:				
2016 Levy Reduction	10,000			10,000
Public Works	37			37
15th Street Top Lift	26,941			26,941
Seal Coat/Crack Fill	135,459			135,459
Hwy 10 31/33 Project	26,400			26,400
Plow Truck/Equipment	30,100			30,100
Street Patching	94,000			94,000
Sidewalks	23,600			23,600
Lawn Mower	2,600			2,600
Tornado Siren	14,500			14,500
Park Board Sinking Fund	89,600			89,600
Park - Brekken	1,256			1,256
Park - Disc Golf	2,000			2,000
Park Donations	11,759			11,759
Park Security System	2,500			2,500
Fire Building	31,900			31,900
Police - Night to Unite	962			962
Police Armor Upgrade	41,600			41,600
Police Vehicle	25,000			25,000
Police - Vehicle Lease Payoff	8,105			8,105
Zoning Comprehensive Fund	12,300			12,300
Economic Development	9,300			9,300
River Meandering - Phase 3	20,000			20,000
Community Center	5,800			5,800
Building Demolition	4,500			4,500
Garbage Service/Recycling			84,342	84,342
Deputy Registrar/Office			90,090	90,090
Storm Water Maint/Repairs			53,593	53,593
Building Upkeep/Repair			66,114	66,114
Unassigned	1,482,472			1,482,472
	<u>1,482,472</u>	<u>\$</u>	<u>\$ 1,535,396</u>	<u>\$ 3,648,087</u>
<b>TOTAL FUND BALANCES</b>				
	<u>\$ 2,112,691</u>	<u>\$</u>	<u>\$ 1,535,396</u>	<u>\$ 3,648,087</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, 2015**

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$ 415,436	\$	\$ 76,150	\$ 491,586
Tax Increment Financing			17,665	17,665
Special Assessments	59,013		718,946	777,959
Licenses and Permits	20,304			20,304
Intergovernmental	679,950	324,664		1,004,614
Charges for Services	18,388		467,092	485,480
Fines and Forfeitures	29,237			29,237
Investment Earnings	2,115	29	3,486	5,630
Miscellaneous	26,406	71,332	57,595	155,333
<b>TOTAL RECEIPTS</b>	<u>1,250,849</u>	<u>396,025</u>	<u>1,340,934</u>	<u>2,987,808</u>
<b>DISBURSEMENTS</b>				
Current				
General Government	211,116		112,608	323,724
Public Safety	468,973			468,973
Streets and Highways	123,623			123,623
Sanitation			215,228	215,228
Culture and Recreation	102,171			102,171
Conservation of Natural Resources	21,394			21,394
Economic Development	27,645		48,536	76,181
Airport		166,563		166,563
Debt Services				
Principal	33,827		943,000	976,827
Interest and Other Charges	1,419		249,255	250,674
Miscellaneous			30	30
Capital Outlay				
General Government	11,706		11,027	22,733
Public Safety	206,233			206,233
Streets and Highways	310,736		19,696	330,432
Culture and Recreation	9,644			9,644
Economic Development	98,157			98,157
Airport		273,012		273,012
<b>TOTAL DISBURSEMENTS</b>	<u>1,626,644</u>	<u>439,575</u>	<u>1,599,380</u>	<u>3,665,599</u>
Receipts (Under) Disbursements	(375,795)	(43,550)	(258,446)	(677,791)
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunding Bonds Issued			940,000	940,000
Capital Lease Issued	80,000			80,000
Bond Premium			5,446	5,446
Transfer In	336,743		422,126	758,869
Bond Refunding			(914,000)	(914,000)
Transfer Out	(64,100)		(304,295)	(368,395)
Transfer In - Interfund Loan	10,550	19,892		30,442
Transfer Out - Interfund Loan	(57,992)	(8,931)	(25,350)	(92,273)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>305,201</u>	<u>10,961</u>	<u>123,927</u>	<u>440,089</u>
Net Change in Fund Balances	(70,594)	(32,589)	(134,519)	(237,702)
Fund Balances - Beginning	2,183,285	32,589	1,669,915	3,885,789
Fund Balances - Ending	<u>\$ 2,112,691</u>	<u>\$</u>	<u>\$ 1,535,396</u>	<u>\$ 3,648,087</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
<b>ASSETS</b>						
Current Assets						
Cash and Investments	\$ 69,452	\$ 76,096	\$ 696,342	\$ 382,899	\$	\$ 1,224,789
Accounts Receivable, Net	28,466	24,487	284,750	111,466		449,169
Due From Other Funds			74,560			74,560
Inventory			78,197		179,761	257,958
Total Current Assets	<u>97,918</u>	<u>100,583</u>	<u>1,133,849</u>	<u>494,365</u>	<u>179,761</u>	<u>2,006,476</u>
Capital Assets						
Land			22,241		55,000	77,241
Building	16,273		234,925	71,094	436,676	758,968
Improvements Other Than Building	4,669,163	4,530,374	2,334,098	1,096,180		12,629,815
Equipment	9,760		377,053	29,321	90,725	506,859
Less: Accumulated Depreciation	<u>(2,176,920)</u>	<u>(2,541,854)</u>	<u>(1,738,076)</u>	<u>(575,583)</u>	<u>(107,425)</u>	<u>(7,139,858)</u>
Net Capital Assets	<u>2,518,276</u>	<u>1,988,520</u>	<u>1,230,241</u>	<u>621,012</u>	<u>474,976</u>	<u>6,833,025</u>
Other Assets						
Cash-Restricted for Debt		86,726			44,523	131,249
Cash-Restricted for Lottery					5,005	5,005
Advance to Other Funds		257,000	281,188			538,188
Total Other Assets		<u>343,726</u>	<u>281,188</u>		<u>49,528</u>	<u>674,442</u>
<b>TOTAL ASSETS</b>	<u>2,616,194</u>	<u>2,432,829</u>	<u>2,645,278</u>	<u>1,115,377</u>	<u>704,265</u>	<u>9,513,943</u>
DEFERRED OUTFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	7,194	7,708	25,693	15,416	12,333	68,344
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>7,194</u>	<u>7,708</u>	<u>25,693</u>	<u>15,416</u>	<u>12,333</u>	<u>68,344</u>
<b>LIABILITIES</b>						
Current Liabilities						
Accounts Payable	14		147,678	55,173		202,865
Salary Payable	1,315	1,561	4,677	2,903	2,952	13,408
Due to Other Funds					74,560	74,560
Due to Other Governmental Units	5,600		7,243		5,005	17,848
Customer Deposits			38,672			38,672
Unearned Revenue			83,576			83,576
Interest Payable	2,920			2,471	7,075	12,466
Compensated Absences	7,293	8,914	20,082	13,768	12,324	62,381
Current Portion - Long-Term Liabilities	<u>77,000</u>			<u>27,000</u>	<u>20,000</u>	<u>124,000</u>
Total Current Liabilities	<u>94,142</u>	<u>10,475</u>	<u>301,928</u>	<u>101,315</u>	<u>121,916</u>	<u>629,776</u>
Long-Term Liabilities						
Advance from Other Funds	55,037				84,399	139,436
Bonds Payable	365,000			181,000	335,000	881,000
Net Pension Liability	52,240	55,971	186,571	111,942	89,554	496,278
Less: Current Portion - Long-Term Debt	<u>(77,000)</u>			<u>(27,000)</u>	<u>(20,000)</u>	<u>(124,000)</u>
Total Long-Term Liabilities	<u>395,277</u>	<u>55,971</u>	<u>186,571</u>	<u>265,942</u>	<u>488,953</u>	<u>1,392,714</u>
<b>TOTAL LIABILITIES</b>	<u>489,419</u>	<u>66,446</u>	<u>488,499</u>	<u>367,257</u>	<u>610,869</u>	<u>2,022,490</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF NET POSITION - CONTINUED**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	<u>5,100</u>	<u>5,464</u>	<u>18,214</u>	<u>10,928</u>	<u>8,743</u>	<u>48,449</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,100</u>	<u>5,464</u>	<u>18,214</u>	<u>10,928</u>	<u>8,743</u>	<u>48,449</u>
NET POSITION						
Net Investment in Capital Assets	2,153,276	1,988,520	1,230,241	440,012	139,976	5,952,025
Unrestricted	<u>(24,407)</u>	<u>380,107</u>	<u>934,017</u>	<u>312,596</u>	<u>(42,990)</u>	<u>1,559,323</u>
TOTAL NET POSITION	<u>\$ 2,128,869</u>	<u>\$ 2,368,627</u>	<u>\$ 2,164,258</u>	<u>\$ 752,608</u>	<u>\$ 96,986</u>	<u>\$ 7,511,348</u>

