

CITY OF HAYWARD, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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CITY OF HAYWARD, MINNESOTA

CITY OFFICIALS

December 31, 2015

Mike Hansen

Mayor

Cody Smith

Councilperson

Anthony Cox

Councilperson

Darwin Dolph

Councilperson

Eugene Flaskerud

Councilperson

Kari Jacobson

Clerk-Treasurer

Judith Kluever

Clerk-Treasurer

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Ronald P. Walth, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Honorable City Council
City of Hayward, Minnesota
Hayward, Minnesota 56043

We have audited the accompanying financial statements of the City of Hayward, Minnesota 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 Minimum Reporting Requirements for Cities Under 2,500 in Population as required by the Office of the State Auditor on December 17, 2004. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 the 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 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, the City of Hayward, Minnesota prepares its financial statements in accordance with the Minimum Reporting Requirements for Cities Under 2,500 in Population as required by the Office of the State Auditor on December 17, 2004, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Office of the State Auditor. The effect on the financial statements of the variances between these accounting practices 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

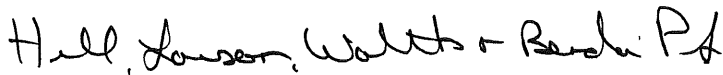
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, those financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hayward as of December 31, 2015 or changes in financial position for the year then ended. Further the City of Hayward has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the governmental and proprietary funds of the City of Hayward, Minnesota as of December 31, 2015 and the respective changes in financial position on the basis of accounting described in Note 1.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary statements and schedules listed in the table of contents is presented as required by the State of Minnesota. The accompanying supplementary 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects to the financial statements taken as a whole.



Hill, Larson, Walth & Benda, P.A.

April 11, 2016

BASIC FUND FINANCIAL STATEMENTS

CITY OF HAYWARD, MINNESOTA
Statement of Balances Arising From Cash Transactions
GOVERNMENTAL FUNDS
For the year ended December 31, 2015

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 213,821	\$ 204,602	\$ 266,544	\$ 33,792	\$ 718,759
Investments	116,676	-	-	-	116,676
Total Assets	<u>\$ 330,497</u>	<u>\$ 204,602</u>	<u>\$ 266,544</u>	<u>\$ 33,792</u>	<u>\$ 835,435</u>
Cash Fund Balance					
Committed for					
Fire protection	\$ -	\$ 16,415	\$ -	\$ -	\$ 16,415
Fire Station Remodel	-	15,500	-	-	15,500
Equipment	-	172,687	25,000	-	197,687
Street Repairs	-	-	241,544	-	241,544
Restricted for					
Debt service	-	-	-	33,792	33,792
Assigned for					
City Hall	125,000	-	-	-	125,000
City Equipment	2,000	-	-	-	2,000
Irrigation Field	15,000	-	-	-	15,000
Park Improvements	10,400	-	-	-	10,400
Civil Defense	5,000	-	-	-	5,000
Unassigned	173,097	-	-	-	173,097
Total Cash Fund Balances	<u>\$ 330,497</u>	<u>\$ 204,602</u>	<u>\$ 266,544</u>	<u>\$ 33,792</u>	<u>\$ 835,435</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances
GOVERNMENTAL FUNDS

