

CITY OF HAYWARD, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CITY OF HAYWARD, MINNESOTA

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CITY OF HAYWARD, MINNESOTA

CITY OFFICIALS

December 31, 2016

Mike Hansen

Anthony Cox

Darwin Dolph

Eugene Flaskerud

Susan Ruble

Kathy Aase

Mayor

Councilperson

Councilperson

Councilperson

Councilperson

Clerk-Treasurer

HILL, BENDA, SKOV & BERNAU, P. A.

Certified Public Accountants

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Andrew M. Bernau, 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, 2016, 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

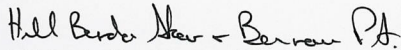
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, those financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hayward as of December 31, 2016 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, 2016 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, Benda, Skov & Bernau, P.A.

May 8, 2017

BASIC FUND FINANCIAL STATEMENTS

CITY OF HAYWARD, MINNESOTA
Statement of Balances Arising From Cash Transactions
GOVERNMENTAL FUNDS
For the year ended December 31, 2016

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 221,836	\$ 204,297	\$ 307,003	\$ 34,231	\$ 767,367
Investments	117,144	-	-	-	117,144
Total Assets	<u>\$ 338,980</u>	<u>\$ 204,297</u>	<u>\$ 307,003</u>	<u>\$ 34,231</u>	<u>\$ 884,511</u>
Cash Fund Balance					
Committed for					
Fire protection	\$ -	\$ 16,415	\$ -	\$ -	\$ 16,415
Fire Station Remodel	-	15,500	-	-	15,500
Equipment	-	172,382	25,000	-	197,382
Street Repairs	-	-	282,003	-	282,003
Restricted for					
Debt service	-	-	-	34,231	34,231
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	181,580	-	-	-	181,580
Total Cash Fund Balances	<u>\$ 338,980</u>	<u>\$ 204,297</u>	<u>\$ 307,003</u>	<u>\$ 34,231</u>	<u>\$ 884,511</u>

Includes
Everything
except water/sewer
(that's separate)

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

For the year ended December 31, 2016

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Receipts:					
Property taxes	\$ 94,222	\$ 4,359	\$ 53,934	\$ 19,137	\$ 171,652
Bond issuing fee	-	-	-	-	-
Fire Stipend	-	-	-	-	26,167
Grant Income	25,104	1,063	-	-	-
Small City Road Assistance	-	-	-	-	2,504
Licenses and permits	2,504	-	-	-	60,319
Intergovernmental	26,374	24,044	9,901	-	12,350
Donations	500	11,850	-	-	513
Interest income	513	-	-	-	14,895
Charges for services	14,895	-	-	-	34,377
Township fire contracts and firecalls	-	34,377	-	-	9,826
Miscellaneous	8,080	1,746	-	-	-
Total receipts	<u>172,192</u>	<u>77,439</u>	<u>63,835</u>	<u>19,137</u>	<u>332,603</u>
			prop. tr LGA	'95 3rd st Add'n	
Disbursements:					
Current					
General government	114,180	-	-	-	114,180
Streets and highways	-	-	17,472	-	17,472
Bike trail	24,544	-	-	-	24,544
Public safety	-	70,815	-	-	70,815
Miscellaneous	-	-	-	-	-
Capital outlay	24,985	6,929	5,904	-	37,818
<i>2004 Chevy</i>					
Debt service:					
Principal	-	-	-	13,000	13,000
Interest and other charges	-	-	-	5,698	5,698
Total disbursements	<u>163,709</u>	<u>77,744</u>	<u>23,376</u>	<u>18,698</u>	<u>283,527</u>
Excess of receipts over disbursements	<u>8,483</u>	<u>(305)</u>	<u>40,459</u>	<u>439</u>	<u>49,076</u>
Net change in cash fund balances	<u>8,483</u>	<u>(305)</u>	<u>40,459</u>	<u>439</u>	<u>49,076</u>
Fund balance, beginning of year	<u>330,497</u>	<u>204,602</u>	<u>266,544</u>	<u>33,792</u>	<u>835,435</u>
Fund balance, end of year	<u>\$ 338,980</u>	<u>\$ 204,297</u>	<u>\$ 307,003</u>	<u>\$ 34,231</u>	<u>\$ 884,511</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, 2016