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, 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Operating Revenues						
Sales	\$	\$	\$	\$	\$ 1,134,286	\$ 1,134,286
Cost of Sales					(847,374)	(847,374)
Gross Profit					286,912	286,912
Charges for Sales and Services	374,598	281,453	2,469,422	818,656		3,944,129
Less Dual Fuel Rebates			(63,471)			(63,471)
Other Charges and Income	2,374	1,908	101,664	2,181	3,348	111,475
Total Operating Revenue	<u>376,972</u>	<u>283,361</u>	<u>2,507,615</u>	<u>820,837</u>	<u>290,260</u>	<u>4,279,045</u>
Operating Expenses						
Purchased Power and Gas			1,623,864	399,367		2,023,231
Salaries and Wages	54,312	69,814	214,201	126,088	113,253	577,668
Employee Benefits	20,148	21,169	75,494	45,240	36,962	199,013
Repairs and Maintenance	32,714	3,923	14,047	16,626	3,452	70,762
Chemicals	3,270	3,020				6,290
Utilities	18,725	3,833	12,652	5,021	13,386	53,617
Insurance	4,704	4,108	6,780	4,626	5,041	25,259
Professional Fees	2,137	23,624	34,128	6,483	9,980	76,352
Supplies	1,906	268	20,847	7,873	7,425	38,319
Other Expenses	3,583	9,316	83,110	15,807	40,713	152,529
Depreciation	151,335	168,069	99,815	29,521	15,783	464,523
Total Operating Expenses	<u>292,834</u>	<u>307,144</u>	<u>2,184,938</u>	<u>656,652</u>	<u>245,995</u>	<u>3,687,563</u>
Operating Income (Loss)	84,138	(23,783)	322,677	164,185	44,265	591,482
Nonoperating Income (Expense)						
Investment Earnings	46	7,633	10,505	629	53	18,866
Interest Expense	(13,394)	(3,836)		(8,146)	(25,183)	(50,559)
Total Nonoperating Income (Expense)	<u>(13,348)</u>	<u>3,797</u>	<u>10,505</u>	<u>(7,517)</u>	<u>(25,130)</u>	<u>(31,693)</u>
Net Income (Loss) Before Contributions and Transfers	70,790	(19,986)	333,182	156,668	19,135	559,789
Transfers Out	<u>(99,000)</u>	<u>(87,700)</u>	<u>(143,181)</u>	<u>(55,593)</u>	<u>(5,000)</u>	<u>(390,474)</u>
Change in Net Position	(28,210)	(107,686)	190,001	101,075	14,135	169,315
Net Position, Beginning	2,205,629	2,528,331	2,147,652	755,569	166,080	7,803,261
GASB 68 and 71 Adjustment - See Note 2	(48,550)	(52,018)	(173,395)	(104,036)	(83,229)	(461,228)
Net Position, Beginning - Restated	<u>2,157,079</u>	<u>2,476,313</u>	<u>1,974,257</u>	<u>651,533</u>	<u>82,851</u>	<u>7,342,033</u>
Net Position, Ending	<u>\$ 2,128,869</u>	<u>\$ 2,368,627</u>	<u>\$ 2,164,258</u>	<u>\$ 752,608</u>	<u>\$ 96,986</u>	<u>\$ 7,511,348</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>	<u>Total</u>
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 376,462	\$ 282,362	\$ 2,528,339	\$ 843,668	\$ 1,137,601	\$ 5,168,432
Payments to Suppliers	(68,279)	(48,092)	(1,783,056)	(476,147)	(940,283)	(3,315,857)
Payments to Employees	(73,453)	(88,137)	(285,172)	(168,378)	(144,791)	(759,931)
Net Cash Provided By Operating Activities	<u>234,730</u>	<u>146,133</u>	<u>460,111</u>	<u>199,143</u>	<u>52,527</u>	<u>1,092,644</u>
Cash Flows From Noncapital Financing Activities:						
Due from Other Funds			(11,972)			(11,972)
Due to Other Funds					11,972	11,972
Transfers to Other Funds	(99,000)	(87,700)	(143,181)	(55,593)	(5,000)	(390,474)
Advance From (To) Other Funds		23,000	51,437			74,437
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(99,000)</u>	<u>(64,700)</u>	<u>(103,716)</u>	<u>(55,593)</u>	<u>6,972</u>	<u>(316,037)</u>
Cash Flows From Capital and Related Financing Activities:						
Purchase of Capital Assets			(205,500)		(8,763)	(214,263)
Advance from Other Funds	(18,529)				(5,408)	(23,937)
Principal Paid on Debt	(75,000)	(135,000)		(26,000)	(20,000)	(256,000)
Interest Paid on Debt	(13,864)	(4,185)		(8,512)	(25,367)	(51,928)
Net Cash (Used) By Capital and Related Financing Activities	<u>(107,393)</u>	<u>(139,185)</u>	<u>(205,500)</u>	<u>(34,512)</u>	<u>(59,538)</u>	<u>(546,128)</u>
Cash Flows From Investing Activities:						
Investment Earnings	54	7,633	10,505	633	59	18,884
Net Cash Provided By Investing Activities	<u>54</u>	<u>7,633</u>	<u>10,505</u>	<u>633</u>	<u>59</u>	<u>18,884</u>
Net Increase (Decrease) In Cash and Cash Equivalents	28,391	(50,119)	161,400	109,671	20	249,363
Cash and Cash Equivalents - Beginning of Year	<u>41,061</u>	<u>212,941</u>	<u>534,942</u>	<u>273,228</u>	<u>49,508</u>	<u>1,111,680</u>
Cash and Cash Equivalents - End of Year	<u>\$ 69,452</u>	<u>\$ 162,822</u>	<u>\$ 696,342</u>	<u>\$ 382,899</u>	<u>\$ 49,528</u>	<u>\$ 1,361,043</u>

cont.

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF CASH FLOWS – CONTINUED**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<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)	\$ 84,138	\$ (23,783)	\$ 322,677	\$ 164,185	\$ 44,265	\$ 591,482
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	151,335	168,069	99,815	29,521	15,783	464,523
Changes in Net Pension Liability and Related Deferred Inflows and Outflows	1,596	1,709	5,697	3,418	2,735	15,155
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	(966)	(999)	(10,883)	22,831		9,983
Inventory			18,271		(12,912)	5,359
Accounts Payable	(1,240)		(5,899)	(20,344)		(27,483)
Salary Payable	416	456	1,250	709	1,155	3,986
Due to Other Governments	456		7,243		(33)	7,666
Customer Deposits			5,554			5,554
Unearned Revenue			18,810			18,810
Accrued Payroll Expenses			(16)			(16)
Compensated Absences	(1,005)	681	(2,408)	(1,177)	1,534	(2,375)
Total Adjustments	<u>150,592</u>	<u>169,916</u>	<u>137,434</u>	<u>34,958</u>	<u>8,262</u>	<u>501,162</u>
Net Cash Provided by Operating Activities	<u>\$ 234,730</u>	<u>\$ 146,133</u>	<u>\$ 460,111</u>	<u>\$ 199,143</u>	<u>\$ 52,527</u>	<u>\$ 1,092,644</u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AGENCY FUNDS**  
**DECEMBER 31, 2015**

	<u>Agency</u>
ASSETS	
Cash and Investments	\$ <u>109,481</u>
TOTAL ASSETS	<u>109,481</u>
LIABILITIES	
Due to Other Governments	<u>109,481</u>
TOTAL LIABILITIES	<u>109,481</u>
NET POSITION	\$ <u><u>          </u></u>

See Notes to the Financial Statements

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

**B. Fund Financial Statements**

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

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 fund type:

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

**D. Specific Account Information**

Cash and Cash Equivalents – The City considers cash equivalents to be certificates of deposits, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

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

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

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

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

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

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

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

Capital Assets – Proprietary Funds – Capital assets are recorded in the proprietary funds only. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

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

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

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

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

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

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2015, 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, 2015, 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.

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.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

*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 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the City to change the accounting for the pension costs related to the City's participation in the Public Employees Retirement Association (PERA). In addition, the City will also be recognizing a net pension liability, deferred outflows of resources, and deferred inflows of resources related to the City's proportionate share of the collective amounts in PERA.

As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of December 31, 2015 as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Gas</u>	<u>Liquor</u>
Net Pension Liability	\$ (50,639)	\$ (54,256)	\$ (180,854)	\$ (108,512)	\$ (86,810)
Cost Sharing Defined Benefit Pension Plan	2,089	2,238	7,459	4,476	3,581
Decrease in Net Position	<u>\$ (48,550)</u>	<u>\$ (52,018)</u>	<u>\$ (173,395)</u>	<u>\$ (104,036)</u>	<u>\$ (83,229)</u>

**NOTE 3 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.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

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 4 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended December 31, 2015, expenditures exceeded appropriations in the airport fund by \$330,845.

The excess expenditures will be covered by greater than anticipated revenues.