For the year ended December 31, 2015

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Receipts:					
Property taxes	\$ 93,779	\$ 17	\$ 53,685	\$ 18,552	\$ 166,033
Bond issuing fee	10,000	-	-	-	10,000
Fire Stipend	-	10,000	-	-	10,000
Grant Income	71,419	3,490	-	-	74,909
Small City Road Assistance	-	-	9,608	-	9,608
Licenses and permits	2,212	-	-	-	2,212
Intergovernmental	26,035	13,091	10,000	-	49,126
Donations	-	13,105	-	-	13,105
Interest income	832	-	-	-	832
Charges for services	14,918	-	-	-	14,918
Township fire contracts and firecalls	-	31,616	-	-	31,616
Miscellaneous	5,945	-	-	-	5,945
Total receipts	<u>225,140</u>	<u>71,319</u>	<u>73,293</u>	<u>18,552</u>	<u>388,304</u>
Disbursements:					
Current					
General government	117,664	-	-	-	117,664
Streets and highways	-	-	72,719	-	72,719
Bike trail	71,438	-	-	-	71,438
Public safety	-	50,585	-	-	50,585
Debt service:					
Principal	-	-	-	13,000	13,000
Interest and other charges	-	-	-	6,396	6,396
Total disbursements	<u>189,102</u>	<u>50,585</u>	<u>72,719</u>	<u>19,396</u>	<u>331,802</u>
Excess of receipts over disbursements	<u>36,038</u>	<u>20,734</u>	<u>574</u>	<u>(844)</u>	<u>56,502</u>
Other financing sources (uses)					
Transfers in	-	10,000	128,000	-	138,000
Transfers out	(138,000)	-	-	-	(138,000)
Total other financing sources (uses)	<u>(138,000)</u>	<u>10,000</u>	<u>128,000</u>	<u>-</u>	<u>-</u>
Net change in cash fund balances	(101,962)	30,734	128,574	(844)	56,502
Fund balance, beginning of year	<u>432,459</u>	<u>173,868</u>	<u>137,970</u>	<u>34,636</u>	<u>778,933</u>
Fund balance, end of year	<u>\$ 330,497</u>	<u>\$ 204,602</u>	<u>\$ 266,544</u>	<u>\$ 33,792</u>	<u>\$ 835,435</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Balances Arising From Cash Transactions
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current assets:			
Cash	\$ 58,582	\$ 58,966	\$ 117,548
Total assets	\$ 58,582	\$ 58,966	\$ 117,548
 Net Position:			
Restricted for debt service	\$ 17,799	\$ 4,732	\$ 22,531
Restricted for capital projects	-	-	-
Unrestricted-net assets	40,783	54,234	95,017
 Total Net Position	\$ 58,582	\$ 58,966	\$ 117,548

See accompanying notes to financial statements

CITY OF HAYWARD, MINNESOTA
Statement of Receipts, Disbursements, and Changes in Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Operating receipts			
User charges	\$ 64,350	\$ 47,848	\$ 112,198
Late fees	1,508	60	1,568
Bond income	-	144,535	144,535
Grants	-	74,355	74,355
Miscellaneous	225	-	225
Total operating receipts	66,083	266,798	332,881
Operating disbursements			
Wages	6,442	12,782	19,224
PERA	483	959	1,442
Payroll tax	505	943	1,448
Testing	429	1,692	2,121
Fees, dues and permits	1,360	3,110	4,470
Legal and professional	1,500	2,153	3,653
Repairs and maintenance	1,513	1,605	3,118
Insurance	4,226	8,209	12,435
Utilities	4,811	4,886	9,697
Capital outlay	18,000	245,145	263,145
Miscellaneous	582	1,682	2,264
Total operating disbursements	39,851	283,166	323,017
Operating income (loss)	26,232	(16,368)	9,864
Nonoperating Receipts (Disbursements)			
Interest income	901	867	1,768
Interest expense	(5,480)	-	(5,480)
Debt principal	(20,000)	-	(20,000)
Total Nonoperating Receipts (Disbursements)	(24,579)	867	(23,712)
Change in net position	1,653	(15,501)	(13,848)
Total net cash position, beginning of year	56,929	74,467	131,396
Total net cash position, end of year	<u>\$ 58,582</u>	<u>\$ 58,966</u>	<u>\$ 117,548</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances
SUPPLEMENTAL TO PROPRIETARY FUNDS
Water and Sewer Funds