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current assets:			
Cash	\$ 66,956	\$ 50,788	\$ 117,744
Total assets	\$ 66,956	\$ 50,788	\$ 117,744
 Net Position:			
Restricted for debt service	\$ 18,267	\$ 9,484	\$ 27,751
Restricted for capital projects	-	-	-
Unrestricted-net assets	48,689	41,304	89,993
 Total Net Position	\$ 66,956	\$ 50,788	\$ 117,744

CITY OF HAYWARD, MINNESOTA
Statement of Receipts, Disbursements, and Changes in Net Position
PROPRIETARY FUNDS

For the year ended December 31, 2016

Income Statement for Water/Sewer

	Enterprise Funds		
	Water	Sewer	Totals
Operating receipts			
User charges	\$ 62,816	\$ 51,174	\$ 113,990
Late fees	1,350	-	1,350
Miscellaneous	225	3,369	3,594
Total operating receipts	<u>64,391</u>	<u>54,543</u>	<u>118,934</u>
Operating disbursements			
Wages	13,091	21,401	34,492
PERA	-	-	-
Payroll tax	1,001	1,637	2,638
Testing	935	3,007	3,942
Fees, dues and permits	1,254	125	1,379
Legal and professional	1,465	6,972	8,437
Repairs and maintenance	15,903	10,689	26,592
Insurance	667	2,083	2,750
Utilities	6,013	3,987	10,000
Capital outlay	-	18,728	18,728
Miscellaneous	858	900	1,758
Total operating disbursements	<u>41,187</u>	<u>69,529</u>	<u>110,716</u>
Operating income (loss)	23,204	(14,986)	8,218
Nonoperating Receipts (Disbursements)			
Interest income	-	2,218	2,218
Bond income	-	5,766	5,766
Grants	-	2,132	2,132
Interest expense	(4,830)	(1,275)	(6,105)
Debt principal	(10,000)	(2,033)	(12,033)
Total Nonoperating Receipts (Disbursements)	<u>(14,830)</u>	<u>6,808</u>	<u>(8,022)</u>
Change in net position	8,374	(8,178)	196
Total net cash position, beginning of year	<u>58,582</u>	<u>58,966</u>	<u>117,548</u>
Total net cash position, end of year	<u>\$ 66,956</u>	<u>\$ 50,788</u>	<u>\$ 117,744</u>

196
overhead

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, 2016

	Sewer General Obligation of 2015	Water General Obligation of 2010
Receipts:		
User charges	\$ 8,060	\$ 15,297
Total Receipts	8,060	15,297
 Disbursements:		
Principal	2,033	10,000
Interest expense	1,275	4,830
Total Disbursements	3,308	14,830
Excess of Receipts over Disbursements	4,752	467
Net change in Cash Fund Balances	4,752	467
Fund balance, beginning of year	4,732	17,800
Fund balance, end of year	\$ 9,484	\$ 18,267

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Flows - Cash Basis
PROPRIETARY FUNDS
For the year ended December 31, 2016

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Receipts from customers	\$ 64,391	\$ 54,543	\$ 118,934
Payments to suppliers	(28,096)	(29,400)	(57,496)
Payments to employees	(13,091)	(21,401)	(34,492)
Net cash provided by operating activities	23,204	3,742	26,946
Cash flows from capital and related financing activities			
Capital outlay	-	(18,728)	(18,728)
Other receipts - Bond and Grant income	-	7,898	7,898
Interest income	-	2,218	2,218
Principal paid on capital debt	(10,000)	(2,033)	(12,033)
Interest paid on capital debt	(4,830)	(1,275)	(6,105)
Net cash provided by (used in) capital and related financing activities	(14,830)	(11,920)	(26,750)
Net increase (decrease) in cash and cash equivalents	8,374	(8,178)	196
Cash balances - beginning of year	58,582	58,966	117,548
Cash balances - end of year	\$ 66,956	\$ 50,788	\$ 117,744
Cash and cash equivalents			
Cash and cash equivalents	\$ 66,956	\$ 50,788	\$ 117,744
Total cash and cash equivalents - end of year	\$ 66,956	\$ 50,788	\$ 117,744

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016

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, 2016

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, 2016

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	\$	884,511
Business-type fund activities		
Cash and CDs	—	117,744
Total Cash and CDs	\$	1,002,255

*over 1M @ Bank
 Bank has to buy
 collateral anything
 ↑ \$250K*

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, 2016 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, 2016

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 0.40%.