**NOTE 5 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, 2015, was \$24,496. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	\$ 3,549,434
Proprietary Funds	1,361,043
Fiduciary Funds	109,481
	<u>\$ 5,019,958</u>
Deposits	
Cash, Checking and Change Funds	\$ 36,637
Certificates of Deposits	534,107
Savings	4,016,320
Investments	432,894
	<u>\$ 5,019,958</u>

As of December 31, 2015, the City had the following investments:

Investments	Maturities	Fair Value
4-M External Investment Pool		\$ 432,894

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.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

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

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

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City’s city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2015, 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 6 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	\$ 80,867
Additions	
Flow payment	5,762
Interest	97
Balance, End of Year	\$ 86,726

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

The liquor fund is required to have a reserve account of \$44,523 to secure bond payments and this amount must be held in reserve as long as the bonds remain outstanding. The liquor fund is also required to have a reserve account of \$5,005 for the lottery account.

**NOTE 7 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Proprietary Fund				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,241	\$	\$	\$ 77,241
Capital Assets, Being Depreciated:				
Building	758,968			758,968
Improvements Other Than Buildings	12,439,315	190,500		12,629,815
Equipment	<u>490,505</u>	<u>23,763</u>	<u>7,409</u>	<u>506,859</u>
Total Capital Assets, Being Depreciated	<u>13,688,788</u>	<u>214,263</u>	<u>7,409</u>	<u>13,895,642</u>
Less Accumulated Depreciation for:				
Building	183,309	18,900		202,209
Improvements Other Than Buildings	6,304,506	402,946		6,707,452
Equipment	<u>194,929</u>	<u>42,677</u>	<u>7,409</u>	<u>230,197</u>
Total Accumulated Depreciation	<u>6,682,744</u>	<u>464,523</u>	<u>7,409</u>	<u>7,139,858</u>
Total Capital Assets, Being Depreciated, Net	<u>7,006,044</u>	<u>(250,260)</u>		<u>6,755,784</u>
Proprietary Fund Capital Assets, Net	<u>\$ 7,083,285</u>	<u>\$ (250,260)</u>	<u>\$</u>	<u>\$ 6,833,025</u>

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	\$ 151,335
Sewer	168,069
Electric	99,815
Gas	29,521
Liquor	<u>15,783</u>
Total Depreciation Expense - Proprietary Funds	<u>\$ 464,523</u>

**NOTE 8 DEFINED BENEFIT PENSION PLANS-STATEWIDE**

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

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

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

*General Employees Retirement Fund (GERF)*

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

*Public Employees Police and Fire Fund (PEPFF)*

The PEPFF, 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 PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

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

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

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

*GERF Benefits*

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

*PEPFF Benefits*

Benefits for the PEPFF 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 PEPFF 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 PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

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

GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2015. PEPFF members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City of Hawley is required to contribute 11.78% of pay for Basic Plan GERF members, 7.50% for Coordinated Plan GERF members, and 16.20% for PEPFF members in calendar year 2015. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2015, were \$64,247. The City's contributions to the Public Employees Police & Fire Fund for the year ended December 31, 2015 were \$23,031. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2015, the City of Hawley reported a liability of \$746,283 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0144%.

For the year ended December 31, 2015, the City recognized pension expense of \$87,734 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERF'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	\$	\$ 37,625
Difference between projected and actual investment earnings	70,647	
Changes in proportion		35,231
Contributions paid to PERA subsequent to the measurement date	32,124	
Total	\$ 102,771	\$ 72,856

\$32,124 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, 2016. 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
2016	\$	(6,624)
2017		(6,624)
2018		(6,624)
2019		17,663

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

Actuarial Assumptions – The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate – The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

City Proportionate Share of NPL		
<u>1% Decrease (6.9%)</u>	<u>Current (7.9%)</u>	<u>1% Increase (8.9%)</u>
\$ 1,173,422	\$ 746,283	\$ 393,532

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); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 9 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 10 CAPITAL LEASE**

The City entered into a lease agreement as lessee for financing the acquisition of two police vehicles and a street sweeper. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been calculated at the present value of future minimum lease payments as of the inception date. The vehicles being acquired through capital lease are for the governmental funds and the cost is \$154,597.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ending December 31,	Governmental Fund
2016	\$ 35,245
2017	25,424
2018	17,084
2019	17,084
Total minimum lease payments	94,837
Less: amount representing interest	(6,548)
Present value of minimum lease payments	\$ 88,289

**NOTE 11 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 \$7,836,000. During the year, general obligation improvement refunding bonds totaling \$940,000 were issued to pay off existing bond issues. The City will realize savings of \$66,273 in net present value.

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:

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Fund	2.0 - 3.3%	2016/26	\$ 3,640,000
Governmental Fund - Refunding	2.0 - 3.3%	2016/21	1,485,000
Proprietary Fund - Refunding	1.90%	2016/18	118,000
Total			<u>\$ 5,243,000</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>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 685,000	\$ 131,400	\$ 39,000	\$ 2,242
2017	685,000	116,050	39,000	1,501
2018	710,000	100,260	40,000	760
2019	700,000	83,549		
2020	600,000	66,629		
2021-2025	1,665,000	133,041		
2026	80,000	2,600		
	<u>\$ 5,125,000</u>	<u>\$ 633,529</u>	<u>\$ 118,000</u>	<u>\$ 4,503</u>

**B. General Obligation Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of general obligation revenue bonds issued in prior years was \$5,408,061. General obligation revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Governmental Fund	1.1 - 2.3%	2016/27	\$ 2,222,000
Proprietary Fund	3.3 - 4.5%	2016/21	428,000
			<u>\$ 2,650,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Fund</u>		<u>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 206,000	\$ 32,137	\$ 65,000	\$ 15,612
2017	208,000	29,174	67,000	13,183
2018	211,000	26,178	69,000	10,647
2019	214,000	23,140	73,000	7,984
2020	216,000	20,066	75,000	5,170
2021-2025	1,132,000	52,608	79,000	2,259
2026-2027	35,000	946		
	<u>\$ 2,222,000</u>	<u>\$ 184,249</u>	<u>\$ 428,000</u>	<u>\$ 54,855</u>

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

**C. Revenue Bonds**

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$435,000. Revenue bonds outstanding at the year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Proprietary Fund	6.0 - 6.5%	2016/27	\$ 335,000

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

<u>Year Ending December 31</u>	<u>Proprietary Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 20,000	\$ 20,626
2017	20,000	19,426
2018	20,000	18,226
2019	25,000	16,876
2020	25,000	15,376
2021-2025	150,000	50,051
2026-2027	75,000	5,038
	<u>\$ 335,000</u>	<u>\$ 145,619</u>

**D. Current Refunding**

During 2015, the City issued \$940,000 in general obligation refunding bonds with an interest rate of 2.0%. The City issued the bonds to refund the following outstanding general obligations:

<u>General Obligation</u>	<u>Refunding Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Improvement Bonds of 2005	4/10/2015	4.2 - 4.5%	\$ 405,000
Improvement Bonds of 2005	9/1/2015	4.4 - 4.7	509,000

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

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

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance as Restated	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Fund</b>					
General Obligation Bonds	\$ 5,839,000	\$ 940,000	\$ 1,654,000	\$ 5,125,000	\$ 685,000
General Obligation Revenue Bonds	2,425,000		203,000	2,222,000	206,000
Capital Lease	42,116	80,000	33,827	88,289	32,258
Net Pension Liability	242,344	7,661		250,005	
<b>Governmental Fund Long-Term Liabilities</b>	<b>8,548,460</b>	<b>1,027,661</b>	<b>1,890,827</b>	<b>7,685,294</b>	<b>923,258</b>
<b>Proprietary Fund</b>					
General Obligation Bonds	156,000		38,000	118,000	39,000
General Obligation Revenue Bonds	626,000		198,000	428,000	65,000
Revenue Bonds	355,000		20,000	335,000	20,000
Net Pension Liability	481,071	15,207		496,278	
<b>Proprietary Fund Long-Term Liabilities</b>	<b>1,618,071</b>	<b>15,207</b>	<b>256,000</b>	<b>1,377,278</b>	<b>124,000</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 10,166,531</b>	<b>\$ 1,042,868</b>	<b>\$ 2,146,827</b>	<b>\$ 9,062,572</b>	<b>\$ 1,047,258</b>

The City's interest expense for the year ended December 31, 2015, was \$276,167.

See the Schedule of Indebtedness for detail and payment provisions.

**NOTE 12 CONDUIT DEBT (NO COMMITMENT DEBT)**

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a corporation for the construction of a facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of September 22, 2015, the aggregate principal amount payable of the one series issued was \$0 as the note was paid off.