For the year ended December 31, 2015

	Sewer General Obligation of 2015	Water General Obligation of 2010	Water 2010 Water Project Fund
Receipts:			
User charges	\$ 4,732	\$ 15,708	\$ -
Total Receipts	4,732	15,708	-
Disbursements:			
Principal	-	20,000	-
Interest expense	-	5,480	-
Capital outlay	-	-	4,705
Total Disbursements	-	25,480	4,705
Excess of Receipts over Disbursements	4,732	(9,772)	(4,705)
Net change in Cash Fund Balances	4,732	(9,772)	(4,705)
Fund balance, beginning of year	-	27,572	4,705
Fund balance, end of year	\$ 4,732	\$ 17,800	\$ -

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Flows - Cash Basis
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Receipts from customers	\$ 66,083	\$ 47,908	\$ 113,991
Payments to suppliers	(14,421)	(23,337)	(37,758)
Payments to employees	(7,430)	(14,684)	(22,114)
Other receipts (payments)	-	-	-
Net cash provided by operating activities	44,232	9,887	54,119
Cash flows from capital and related financing activities			
Capital outlay	(18,000)	(245,145)	(263,145)
Other receipts - Bond and Grant income	-	218,890	218,890
Interest income	901	867	1,768
Principal paid on capital debt	(20,000)	-	(20,000)
Interest paid on capital debt	(5,480)	-	(5,480)
Net cash provided by (used in) capital and related financing activities	(42,579)	(25,388)	(67,967)
Net increase (decrease) in cash and cash equivalents	1,653	(15,501)	(13,848)
Cash balances - beginning of year	56,929	74,467	131,396
Cash balances - end of year	\$ 58,582	\$ 58,966	\$ 117,548
Cash and cash equivalents			
Cash and cash equivalents	\$ 58,582	\$ 58,966	\$ 117,548
Total cash and cash equivalents - end of year	\$ 58,582	\$ 58,966	\$ 117,548

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note I. Summary of Significant Accounting Policies

A. Reporting Entity

The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The City utilizes a combined clerk-treasurer position. The City has no component units that meet the GASB criteria.

The City's financial statements for financial reporting purposes include all funds over which the City Council exercises oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, securing of outstanding debt by the City's full faith and credit, and responsibility for funding.

B. Fund Accounting

The accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. The various funds are grouped in the financial statements as follows:

Major Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The City's Special Revenue Fund and purpose is as follows:

Fire Fund – This fund is used to account for the revenues from the township fire contracts and firecalls and intergovernmental state aid used to fund the operation of the fire department and their related expenditures for fire protection.

Street Fund – This fund is used to account for tax monies levied by the City on the community's residents and their related expenditures for construction, repair, upkeep and maintenance of city streets.

Non Major Governmental Funds

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long term debt principal and interest. The resources for payment are obtained through tax levies, special assessments and user charges.

Major Enterprise Funds

Water and Sewer Funds - The Water and Sewer Funds are used to account for the cost of providing water and sewer services to the general public, the costs of which are to be financed or recovered primarily through user charges.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

The Governmental Funds and Proprietary Funds are not combined at any point in the financial reporting.

C. Basis of Accounting

The City of Hayward, Minnesota, follows the cash basis of accounting for all funds. The financial statements were prepared on the cash basis and accordingly, revenues and expenditures are recognized only as cash is received or paid out. These statements do not give effect to receivables, payables, accrued expenses and inventories and accordingly, are not presented in accordance with generally accepted accounting principles. Accrual basis financial statements for the Water and Sewer Fund are presented in the accompanying information. These procedures are in accordance with the State Auditor's manual on Minimum Reporting Requirements for Cities Under 2,500 in Population, which are reporting on the cash or proprietary basis of accounting. This manual was issued on December 17, 2004 and represents a change from the previous reporting requirements.

D. Statement Presentation

Under the new statement presentation for minimum reporting requirements for cities under 2,500 in population, the water and sewer funds are removed from the primary financial statement since they are proprietary funds. The primary statements are grouped by primary operating, special revenue, debt service and in total they are referred to as governmental funds. The budget comparison statements now appear later in the report. The water and sewer funds are called proprietary funds and they are of a business activity in nature. Since they are proprietary funds an accrual basis statement is required in addition to the cash basis statements.