Balances at December 31, 2016:

	<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	1,004,345	1,002,255
(3) Uncollateralized or collateralized with securities not in the City's name	-	-
Totals	\$ 1,004,345	\$ 1,002,255

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, 2016

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 6.5%, respectively, of their annual covered salary in 2016. PEPFF members were required to contribute 10.2% of their annual covered salary in 2016. 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, 7.5% for Coordinated Plan PERF members, and 15.3% for PEPFF members, and 8.75% for PECF members. The City's contributions to the Public Employees

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

Retirement Fund for the years ending December 31, 2016, 2015, and 2014 were \$6,823, \$5,096, and \$4,432, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2016, 2015, and 2014 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

Disbursements exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	141,260	163,709	22,449

These items have been reviewed with management and they are aware of the excesses and know which disbursements they relate to.

Note 5. Deficit Fund Balances

The city did not have any deficit fund balances at the end of 2016.

Note 6. Long-term Debt

The following is a summary of debt transactions for the year ended December 31, 2016:

	<u>Debt Outstanding</u>
Balance payable January 1, 2016	\$372,535
Debt issued in 2016	5,766
Payment on debt	<u>(25,033)</u>
Balance payable December 31, 2016	<u>\$ 353,268</u>

At December 31, 2016, the City had the following debt outstanding:

<u>Issue</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding Balance 12/31/2016</u>
1995 Third Addition Improvement	5.375%	10/01/1997	01/01/2025	\$ 93,000
2015 General Obligation Revenue Note	1.00%	05/11/2015	08/20/2030	148,268
2010 General Obligation Water Revenue	4.00%	09/01/2010	02/01/2026	<u>112,000</u>
Total outstanding debt				<u>\$ 353,268</u>

Annual debt service requirements necessary to service the outstanding debt at December 31, 2016, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	31,000	11,232
2018	32,000	10,221
2019	33,000	9,134
2020	33,000	7,993
2021	35,000	6,831
2022 to 2026	154,000	15,450
2027 to 2031	35,268	1,200

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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.

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 May 8, 2017 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, 2016

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Receipts:				
Taxes:				
General property taxes	\$ 94,029	\$ 94,029	\$ 94,222	\$ 193
	94,029	94,029	94,222	193
Licenses and permits:				
Licenses and permits	2,520	2,520	2,504	(16)
Total licenses and permits	2,520	2,520	2,504	(16)
Intergovernmental revenue:				
State aid:				
Local government aid	26,000	26,000	26,000	-
Market value credit	120	120	230	110
PERA rate increase aid	144	144	144	-
Total Intergovernmental revenue	26,264	26,264	26,374	110
Miscellaneous:				
Grant income-bike trail	-	-	25,104	25,104
Interest income	400	400	513	113
Miscellaneous income	700	700	8,580	7,880
Rental income	16,480	16,480	14,895	(1,585)
Total miscellaneous	17,580	17,580	49,092	31,512
Total receipts	\$ 140,393	\$ 140,393	\$ 172,192	\$ 31,799

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Budgetary Comparison Schedule - Cash Basis
GENERAL FUND