**CITY OF HAWLEY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2015**

**NOTE 13 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2015, is as follows:

Due To / From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Liquor	\$ 74,560
General	Airport	19,892
General	Nonmajor Governmental	2,550
		<u>\$ 97,002</u>

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

Advance From / To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Airport	\$ 8,750
Electric	Nonmajor Governmental	133,002
Electric	Liquor	84,399
Electric	Water	55,037
Sewer	General	257,000
Total		<u>\$ 538,188</u>

Based on the amortization schedules, \$75,948 will be paid in 2016.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Liquor	\$ 5,000
General	Sewer	45,000
General	Electric	143,181
General	Gas	55,593
General	Nonmajor Governmental	87,969
Nonmajor Governmental	General	64,100
Nonmajor Governmental	Nonmajor Governmental	216,326
Nonmajor Governmental	Water	99,000
Nonmajor Governmental	Sewer	42,700
		<u>\$ 758,869</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and 2) move unrestricted revenues to finance various programs that the government must account for in other funds.

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

**NOTE 14 JOINT POWERS AGREEMENT**

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

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

Each entity will contribute to the joint operations in the following percentages:

City of Hawley	50%
Six Townships	50%

The participating government agencies are responsible for determining the allocation of cost responsibilities. The agreement calls for the City of Hawley to act as the fiscal agent and to maintain the funds in a separate fund. A new joint powers agreement was signed in March 2007 and it calls for the duration of the contract to be perpetual.

**B. Hawley Area Emergency Response District – Joint Powers**

In June of 1994, the City of Hawley, Minnesota, Cromwell Township, Highland Grove Township, Hawley Township, Eglon Township, Skree Township and Parke Township entered into a joint powers agreement to provide First Responder services for the residents located within the governmental unit boundaries of the named entities. The goal was to reduce the financial burden to the respective townships through the sharing of facilities, equipment and manpower. The City has agreed to advance funds as necessary to carry out the purpose of the agreement. However, budgeted contributions from the participating entities have been adequate to fund the operations.

Each entity will contribute to the joint operations in the following percentages:

City of Hawley	66.66%
Six Townships	33.34%

The participating government agencies are responsible for determining the allocation of cost responsibilities. The agreement calls for the City of Hawley to act as the fiscal agent and to maintain the funds in a separate fund. The joint powers agreement will be in effect until terminated by action of all its members. Any entity may elect to withdraw from participation upon giving a one-year written notice. The agreement was updated in March of 2007 to clarify roles and ensure compliance with laws. The new agreement will be in effect until terminated by affirmative vote of a two-thirds majority of the members, and the contract will be reviewed every five years to assure compliance with law changes. The district changed to a contract with a service provider effective January 1, 2009. The amount of contract in 2015 was \$50,000.

**NOTE 15 CONTINGENCIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

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 16 COMMITTED CONTRACTS**

The City entered into several agreements in 2011 with Constellation Energy for its natural gas requirements. As of September 5, 2014, the City has contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$4.000 per MMBtu which goes from October 2014 through September 2015. As of December 4, 2014, the City also contracted for 66% of the monthly requirement of natural gas at an average price of approximately \$3.96 per MMBtu which goes from November 2015 through April 2016. The remaining gas requirement of 34% will be purchased in the Managed Procurement Fund. October 2015 was not locked and was charged at current market rate.

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

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

**NOTE 17 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, 2015 was \$33,489.

**NOTE 18 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 2015.

**NOTE 19 NEW PRONOUNCEMENTS**

*GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.*

**CITY OF HAWLEY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
DECEMBER 31, 2015

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

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This statement is effective for financial statements for periods beginning after December 15, 2015. 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, 2015**

	2015				2014 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
<b>RECEIPTS</b>					
Property Taxes	\$ 384,238	\$ 384,238	\$ 397,638	\$ 13,400	\$ 390,800
Property Taxes -					
Tax Increment Financing	95,000	17,798	17,798		47,700
Special Assessments	18,000	57,155	59,013	1,858	23,302
Licenses and Permits	17,200	17,200	20,304	3,104	23,721
<b>Intergovernmental</b>					
<b>State</b>					
Local Government Aid	608,733	608,733	608,733		600,787
Market Value Credit			76	76	
Fire State Aid	15,000	2,000	2,000		25,664
Police State Aid	15,000	19,900	19,939	39	15,232
PERA	2,402	2,402	2,402		2,402
Small City Assistance		31,882	31,888	6	
Other State Aid	900	5,200	5,803	603	965
Local - County	9,010	9,010	9,109	99	9,017
Total Intergovernmental	<u>651,045</u>	<u>679,127</u>	<u>679,950</u>	<u>823</u>	<u>654,067</u>
<b>Charges for Services</b>					
Franchise Fee - Cable	8,500	8,500	9,763	1,263	9,585
Street Charges and Sales	1,000	1,000	1,125	125	503
Airport	7,500	7,500	7,500		6,500
Total Charges for Services	<u>17,000</u>	<u>17,000</u>	<u>18,388</u>	<u>1,388</u>	<u>16,588</u>
Fines and Forfeitures	30,000	30,000	29,237	(763)	22,518
Investment Earnings	3,500	3,500	2,115	(1,385)	2,096
<b>Miscellaneous</b>					
Rents	7,701	7,701	7,860	159	8,401
Donations		975	3,025	2,050	4,970
Insurance Proceeds	3,000	14,000	14,429	429	5,724
Other Receipts	3,750	3,750	1,092	(2,658)	7,433
<b>TOTAL RECEIPTS</b>	<u>1,230,434</u>	<u>1,232,444</u>	<u>1,250,849</u>	<u>18,405</u>	<u>1,207,320</u>
<b>DISBURSEMENTS</b>					
<b>General Government</b>					
<b>Current</b>					
City Council	67,712	74,712	73,636	(1,076)	65,041
Election					1,550
Finance	50,446	48,846	48,585	(261)	47,068
Assessor	5,920	5,920	5,920		5,920
Legal	24,000	24,000	16,962	(7,038)	24,176
Other General Government	89,910	87,810	66,013	(21,797)	93,757
Capital Outlay	34,900	96,005	11,706	(84,299)	111,561
Total General Government	<u>272,888</u>	<u>337,293</u>	<u>222,822</u>	<u>(114,471)</u>	<u>349,073</u>
<b>Public Safety</b>					
<b>Current</b>					
Police Protection	416,132	426,532	382,513	(44,019)	437,704
Fire Relief	15,000	15,000	2,000	(13,000)	25,664
Fire Joint Powers District	50,000	50,000	50,000		49,000
Animal Control	700	700	132	(568)	373

cont.

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015				2014 Actual
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	34,826	34,826	34,328	(498)	34,328
Capital Outlay	75,000	255,424	206,233	(49,191)	163,475
Total Public Safety	<u>591,658</u>	<u>782,482</u>	<u>675,206</u>	<u>(107,276)</u>	<u>710,544</u>
Streets and Highways					
Current					
Street Maintenance	177,225	204,166	122,470	(81,696)	142,558
Snow Removal	4,000	4,000	1,153	(2,847)	
Capital Outlay	145,000	240,500	310,736	70,236	154,384
Total Streets and Highways	<u>326,225</u>	<u>448,666</u>	<u>434,359</u>	<u>(14,307)</u>	<u>296,942</u>
Culture and Recreation					
Current					
Community Building	21,202	21,202	17,340	(3,862)	15,924
Parks	76,023	74,723	73,207	(1,516)	75,294
Library	12,390	12,390	11,624	(766)	9,753
Capital Outlay	44,500	44,500	9,644	(34,856)	17,424
Total Culture and Recreation	<u>154,115</u>	<u>152,815</u>	<u>111,815</u>	<u>(41,000)</u>	<u>118,395</u>
Conservation of Natural Resources					
Vector Control	12,500	12,500	12,384	(116)	11,166
Forestry Shade Tree	6,800	8,100	9,010	910	10,312
Total Conservation of Natural Resources	<u>19,300</u>	<u>20,600</u>	<u>21,394</u>	<u>794</u>	<u>21,478</u>
Economic Development - Current	124,000	52,024	27,645	(24,379)	68,822
Economic Development - Capital Outlay		98,157	98,157		
Total Economic Development	<u>124,000</u>	<u>150,181</u>	<u>125,802</u>	<u>(24,379)</u>	<u>68,822</u>
Debt Service					
Principal			33,827	33,827	25,888
Interest			1,419	1,419	1,505
Total Debt Service			<u>35,246</u>	<u>35,246</u>	<u>27,393</u>
<b>TOTAL DISBURSEMENTS</b>	<u>1,488,186</u>	<u>1,892,037</u>	<u>1,626,644</u>	<u>(265,393)</u>	<u>1,592,647</u>
Receipts Over (Under) Disbursements	(257,752)	(659,593)	(375,795)	283,798	(385,327)
OTHER FINANCING SOURCES (USES)					
Debt Issued			80,000	80,000	31,755
Transfer In	274,000	349,547	336,743	(12,804)	287,518
Transfer In - Interfund Loan			10,550	10,550	283,963
Transfer Out	(8,000)	(64,100)	(64,100)		
Transfer Out - Interfund Loan	(8,100)	(8,100)	(57,992)	(49,892)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>257,900</u>	<u>277,347</u>	<u>305,201</u>	<u>27,854</u>	<u>603,236</u>
Net Change in Fund Balances	148	(382,246)	(70,594)	311,652	217,909
Fund Balances - Beginning	2,183,285	2,183,285	2,183,285		1,965,376
Fund Balances - Ending	<u>\$ 2,183,433</u>	<u>\$ 1,801,039</u>	<u>\$ 2,112,691</u>	<u>\$ 311,652</u>	<u>\$ 2,183,285</u>