E. Budgets

Budgets are prepared on the cash basis of accounting. Budgeted amounts are as originally adopted or as amended by the City Council.

F. Fixed Assets

The City does not maintain records of general fixed assets. Capital outlays for property, equipment, and construction costs are charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. Accordingly, the accompanying financial statements are not intended to present results of operations in conformity with generally accepted accounting principles.

G. Property Tax Revenue Recognition

The City records property tax revenue in the year received. In Minnesota, counties act as collection agents for all property taxes. Taxes levied become a lien on the property on January 1. Real property taxes are generally due from taxpayers in equal installments on May 15 and October 15.

H. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

J. Private-Sector Standards

Private-Sector Standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Utility enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

K. Operating and Nonoperating Items

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

L. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable – This category includes fund balances that cannot be spent because it is either not in spendable form, or is legally or contractually required to be maintained intact. Examples include inventories and pre-paid accounts.

Restricted – Fund balances are reported as restricted when constraints placed on those resources are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.

Assigned – Fund balances that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes. In the General Fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adapted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Clerk/Treasurer.

Unassigned – Unassigned fund balance represents the residual classification for the General Fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When both restricted and unrestricted resource 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 first use committed resources, then assigned resources, and then use unassigned resources as they are needed.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

The City has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance of not less than 40% of the next year's budgeted General Fund expenditures. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs, because major revenues including property taxes and other government aids are typically received in the second half of the year.

Note 2. Cash and Investments

Deposits and investments

The City's total cash and investments are reported as follows:

Primary government	
Cash and CDs	\$ 835,435
Business-type fund activities	
Cash and CDs	<u>117,548</u>
Total Cash and CDs	<u><u>\$ 952,983</u></u>

A. Deposits

Minn. Stat. 118A.02 and 118A.04 authorize the City to designate a depository for public funds. Minn. Stat. 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credits issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City's policy is to have all accounts collateralized in excess of the FDIC coverage. As of December 31, 2015 the City's deposits were not exposed to custodial credit risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in Certificates of deposit covered by FDIC insurance.

Concentration of Credit Risk

The concentration of credit risk is the risk of the loss that may be caused by the City's investment in a single issuer. The City has not diversified its investments but is relying on the stability of the U.S. Government. All of the City's cash and investments are at Produce State Bank.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

Collateral Detail

Deposits - In accordance with Minnesota statutes, the City maintains deposits at a depository bank, authorized by the city council, which is a member 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% of the deposits not covered by insurance or bonds. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the city clerk or in a financial institution other than that furnishing the collateral.

The checking account earns interest at 0.25%, savings account earns interest at 0.25% and certificate of deposits earn interest at .40%.

Balances at December 31, 2015:

	<u>Bank Balances</u>	<u>Carrying Amount</u>
(1) Insured or collateralized by securities held by the City or its agent in the City's name	\$ -	\$ -
(2) Insured or collateralized with securities held by the pledging institution's trust department in the City's name	955,168	952,983
(3) Uncollateralized or collateralized with securities not in the City's name	-	-
Totals	\$ 955,168	\$ 952,983

Pooling of Cash

The City makes investments from a "pooled" bank account.

B. Investments

The City has no investments. The CD's are covered by FDIC insurance and are considered deposits which are covered in item A above.

Note 3. Defined Benefit Pension Plans - Statewide

A. Plan Description

Two employees of the City of Hayward are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after five years of credited service. The defined retirement benefits are based on a members 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 percent of average salary for each of the first 10 years of service and 2.7 percent 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 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and for GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF and PECF. That report may be obtained on the Internet at 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.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. PECF members are required to contribute 5.83% of their annual covered salary. The City of Hayward is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan PERF members, and 15.3% for PEPFF members, and 8.75% for PECF members. The City's contributions to the Public

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

Employees Retirement Fund for the years ending December 31, 2015, 2014, and 2013 were \$5,096, \$4,432, and \$4,378, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2015, 2014, and 2013 were \$ -0-, \$ -0-. And \$ -0-. Respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 4. Disbursements over Budget

There was no budget where disbursements exceeded the budget.