**CITY OF HAWLEY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**AIRPORT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015			2014 Actual
	Original and Final Budget	Actual Amounts	Over (Under) Final Budget	
<b>RECEIPTS</b>				
Intergovernmental				
Federal	\$	\$ 176,834	\$ 176,834	\$ 89,573
State		147,830	147,830	17,170
Total Intergovernmental		<u>324,664</u>	<u>324,664</u>	<u>106,743</u>
Investment Earnings		29	29	48
Miscellaneous				
Rents	42,750	42,346	(404)	44,871
Other Receipts		<u>28,986</u>	<u>28,986</u>	<u>33,274</u>
<b>TOTAL RECEIPTS</b>	<u>42,750</u>	<u>396,025</u>	<u>353,275</u>	<u>184,936</u>
<b>DISBURSEMENTS</b>				
Airport				
Current	94,730	166,563	71,833	185,817
Capital Outlay	<u>14,000</u>	<u>273,012</u>	<u>259,012</u>	
<b>TOTAL DISBURSEMENTS</b>	<u>108,730</u>	<u>439,575</u>	<u>330,845</u>	<u>185,817</u>
Receipts Over (Under) Disbursements	(65,980)	(43,550)	22,430	(881)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In - Interfund Loan		19,892	19,892	
Transfer Out - Interfund Loan	<u>(8,931)</u>	<u>(8,931)</u>		<u>(9,144)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(8,931)</u>	<u>10,961</u>	<u>19,892</u>	<u>(9,144)</u>
Net Change in Fund Balances	(74,911)	(32,589)	42,322	(10,025)
Fund Balances - Beginning	<u>32,589</u>	<u>32,589</u>		<u>42,614</u>
Fund Balances - Ending	<u>\$ (42,322)</u>	<u>\$</u>	<u>\$ 42,322</u>	<u>\$ 32,589</u>

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

	<u>Fiscal Year Ended December 31</u>		<u>Statutorily Required Contribution</u>		<u>Contributions in Relation to the Statutorily Required Contributions</u>		<u>Contribution Deficiency (Excess)</u>		<u>City's Covered- Employee Payroll</u>		<u>Contributions as a Percentage of Covered-Employee Payroll</u>
PERA	2015	\$	64,247	\$	64,247	\$	\$	\$	856,623	\$	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.

**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	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	
<b>PERA</b>	2015	0.0144 %	\$ 746,283	\$ 839,866	88.86 %	78.19 %

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.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

Exhibit A-1

	<u>Special Revenue Exhibit B-1</u>	<u>Debt Service Exhibit B-3</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 294,139	\$ 1,142,604	\$ 1,436,743
Cash with Fiscal Agent	<u>98,653</u>	<u>                    </u>	<u>98,653</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 392,792</u></b>	<b><u>\$ 1,142,604</u></b>	<b><u>\$ 1,535,396</u></b>
<b>FUND BALANCES</b>			
Restricted for:			
Revolving Loan	\$ 98,653	\$	\$ 98,653
Debt Service	<u>                    </u>	1,142,604	1,142,604
Committed for:			
Garbage Service/Recycling	84,342	<u>                    </u>	84,342
Deputy Registrar/Office	90,090	<u>                    </u>	90,090
Storm Water Maint/Repairs	53,593	<u>                    </u>	53,593
Building Upkeep/Repair	<u>66,114</u>	<u>                    </u>	<u>66,114</u>
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 392,792</u></b>	<b><u>\$ 1,142,604</u></b>	<b><u>\$ 1,535,396</u></b>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit A-2

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Capital Project Exhibit B-5	Total Nonmajor Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$	\$ 76,150	\$	\$ 76,150
Tax Increment Financing	17,665			17,665
Special Assessments		718,946		718,946
Charges for Services	467,092			467,092
Investment Earnings	1,831	1,645	10	3,486
Miscellaneous				
Rent	36,213			36,213
Other Receipts	21,362	20		21,382
<b>TOTAL RECEIPTS</b>	<b>544,163</b>	<b>796,761</b>	<b>10</b>	<b>1,340,934</b>
<b>DISBURSEMENTS</b>				
Current				
General Government	112,608			112,608
Sanitation	215,228			215,228
Economic Development	48,536			48,536
Debt Service				
Principal		943,000		943,000
Interest and Other Charges		249,255		249,255
Miscellaneous		30		30
Capital Outlay				
General Government	11,027			11,027
Streets and Highways	19,696			19,696
<b>TOTAL DISBURSEMENTS</b>	<b>407,095</b>	<b>1,192,285</b>	<b></b>	<b>1,599,380</b>
Receipts Over (Under) Disbursements	137,068	(395,524)	10	(258,446)
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued		940,000		940,000
Bond Premium		5,446		5,446
Transfer In	8,000	414,126		422,126
Bond Refunding		(914,000)		(914,000)
Transfer Out	(105,665)	(178,551)	(20,079)	(304,295)
Transfer Out - Interfund Loan	(25,350)			(25,350)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(123,015)</b>	<b>267,021</b>	<b>(20,079)</b>	<b>123,927</b>
Net Change in Fund Balances	14,053	(128,503)	(20,069)	(134,519)
Fund Balances - Beginning	378,739	1,271,107	20,069	1,669,915
Fund Balances - Ending	\$ 392,792	\$ 1,142,604	\$	\$ 1,535,396

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit B-1

	Nonmajor Funds					Total Special Revenue Exhibit A-1
	Revolving Loan	Garbage	Deputy Registrar	Storm Water	Clinic	
<b>ASSETS</b>						
Cash and Investments	\$	\$ 84,342	\$ 90,090	\$ 53,593	\$ 66,114	\$ 294,139
Cash with Fiscal Agent	<u>98,653</u>					<u>98,653</u>
<b>TOTAL ASSETS</b>	<u>\$ 98,653</u>	<u>\$ 84,342</u>	<u>\$ 90,090</u>	<u>\$ 53,593</u>	<u>\$ 66,114</u>	<u>\$ 392,792</u>
<b>FUND BALANCES</b>						
Restricted for:						
Revolving Loan	\$ 98,653					\$ 98,653
Committed for:						
Garbage Service/Recycling		84,342				84,342
Deputy Registrar/Office			90,090			90,090
Storm Water Maint/Repairs				53,593		53,593
Building Upkeep/Repair					66,114	66,114
<b>TOTAL FUND BALANCES</b>	<u>\$ 98,653</u>	<u>\$ 84,342</u>	<u>\$ 90,090</u>	<u>\$ 53,593</u>	<u>\$ 66,114</u>	<u>\$ 392,792</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, 2015**

Exhibit B-2

	Nonmajor Funds					
	Revolving Loan	Economic Development	Garbage	Deputy Registrar	Storm Water	Clinic
RECEIPTS						
Tax Increment Financing	\$	\$	\$	\$	\$	\$
Intergovernmental - Federal						
Intergovernmental - State						
Charges for Services			277,752	87,000	102,340	
Investment Earnings	1,423	33	84	191	61	39
Miscellaneous						
Rent	5,313					30,900
Other Receipts	20,000		1,305	57		
<b>TOTAL RECEIPTS</b>	<b>26,736</b>	<b>33</b>	<b>279,141</b>	<b>87,248</b>	<b>102,401</b>	<b>30,939</b>
DISBURSEMENTS						
Current						
General Government				107,076		5,532
Sanitation			215,228			
Economic Development	11,216	37,320				
Airport						
Capital Outlay						
General Government				11,027		
Streets and Highways					19,696	
Airport						
<b>TOTAL DISBURSEMENTS</b>	<b>11,216</b>	<b>37,320</b>	<b>215,228</b>	<b>118,103</b>	<b>19,696</b>	<b>5,532</b>
Receipts Over (Under) Disbursements	15,520	(37,287)	63,913	(30,855)	82,705	25,407
OTHER FINANCING SOURCES (USES)						
Transfer In	8,000					
Transfer In - Interfund Loan						
Transfer Out			(20,000)		(68,000)	
Transfer Out - Interfund Loan	(2,550)					(22,800)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>5,450</b>		<b>(20,000)</b>		<b>(68,000)</b>	<b>(22,800)</b>
Net Change in Fund Balances	20,970	(37,287)	43,913	(30,855)	14,705	2,607
Fund Balances - Beginning	77,683	37,287	40,429	120,945	38,888	63,507
Fund Balances - Ending	\$ 98,653	\$	\$ 84,342	\$ 90,090	\$ 53,593	\$ 66,114

**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, 2015**

	Nonmajor Funds		Total Nonmajor Special Revenue Exhibit A-2	Major Fund Airport	Exhibit B-2 Total Special Revenue
	TIF RDO	TIF Cretex			
RECEIPTS					
Tax Increment Financing	\$ 7,256	\$ 10,409	\$ 17,665	\$	\$ 17,665
Intergovernmental - Federal				176,834	176,834
Intergovernmental - State				147,830	147,830
Charges for Services			467,092		467,092
Investment Earnings			1,831	29	1,860
Miscellaneous					
Rent			36,213	42,346	78,559
Other Receipts			21,362	28,986	50,348
<b>TOTAL RECEIPTS</b>	<b>7,256</b>	<b>10,409</b>	<b>544,163</b>	<b>396,025</b>	<b>940,188</b>
DISBURSEMENTS					
Current					
General Government			112,608		112,608
Sanitation			215,228		215,228
Economic Development			48,536		48,536
Airport				166,563	166,563
Capital Outlay					
General Government			11,027		11,027
Streets and Highways			19,696		19,696
Airport				273,012	273,012
<b>TOTAL DISBURSEMENTS</b>			<b>407,095</b>	<b>439,575</b>	<b>846,670</b>
Receipts Over (Under) Disbursements	7,256	10,409	137,068	(43,550)	93,518
OTHER FINANCING SOURCES (USES)					
Transfer In			8,000		8,000
Transfer In - Interfund Loan				19,892	19,892
Transfer Out	(7,256)	(10,409)	(105,665)		(105,665)
Transfer Out - Interfund Loan			(25,350)	(8,931)	(34,281)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(7,256)</b>	<b>(10,409)</b>	<b>(123,015)</b>	<b>10,961</b>	<b>(112,054)</b>
Net Change in Fund Balances			14,053	(32,589)	(18,536)
Fund Balances - Beginning			378,739	32,589	411,328
Fund Balances - Ending	\$	\$	\$ 392,792	\$	\$ 392,792

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS**  
**DECEMBER 31, 2015**

Exhibit B-3

	Nonmajor Funds						
	10 Refund	11 Refund (04)	2005 Prairie Hills 2 Bond	2005 Jetvig Bond	2006 PFA Water	2006 PFA Sewer	11 Refund (06A)
ASSETS							
Cash and Investments	\$ _____	\$ 171,864	\$ _____	\$ _____	\$ 158,010	\$ 119,432	\$ 37,764
TOTAL ASSETS	\$ _____	\$ 171,864	\$ _____	\$ _____	\$ 158,010	\$ 119,432	\$ 37,764
FUND BALANCES							
Restricted for Debt Service	\$ _____	\$ 171,864	\$ _____	\$ _____	\$ 158,010	\$ 119,432	\$ 37,764
TOTAL FUND BALANCES	\$ _____	\$ 171,864	\$ _____	\$ _____	\$ 158,010	\$ 119,432	\$ 37,764

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**DEBT SERVICE FUNDS – CONTINUED**  
**DECEMBER 31, 2015**

Exhibit B-3

	Nonmajor Funds							
	11 Refund (06B)	PFA Water	2008 PFA Sewer	2008 11 Street Rebuild	13 Cretex/ Hwy 10	Bond TIF	15 Refund	Total Nonmajor Debt Service Exhibit A-1
ASSETS								
Cash and Investments	\$ 28,198	\$ 8,857	\$ 2,733	\$ 57,759	\$ 277,173	\$ 43,558	\$ 237,256	\$ 1,142,604
TOTAL ASSETS	<u>\$ 28,198</u>	<u>\$ 8,857</u>	<u>\$ 2,733</u>	<u>\$ 57,759</u>	<u>\$ 277,173</u>	<u>\$ 43,558</u>	<u>\$ 237,256</u>	<u>\$ 1,142,604</u>
FUND BALANCES								
Restricted for Debt Service	\$ 28,198	\$ 8,857	\$ 2,733	\$ 57,759	\$ 277,173	\$ 43,558	\$ 237,256	\$ 1,142,604
TOTAL FUND BALANCES	<u>\$ 28,198</u>	<u>\$ 8,857</u>	<u>\$ 2,733</u>	<u>\$ 57,759</u>	<u>\$ 277,173</u>	<u>\$ 43,558</u>	<u>\$ 237,256</u>	<u>\$ 1,142,604</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit B-4

	Nonmajor Funds						
	10 Refund	11 Refund (04)	2005 Prairie Hills 2 Bond	2005 Jetvig Bond	2006 PFA Water	2006 PFA Sewer	
<b>RECEIPTS</b>							
Property Taxes	\$	\$	\$	\$	\$	\$	\$
Special Assessments	35,618	96,867	1,381	8,116	82,107	38,038	42,613
Investment Earnings	348	204	14	35	157	126	55
Miscellaneous							
<b>TOTAL RECEIPTS</b>	<u>35,966</u>	<u>97,071</u>	<u>1,395</u>	<u>8,151</u>	<u>82,264</u>	<u>38,164</u>	<u>42,668</u>
<b>DISBURSEMENTS</b>							
Debt Service							
Principal	150,000	75,000	58,000	72,000	133,000	55,000	40,000
Interest and Other Charges	4,825	9,565	10,466	27,519	24,648	6,784	5,980
Miscellaneous							
<b>TOTAL DISBURSEMENTS</b>	<u>154,825</u>	<u>84,565</u>	<u>68,466</u>	<u>99,519</u>	<u>157,648</u>	<u>61,784</u>	<u>45,980</u>
Receipts Over (Under) Disbursements	(118,859)	12,506	(67,071)	(91,368)	(75,384)	(23,620)	(3,312)
<b>OTHER FINANCING SOURCES (USES)</b>							
Debt Issued							
Bond Premium							
Transfer In					89,000	34,000	
Bond Refunding							
Transfer Out	(67,547)		233	(111,237)			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(67,547)</u>		<u>233</u>	<u>(111,237)</u>	<u>89,000</u>	<u>34,000</u>	
Net Change in Fund Balances	(186,406)	12,506	(66,838)	(202,605)	13,616	10,380	(3,312)
Fund Balances - Beginning	186,406	159,358	66,838	202,605	144,394	109,052	41,076
Fund Balances - Ending	<u>\$</u>	<u>\$ 171,864</u>	<u>\$</u>	<u>\$</u>	<u>\$ 158,010</u>	<u>\$ 119,432</u>	<u>\$ 37,764</u>

cont.

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUNDS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit B-4

	Nonmajor Funds							Total Nonmajor Debt Service Exhibit A-2
	11 Refund (06B)	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	13 Cretex/ Hwy10	Bond TIF	15 Refund	
<b>RECEIPTS</b>								
Property Taxes	\$	\$	\$	\$ 10,680	\$ 65,470	\$	\$	\$ 76,150
Special Assessments	25,903			48,708	133,757		205,838	718,946
Investment Earnings	26	9	2	55	268	66	280	1,645
Miscellaneous							20	20
<b>TOTAL RECEIPTS</b>	<u>25,929</u>	<u>9</u>	<u>2</u>	<u>59,443</u>	<u>199,495</u>	<u>66</u>	<u>206,138</u>	<u>796,761</u>
<b>DISBURSEMENTS</b>								
Debt Service								
Principal	20,000	8,000	7,000	90,000	160,000		75,000	943,000
Interest and Other Charges	3,888	1,380	2,247	26,508	44,235	44,908	36,302	249,255
Miscellaneous							30	30
<b>TOTAL DISBURSEMENTS</b>	<u>23,888</u>	<u>9,380</u>	<u>9,247</u>	<u>116,508</u>	<u>204,235</u>	<u>44,908</u>	<u>111,332</u>	<u>1,192,285</u>
Receipts Over (Under) Disbursements	2,041	(9,371)	(9,245)	(57,065)	(4,740)	(44,842)	94,806	(395,524)
<b>OTHER FINANCING SOURCES (USES)</b>								
Debt Issued							940,000	940,000
Bond Premium							5,446	5,446
Transfer In		10,000	8,700	68,000	76,179	17,243	111,004	414,126
Bond Refunding							(914,000)	(914,000)
Transfer Out								(178,551)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>10,000</u>	<u>8,700</u>	<u>68,000</u>	<u>76,179</u>	<u>17,243</u>	<u>142,450</u>	<u>267,021</u>
Net Change in Fund Balances	2,041	629	(545)	10,935	71,439	(27,599)	237,256	(128,503)
Fund Balances - Beginning	<u>26,157</u>	<u>8,228</u>	<u>3,278</u>	<u>46,824</u>	<u>205,734</u>	<u>71,157</u>		<u>1,271,107</u>
Fund Balances - Ending	<u>\$ 28,198</u>	<u>\$ 8,857</u>	<u>\$ 2,733</u>	<u>\$ 57,759</u>	<u>\$ 277,173</u>	<u>\$ 43,558</u>	<u>\$ 237,256</u>	<u>\$ 1,142,604</u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Exhibit B-5