Note 5. Deficit Fund Balances

The city did not have any deficit fund balances at the end of 2015.

Note 6. Long-term Debt

The following is a summary of debt transactions for the year ended December 31, 2015:

	Debt Outstanding
Balance payable January 1, 2015	\$261,000
Debt issued in 2015	144,535
Payment on debt	(33,000)
Balance payable December 31, 2015	\$ 372,535

At December 31, 2013, the City had the following debt outstanding:

Issue	Interest Rate	Issue Date	Final Maturity Date	Outstanding Balance 12/31/2015
1995 Third Addition Improvement	5.375%	10/01/1997	01/01/2025	\$ 106,000
2015 General Obligation Revenue Note	1.00%	05/11/2015	08/20/2030	144,535
2010 General Obligation Water Revenue	4.00%	09/01/2010	02/01/2026	122,000
Total outstanding debt				\$ 372,535

Annual debt service requirements necessary to service the outstanding debt at December 31, 2015, are as follows:

Year	Principal	Interest
2016	25,033	14,015
2017	31,000	12,912
2018	32,000	11,910
2019	33,000	10,831
2020	33,000	9,670
2021 to 2025	172,000	28,921
2026 to 2030	46,502	5,226

Note 7. Enterprise Fund Statements

In accordance with the state auditor's manual on Minimum Reporting Requirements for Cities Under 2,500 in Population, accrual basis financial statements have been prepared for the City's enterprise funds. These statements are included in the accompanying information. For the purpose of the statement of changes in financial position, cash includes cash in checking and savings.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 8. Risk Management

The City is exposed to various risks of loss by theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance policies to cover any losses arising from the various risks. There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's insurance coverage in any of the prior three years.

Note 9. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through April 11, 2016 the date the financial statements were available to be issued.

SUPPLEMENTARY STATEMENTS AND SCHEDULES

CITY OF HAYWARD, MINNESOTA
Budgetary Comparison Schedule - Cash Basis
GENERAL FUND
For the year ended December 31, 2015

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Receipts:				
Taxes:				
General property taxes	\$ 96,328	\$ 96,328	\$ 93,779	\$ (2,549)
	96,328	96,328	93,779	(2,549)
Licenses and permits:				
Licenses and permits	2,200	2,200	2,212	12
Total licenses and permits	2,200	2,200	2,212	12
Intergovernmental revenue:				
State aid:				
Local government aid	25,642	25,642	25,642	-
Market value credit	120	120	249	129
PERA rate increase aid	144	144	144	-
Total Intergovernmental revenue	25,906	25,906	26,035	129
Miscellaneous:				
Bond issuing fees	10,000	10,000	10,000	-
Grant income-bike trail	100,000	100,000	71,419	(28,581)
Interest income	850	850	832	(18)
Miscellaneous income	1,100	1,100	5,945	4,845
Rental income	15,260	15,260	14,918	(342)
Total miscellaneous	127,210	127,210	103,114	(24,096)
Total receipts	\$ 251,644	\$ 251,644	\$ 225,140	\$ (26,504)

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Budgetary Comparison Schedule - Cash Basis
GENERAL FUND
For the year ended December 31, 2015