	<u>Cretex Industrial Park</u>	<u>Total Capital Project</u>
RECEIPTS		
Investment Earnings	\$ <u>10</u>	\$ <u>10</u>
TOTAL RECEIPTS	<u>10</u>	<u>10</u>
OTHER FINANCING (USES)		
Transfer Out	<u>(20,079)</u>	<u>(20,079)</u>
TOTAL OTHER FINANCING (USES)	<u>(20,079)</u>	<u>(20,079)</u>
Net Change in Fund Balances	(20,069)	(20,069)
Fund Balances - Beginning	<u>20,069</u>	<u>20,069</u>
Fund Balances - Ending	<u><u>\$</u></u>	<u><u>\$</u></u>

**CITY OF HAWLEY, MINNESOTA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance 01/01/15	Additions	Deductions	Balance 12/31/15
<b>HAWLEY AREA FIRE DISTRICT - JOINT POWERS</b>				
ASSETS				
Cash and Investments	\$ 74,965	\$ 176,870	\$ 142,354	\$ 109,481
Total Assets	\$ 74,965	\$ 176,870	\$ 142,354	\$ 109,481
LIABILITIES				
Due to Other Governments	\$ 74,965	\$ 176,870	\$ 142,354	\$ 109,481
Total Liabilities	\$ 74,965	\$ 176,870	\$ 142,354	\$ 109,481
 <b>HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS</b>				
ASSETS				
Cash and Investments	\$ (780)	\$ 52,272	\$ 51,492	\$
Total Assets	\$ (780)	\$ 52,272	\$ 51,492	\$
LIABILITIES				
Due to Other Governments	\$ (780)	\$ 52,272	\$ 51,492	\$
Total Liabilities	\$ (780)	\$ 52,272	\$ 51,492	\$
 <b>TOTAL</b>				
ASSETS				
Cash and Investments	\$ 74,185	\$ 229,142	\$ 193,846	\$ 109,481
Total Assets	\$ 74,185	\$ 229,142	\$ 193,846	\$ 109,481
LIABILITIES				
Due to Other Governments	\$ 74,185	\$ 229,142	\$ 193,846	\$ 109,481
Total Liabilities	\$ 74,185	\$ 229,142	\$ 193,846	\$ 109,481

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Bond Premiums	Payment of Principal on Refunding	Prior Period Adjustment	Balance End of Year
<b>Governmental Funds</b>										
<b>General Fund</b>										
Committed for:										
2016 Levy Reduction	\$	\$	\$	\$	10,000	\$	\$	\$	\$	\$ 10,000
Public Works					37					37
15th Street Top Lift					26,941					26,941
Seal Coat/Crack Fill	220,459		85,000							135,459
Hwy 10 31/33 Project	26,400									26,400
Plow Truck/Equipment	15,400				14,700					30,100
Street Patching	52,000				42,000					94,000
Sidewalks	23,000				600					23,600
Lawn Mower	2,600									2,600
Tornado Siren	9,500				5,000					14,500
Park Board Sinking Fund	60,000				29,600					89,600
Park - Brekken					1,256					1,256
Park - Disc Golf					2,000					2,000
Park Donations					11,759					11,759
Park Security System					2,500					2,500
Fire Building					31,900					31,900
Police - Night to Unite					962					962
Police Armor Upgrade					41,600					41,600
Police Vehicle					25,000					25,000
Police - Vehicle Lease Payoff					8,105					8,105
Zoning Comprehensive Plan	11,000				1,300					12,300
Economic Development					9,300					9,300
River Remeandering - Phase 3					20,000					20,000
Community Center					5,800					5,800
Building Demolition					4,500					4,500
Unassigned	1,762,926	1,250,849	1,541,644	(22,217)	(47,442)	80,000				1,482,472
<b>Total General Fund</b>	<b>2,183,285</b>	<b>1,250,849</b>	<b>1,626,644</b>	<b>272,643</b>	<b>(47,442)</b>	<b>80,000</b>				<b>2,112,691</b>
<b>Special Revenue</b>										
Revolving Loan	77,683	26,736	11,216	8,000	(2,550)					98,653
TIF RDO		7,256			(7,256)					
TIF Cretex		10,409			(10,409)					
Economic Development	37,287	33	37,320							
Garbage	40,429	279,141	215,228	(20,000)						84,342
Deputy Registrar	120,945	87,248	118,103							90,090
Airport	32,589	396,025	439,575		10,961					
Storm Water	38,888	102,401	19,696	(68,000)						53,593
Clinic	63,507	30,939	5,532		(22,800)					66,114

cont.

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION – CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Bond Premiums	Payment of Principal on Refunding	Prior Period Adjustment	Balance End of Year
<b>Debt Service</b>										
10 Refund	\$ 186,406	\$ 35,966	\$ 154,825	\$ (67,547)	\$	\$	\$	\$	\$	
11 Refund (04)	159,358	97,071	84,565							171,864
2005 Prairie Hills 2 Bond	66,838	1,395	68,466	233						
2005 Jetvig Bond	202,605	8,151	99,519	(111,237)						
11 Refund (06A)	41,076	42,668	45,980							37,764
2006 PFA Water	144,394	82,264	157,648	89,000						158,010
2006 PFA Sewer	109,052	38,164	61,784	34,000						119,432
11 Refund (06B)	26,157	25,929	23,888							28,198
2008 PFA Water	8,228	9	9,380	10,000						8,857
2008 PFA Sewer	3,278	2	9,247	8,700						2,733
11 Street Rebuild	46,824	59,443	116,508	68,000						57,759
13 Cretex/Hwy10	205,734	199,495	204,235	76,179						277,173
Bond TIF	71,157	66	44,908	17,243						43,558
15 Refund		206,138	111,332	111,004		940,000	5,446	(914,000)		237,256
<b>Capital Projects</b>										
Cretex Industrial Park	20,069	10		(20,079)						
<b>Total Governmental Funds</b>	<b>\$ 3,885,789</b>	<b>\$ 2,987,808</b>	<b>\$ 3,665,599</b>	<b>\$ 408,139</b>	<b>\$ (79,496)</b>	<b>\$ 1,020,000</b>	<b>\$ 5,446</b>	<b>\$ (914,000)</b>	<b>\$</b>	<b>\$ 3,648,087</b>
	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Debt Issued	Bond Premiums	Payment of Principal on Refunding	Prior Period Adjustment	Balance End of Year
<b>Proprietary Funds</b>										
Water	\$ 2,205,629	\$ 377,018	\$ 306,228	\$ (99,000)	\$	\$	\$	\$	\$ (48,550)	\$ 2,128,869
Sewer	2,528,331	290,994	310,980	(87,700)					(52,018)	2,368,627
Electric	2,147,652	2,581,591	2,248,409	(143,181)					(173,395)	2,164,258
Gas	755,569	821,466	664,798	(55,593)					(104,036)	752,608
Liquor	166,080	1,137,687	1,118,552	(5,000)					(83,229)	96,986
<b>Total Proprietary Funds</b>	<b>\$ 7,803,261</b>	<b>\$ 5,208,756</b>	<b>\$ 4,648,967</b>	<b>\$ (390,474)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ (461,228)</b>	<b>\$ 7,511,348</b>