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Disbursements:				
General government:				
Mayor and council salaries	\$ 4,800	\$ 4,800	\$ 5,005	\$ (205)
Election expense	-	-	-	-
Finance clerk salary	14,089	14,089	17,911	(3,822)
Insurance	21,879	21,879	24,739	(2,860)
Wages	22,292	22,292	22,490	(198)
Dues, subscriptions and meetings	500	500	444	56
Office supplies	1,200	1,200	1,251	(51)
Professional fees	6,250	6,250	6,718	(468)
Supplies	1,200	1,200	924	276
Fuel, oil, utilities & communication	13,724	13,724	9,179	4,545
Repair and maintenance	3,650	3,650	3,958	(308)
Miscellaneous	5,550	5,550	2,987	2,563
Capital expenditure	-	-	3,387	(3,387)
Property tax expense	2,750	2,750	10,898	(8,148)
Payroll taxes and PERA	6,594	6,594	7,773	(1,179)
Total General Government	<u>104,478</u>	<u>104,478</u>	<u>117,664</u>	<u>(13,186)</u>
Bike Trail				
Wages	1,370	1,370	826	544
Payroll tax	131	131	69	62
Professional fees	13,200	13,200	21,167	(7,967)
Miscellaneous	520	520	450	70
Insurance	483	483	439	44
Capital expenditure	72,705	72,705	48,487	24,218
Total Culture and Recreation	<u>88,409</u>	<u>88,409</u>	<u>71,438</u>	<u>16,971</u>
Total Disbursements	<u>192,887</u>	<u>192,887</u>	<u>189,102</u>	<u>3,785</u>
Excess of receipts over (under) disbursements	<u>58,757</u>	<u>58,757</u>	<u>36,038</u>	<u>(22,719)</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(138,000)	(138,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(138,000)</u>	<u>(138,000)</u>
Net change in cash fund balances	58,757	58,757	(101,962)	(160,719)
Fund balance, beginning of year	<u>432,459</u>	<u>432,459</u>	<u>432,459</u>	<u>-</u>
Fund balance, end of year	<u>\$ 491,216</u>	<u>\$ 491,216</u>	<u>\$ 330,497</u>	<u>\$ (160,719)</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
**Combining Statement of Cash Receipts, Disbursement,
and Changes in Cash Fund Balances**
Special Revenue Funds
For the year ended December 31, 2015

	Street Fund	Fire Fund	Total Special Revenue Funds
Receipts:			
Property taxes	\$ 53,685	\$ 17	\$ 53,702
Small City Road Assistance	9,608	-	9,608
Intrergovernmental	10,000	-	10,000
Fire contracts	-	30,628	30,628
Fire calls	-	987	987
State fire aid	-	13,092	13,092
Fire stipend income	-	10,000	10,000
Grant income	-	3,490	3,490
Donations	-	13,105	13,105
Total receipts	<u>73,293</u>	<u>71,319</u>	<u>144,612</u>
Disbursements			
Wages	2,902	1,662	4,564
PERA	218	125	343
Payroll tax	224	158	382
Repair & maintenance	1,628	1,893	3,521
Snow removal	730	-	730
Legal and professional	7,767	-	7,767
Insurance	3,134	3,890	7,024
Utilities	5,261	4,598	9,859
Miscellaneous	321	3,202	3,523
Education seminars	-	3,305	3,305
Capital outlay	50,435	410	50,845
Relief Association-donation and stipend	-	14,500	14,500
Relief Association-state aid	-	13,092	13,092
Supplies	99	3,750	3,849
Total disbursements	<u>72,719</u>	<u>50,585</u>	<u>123,304</u>
Excess of receipts over (under) disbursements	<u>574</u>	<u>20,734</u>	<u>21,308</u>
Other Financing Sources (Uses):			
Transfers In	128,000	10,000	138,000
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>128,000</u>	<u>10,000</u>	<u>138,000</u>
Net Change in Cash Fund Balance	128,574	30,734	159,308
Fund balance, beginning of year	<u>137,970</u>	<u>173,868</u>	<u>311,838</u>
Fund balance, end of year	<u>\$ 266,544</u>	<u>\$ 204,602</u>	<u>\$ 471,146</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
**Combining Statement of Cash Receipts, Disbursement,
and Changes in Cash Fund Balances**
Debt Service Funds
For the year ended December 31, 2015

	<u>1995 3rd Addition Debt Fund</u>
Receipts:	
Tax assessments	\$ 18,552
Total receipts	<u>18,552</u>
 Disbursements:	
Debt payment	
Principal	13,000
Interest	6,396
Total disbursements	<u>19,396</u>
Excess of receipts over (under) disbursements	<u>(844)</u>
Net Change in Cash Fund Balance	(844)
Fund balance, beginning of year	<u>34,636</u>
Fund balance, end of year	<u><u>\$ 33,792</u></u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 58,582	\$ 58,966	\$ 117,548
Accounts receivable	15,784	12,492	28,276
Total Current Assets	<u>74,366</u>	<u>71,458</u>	<u>145,824</u>
Noncurrent Assets:			
Property and equipment	384,445	439,484	823,929
Accumulated depreciation	<u>(280,382)</u>	<u>(130,053)</u>	<u>(410,435)</u>
Total Noncurrent Assets	<u>104,063</u>	<u>309,431</u>	<u>413,494</u>
Total Assets	178,429	380,889	559,318
Liabilities:			
Current Liabilities			
Accounts payable	<u>1,128</u>	<u>1,173</u>	<u>2,301</u>
Total Current Liabilities	1,128	1,173	2,301
Noncurrent Liabilities			
Bonds, Notes and loans payable	<u>122,000</u>	<u>144,535</u>	<u>266,535</u>
Total Liabilities	<u>123,128</u>	<u>145,708</u>	<u>268,836</u>
Net Position:			
Invested in capital assets, net of related debt	(17,937)	164,896	146,959
Unrestricted	<u>73,238</u>	<u>70,285</u>	<u>143,523</u>
Total Net Position	<u>\$ 55,301</u>	<u>\$ 235,181</u>	<u>\$ 290,482</u>

See accompanying notes to financial statements

CITY OF HAYWARD, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues:			
User charges	\$ 67,104	\$ 48,510	\$ 115,614
Grant income	-	74,355	74,355
Late charges	225	60	285
Total Operating Receipts	<u>67,329</u>	<u>122,925</u>	<u>190,254</u>
Operating Expenses:			
Wages	6,442	12,782	19,224
Testing	429	1,692	2,121
Insurance	4,226	8,209	12,435
Fees, dues and permits	1,525	3,110	4,635
Professional fees	1,470	3,001	4,471
PERA	483	959	1,442
Payroll tax	505	943	1,448
Repairs and maintenance	1,499	1,591	3,090
Utilities	4,981	4,979	9,960
Depreciation	8,569	9,854	18,423
Miscellaneous	544	1,682	2,226
Total Operating Expenses	<u>30,673</u>	<u>48,802</u>	<u>79,475</u>
Operating Income (loss)	36,656	74,123	110,779
Nonoperating Revenue(Expense)			
Interest income	901	867	1,768
Interest expense	(5,480)	-	(5,480)
Total Nonoperating Revenue (Expenses)	<u>(4,579)</u>	<u>867</u>	<u>(3,712)</u>
Change in Net Position	<u>32,077</u>	<u>74,990</u>	<u>107,067</u>
Total Net Position - Beginning	<u>23,224</u>	<u>160,191</u>	<u>183,415</u>
Total Net Position - Ending	<u><u>\$ 55,301</u></u>	<u><u>\$ 235,181</u></u>	<u><u>\$ 290,482</u></u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Flows - Accrual Basis
PROPRIETARY FUNDS
For the year ended December 31, 2015

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Change in net position	\$ 32,077	\$ 74,990	\$ 107,067
Adjustments to reconcile to net cash from operating:			
Depreciation	8,569	9,854	18,423
(Increase) Decrease in accounts receivable	(1,246)	(662)	(1,908)
Increase (Decrease) in accounts payable	(17,747)	927	(16,820)
Other receipts (payments)	-	-	-
Net cash provided by operating activities	21,653	85,109	106,762
Cash flows from capital and related financing activities			
Capital purchases	-	(245,145)	(245,145)
Increase (Decrease) in long term notes payable	(20,000)	144,535	124,535
Net cash provided by (used in) capital and related financing activities	(20,000)	(100,610)	(120,610)
Net increase (decrease) in cash and cash equivalents	1,653	(15,501)	(13,848)
Cash balances - beginning of year	56,929	74,467	131,396
Cash balances - end of year	\$ 58,582	\$ 58,966	\$ 117,548
Cash and cash equivalents			
Cash and cash equivalents	\$ 58,582	\$ 58,966	\$ 117,548
Total cash and cash equivalents - end of year	\$ 58,582	\$ 58,966	\$ 117,548