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2014	Issued 2015	Retired 2015	Balance 12/31/2015	Principal Due In 2016	Interest Due In 2016
<b>General Obligation Bonds</b>										
G.O. Improvement Refunding, 2010A	3.10%	2010	2015	\$ 400,000	\$ 150,000	\$	\$ 150,000	\$	\$	\$
G.O. Improvement Bonds, 2011B	2.0 - 3.3%	2011	2016/26	1,260,000	1,050,000		90,000	960,000	110,000	24,213
G.O. Refunding Bonds, 2011A	2.0 - 2.9%	2011	2016/19	585,000	380,000		75,000	305,000	75,000	7,570
G.O. Improvement, 2005	4.10%	2005	2015	856,000	463,000		463,000			
G.O. Improvement, 2005	4.30%	2005	2015	1,071,000	581,000		581,000			
G.O. Refunding Bonds, 2011A	2.0 - 3.4%	2011	2016/21	335,000	230,000		40,000	190,000	40,000	5,180
G.O. Refunding Bonds, 2011A	2.0 - 3.4%	2011	2016/21	205,000	145,000		20,000	125,000	20,000	3,488
G.O. Refunding Note, 2012A	1.90%	2012	2016/18	229,000	156,000		38,000	118,000	39,000	2,242
G.O. Improvement Bonds, 2013A	3.00%	2013	2016/23	1,625,000	1,570,000		160,000	1,410,000	165,000	42,300
G.O. TIF Bonds 2014A	2.0 - 3.0%	2014	2016/25	1,270,000	1,270,000			1,270,000	130,000	31,350
G.O. Improvement Refunding, 2015A	2.00%	2015	2016/21	940,000		940,000	75,000	865,000	145,000	17,300
<b>Total General Obligation Bonds</b>					<u>5,995,000</u>	<u>940,000</u>	<u>1,692,000</u>	<u>5,243,000</u>	<u>724,000</u>	<u>133,643</u>
<b>General Obligation Revenue Bonds</b>										
G.O. Water Revenue Note, 2006A	1.56%	2006	2016/25	2,565,987	1,580,000		133,000	1,447,000	135,000	22,573
G.O. Sewer Revenue Note, 2006B	1.06%	2006	2016/25	1,010,110	640,000		55,000	585,000	56,000	6,201
G.O. Water Revenue Note, 2008A	1.29%	2008	2016/27	150,010	107,000		8,000	99,000	8,000	1,277
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2016/27	132,954	98,000		7,000	91,000	7,000	2,087
G.O. Water Revenue Note, 2001	3.32%	2001	2016/21	660,000	284,000		37,000	247,000	38,000	8,200
G.O. Sewer Revenue Refunding, 2009A	3.10%	2009	2015	505,000	135,000		135,000			
G.O. Gas Transmission Revenue, 2005	4.2 - 4.5%	2005	2016/21	384,000	207,000		26,000	181,000	27,000	7,412
<b>Total General Obligation Revenue Bonds</b>					<u>3,051,000</u>		<u>401,000</u>	<u>2,650,000</u>	<u>271,000</u>	<u>47,750</u>
<b>Revenue Bonds</b>										
Revenue Bonds, 2008A	6.0 - 6.5%	2008	2016/27	435,000	355,000		20,000	335,000	20,000	20,626
<b>Other Long-Term Debt</b>										
Capital Lease-2013 Ford Explorer	3.34%	2013	2016/16	37,422	18,701		9,197	9,504	9,504	317
Capital Lease-2013 Ford Interceptor	5.00%	2014	2016/17	31,755	23,415		7,546	15,869	7,802	538
Capital Lease-Street Sweeper		2015	2016/19	85,420		85,420	17,084	68,336	14,952	2,132
<b>Total Other Long-Term Debt</b>					<u>42,116</u>	<u>85,420</u>	<u>33,827</u>	<u>93,709</u>	<u>32,258</u>	<u>2,987</u>
<b>Total</b>					<u>\$ 9,443,116</u>	<u>\$ 1,025,420</u>	<u>\$ 2,146,827</u>	<u>\$ 8,321,709</u>	<u>\$ 1,047,258</u>	<u>\$ 205,006</u>

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

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>	<u>Fines &amp; Forfeitures</u>	<u>Special Assessments</u>	<u>Interest</u>	<u>Tax Increment Financing</u>	<u>Lease Payment for Debt Service</u>	<u>Miscellaneous</u>	<u>Total</u>
2006	\$ 306,007	\$ 29,244	\$ 601,192	\$ 56,508	\$ 12,377	\$ 530,684	\$ 38,186		\$ 28,835	\$ 158,656	\$ 1,761,689
2007	335,516	17,832	482,004	11,683	25,237	782,903	47,061		31,238	96,843	1,830,317
2008	359,220	12,922	494,450	15,040	45,290	689,084	39,672		28,835	37,218	1,721,731
2009	391,728	12,454	763,080	326,240	45,030	630,062	28,895		28,835	337,682	2,564,006 (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)

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

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

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Streets and Highways</u>	<u>Sanitation</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Other</u>	<u>Total</u>
2006	\$ 256,266	\$ 314,478	\$ 227,726		\$ 150,280	\$ 655,408	\$ 4,096,928	\$ 55,049	\$ 5,756,135
2007	227,255	350,838	254,524		134,294	657,494	1,121,854	76,294	2,822,553
2008	237,711	391,399	194,181		127,974	832,916	11,573	27,615	1,823,369
2009	246,438	397,017	188,186	204,295	89,813	836,865	979,281	124,650	3,066,545 (a)
2010	265,295	387,452	112,843	208,151	87,593	809,601	629,153	180,207	2,680,295 (a)
2011	255,634	418,393	145,416	207,053	92,088	710,846	1,549,006	164,820	3,543,256 (a)
2012	276,370	445,933	171,789	206,049	84,576	1,428,371 (b)	925,547	183,979	3,722,614 (a)
2013	279,059	419,166	158,763	195,544	87,250	758,837	2,387,410	224,901	4,510,930 (a)
2014	320,254	547,069	142,558	198,071	100,971	877,139	665,773	303,049	3,154,884 (a)
2015	323,724	468,973	123,623	215,228	102,171	1,227,501	940,211	264,168	3,665,599 (a)

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

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

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

Levy Year	Tax Capacity	Tax Levy	Tax Capacity Rates				Total	
			City	School	County	Water Shed District		EDA/HRA
2006	746,469	325,400	43.592	36.819	64.814	1.573	146.798	
2007	876,091	345,000	39.565	35.707	62.529	2.803	140.604	
2008	940,061	374,300	39.995	35.809	60.406	2.807	139.017	
2009	971,769	393,000	40.559	34.902	58.619	2.795	136.875	
2010	990,285	412,700	41.664	33.760	55.930	2.366 *	133.720	
2011	991,582	433,500	43.718	36.384	56.167	2.125	138.394	
2012	902,413	400,000	44.326	35.751	55.719	2.235	138.031	
2013	908,972	420,000	46.206	33.761	53.736	2.215	135.918	
2014	1,012,934	441,000	43.537	27.391	50.223	1.776	0.707	123.634
2015	1,095,403	476,500	43.500	26.942	46.032	1.733		118.207

\* 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, 2015**  
**(UNAUDITED)**

ADDITIONS		
Operating Reimbursements		
City of Hawley	\$	34,328
Townships		<u>17,944</u>
TOTAL ADDITIONS		<u>52,272</u>
DEDUCTIONS		
Current		
Professional Services		50,000
RRR Dispatch		<u>1,492</u>
TOTAL DEDUCTIONS		<u>51,492</u>
CHANGES IN ASSETS AND LIABILITIES		780
ASSETS AND LIABILITIES, BEGINNING		<u>(780)</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, 2015**  
**(UNAUDITED)**

ADDITIONS	
Intergovernmental	
City of Hawley	\$ 50,000
Townships	50,000
Grant	5,000
Fire Relief	38,000
Investment Earnings	160
Miscellaneous	22,706
Interfund Transfer - Fire District Checking Account	<u>11,004</u>
<b>TOTAL ADDITIONS</b>	<u><b>176,870</b></u>
DEDUCTIONS	
Current	
Insurance	10,940
Training	5,277
Supplies	4,674
Fuel and Additives	2,470
Repairs and Maintenance	2,683
Utilities	7,335
Salaries and Benefits	27,151
Fire Relief Contribution	7,700
RRR Dispatch	574
Miscellaneous	7,022
Capital Outlay	<u>66,528</u>
<b>TOTAL DEDUCTIONS</b>	<u><b>142,354</b></u>
CHANGES IN ASSETS AND LIABILITIES	34,516
ASSETS AND LIABILITIES, BEGINNING	<u>74,965</u>
ASSETS AND LIABILITIES, ENDING	<u><u>\$ 109,481</u></u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2016. 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

This report is intended solely for the information and use of those charged with governance and management of the City of Hawley and the State Auditor and is not intended to be should not be used by anyone other than these specified parties.

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

February 24, 2016



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Hawley  
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Hawley's financial statements and have issued our report thereon dated February 24, 2016. 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 and responses as item 2015-001 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 responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



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

February 24, 2016

**CITY OF HAWLEY, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2015**

**2015-001 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, 2015, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The city council is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the City's annual financial statements.

Cause

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

Effect

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

Recommendation

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

Corrective Action Plan Prepared by the City

*Correcting Plan:* Management recognizes the significant deficiency and believes it is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Explanation of Disagreement:* There is essentially no disagreement with the finding.

*Official Responsible:* The city council is responsible for carrying out the corrective action plan.

*Completion Date:* The City will review on an annual basis.

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