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Schedule of Indebtedness
For the Year Ended December 31, 2015

<u>Bonded Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1, 2015</u>	<u>Issued in 2015</u>	<u>Paid in 2015</u>	<u>Outstanding December 31, 2015</u>
General Obligation Revenue							
1995 Third Addition Improvement	5.38%	10/1/1997	1/1/2025	119,000	-	13,000	106,000
2010 Water Revenue Bonds	4.00%	9/1/2010	2/1/2026	142,000	-	20,000	122,000
General Obligation Revenue Note of 2015	1.00%	5/11/2015	8/20/2030	-	144,535	-	144,535
Total Bonded Indebtedness				<u>261,000</u>	<u>144,535</u>	<u>33,000</u>	<u>372,535</u>
Total Indebtedness				<u>\$ 261,000</u>	<u>\$ 144,535</u>	<u>\$ 33,000</u>	<u>\$ 372,535</u>

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Receivable
For the Year Ended December 31, 2015

<u>Fund</u>	<u>Source of Revenue</u>	<u>Purpose</u>	<u>Amount</u>
Water	Customers	User Charges	15,784
Sewer	Customers	User Charges	12,492
Total			\$ 28,276

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Payable
For the Year Ended December 31, 2015

Fund	Vendor Name	Item and Purpose	Amount
General	Waste Management	Garbage	\$ 106
	Intuit Payroll Service	Payroll expense	17
	Gopher State One Call	Communications	6
	Minnesota Energy Resources	Utilities	283
	Freeborn County Coop Oil	Fuel	98
	Zenk Read and Trygstad	Engineering	1,364
	Verizon	Telephone	46
	Cardmember Services	Office supplies	7
	Home Depot	Supplies	108
	Freeborn Mower Coop Svs	Utilities	121
Total General Fund			<u>2,156</u>
Street	Freeborn Mower Coop Svs	Utilities	363
	Freeborn County Coop Oil	Fuel	25
Total Street Fund			<u>388</u>
Fire	Freeborn Mower Coop Svs	Utilities	24
	City of Albert Lea	Communications	113
	Emergency Apparatus Maint	Truck repair	14,279
	Waste Management	Garbage	19
	Olson Trading Post	Repair	62
Minnesota Energy Resources	Utilities	120	
Total Fire Fund			<u>14,617</u>
Water	Freeborn Mower Coop Svs	Utilities	405
	MN DNR Eco Water Res	Fees	165
	MN Department of Revenue	Sales Tax	558
Total Water Fund			<u>1,128</u>
Sewer	Freeborn Mower Coop Svs	Utilities	185
	Utility Consultants	Testing	80
	Zenk Read Trygstad	Engineering	908
Total Sewer Fund			<u>1,173</u>
Total			<u><u>\$ 19,462</u></u>

HILL, LARSON, WALTH & BENDA, P. A.

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

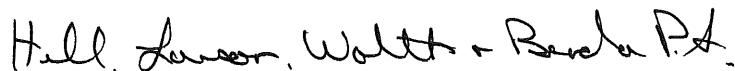
Members of the City Council
Hayward, Minnesota 56043

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Hayward, Minnesota 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 April 11, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statutes Sec 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 study included all of the listed categories, except that we did not test for compliance in Tax Increment Financing because the city has no Tax Increment Financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Hayward, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Guide for Political Subdivisions*. 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.

This report is intended solely for the use of the City of Hayward, Minnesota and other state agencies and should not be used for any other purposes.



Hill, Larson, Walth & Benda, P.A.

April 11, 2016