For the year ended December 31, 2016

	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Disbursements:				
General government:				
Mayor and council salaries	\$ 4,800	\$ 4,800	\$ 4,490	\$ 310
Election expense	1,000	1,000		1,000
Finance clerk salary	20,155	20,155	14,292	5,863
Insurance	7,700	7,700	8,123	(423)
Wages	43,666	43,666	38,358	5,308
Dues, subscriptions and meetings	550	550	1,194	(644)
Office supplies	2,450	2,450	1,688	762
Professional fees	8,050	8,050	3,963	4,087
Supplies	1,200	1,200	1,635	(435)
Fuel, oil, utilities & communication	11,025	11,025	6,547	4,478
Repair and maintenance	3,500	3,500	4,564	(1,064)
Miscellaneous	4,545	4,545	5,894	(1,349)
Capital expenditure	15,000	15,000	24,985	(9,985)
Property tax expense	7,400	7,400	11,928	(4,528)
Payroll taxes and PERA	10,219	10,219	11,504	(1,285)
Total General Government	<u>141,260</u>	<u>141,260</u>	<u>139,165</u>	<u>2,095</u>
Bike Trail				
Wages	-	-	446	(446)
Payroll tax	-	-		-
Professional fees	-	-		-
Miscellaneous	-	-	70	(70)
Insurance	-	-		-
Capital expenditure	-	-	24,028	(24,028)
Total Culture and Recreation	<u>-</u>	<u>-</u>	<u>24,544</u>	<u>(24,544)</u>
Total Disbursements	<u>141,260</u>	<u>141,260</u>	<u>163,709</u>	<u>(22,449)</u>
Excess of receipts over (under) disbursements	<u>(867)</u>	<u>(867)</u>	<u>8,483</u>	<u>9,350</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash fund balances	(867)	(867)	8,483	9,350
Fund balance, beginning of year	<u>330,497</u>	<u>330,497</u>	<u>330,497</u>	<u>-</u>
Fund balance, end of year	<u>\$ 329,630</u>	<u>\$ 329,630</u>	<u>\$ 338,980</u>	<u>\$ 9,350</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, 2016

	Street Fund	Fire Fund	Total Special Revenue Funds
Receipts:			
Property taxes	\$ 53,934	\$ 4,359	\$ 58,293
Donations	-	11,850	11,850
Intrergovernmental	9,901	-	9,901
Fire contracts	-	31,027	31,027
Fire calls	-	3,350	3,350
State fire aid	-	13,044	13,044
Fire stipend income	-	11,000	11,000
Grant income	-	1,063	1,063
Other income	-	1,746	1,746
Total receipts	<u>63,835</u>	<u>77,439</u>	<u>141,274</u>
Disbursements			
Wages	3,401	3,244	6,645
PERA	-	-	-
Payroll tax	260	248	508
Repair & maintenance	1,239	18,624	19,863
Snow removal	-	-	-
Legal and professional	1,821	-	1,821
Insurance	4,405	2,891	7,296
Utilities	5,432	3,054	8,486
Miscellaneous	49	632	681
Education seminars	-	-	-
Capital outlay	5,904	6,929	12,833
Relief Association-donation and stipend	-	17,008	17,008
Relief Association-state aid	-	13,044	13,044
Supplies	865	12,070	12,935
Total disbursements	<u>23,376</u>	<u>77,744</u>	<u>101,120</u>
Excess of receipts over (under) disbursements	<u>40,459</u>	<u>(305)</u>	<u>40,154</u>
Other Financing Sources (Uses):			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash Fund Balance	40,459	(305)	40,154
Fund balance, beginning of year	<u>266,544</u>	<u>204,602</u>	<u>471,146</u>
Fund balance, end of year	<u>\$ 307,003</u>	<u>\$ 204,297</u>	<u>\$ 511,300</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, 2016

	1995 3rd Addition Debt Fund
Receipts:	
Tax assessments	\$ 19,137
Total receipts	19,137
 Disbursements:	
Debt payment	
Principal	13,000
Interest	5,698
Total disbursements	18,698
Excess of receipts over (under) disbursements	439
Net Change in Cash Fund Balance	439
Fund balance, beginning of year	33,792
Fund balance, end of year	\$ 34,231

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2016

*Accrued Bonds
Water/Sewer*

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 66,956	\$ 50,788	\$ 117,744
Accounts receivable	10,734	15,427	26,161
Total Current Assets	<u>77,690</u>	<u>66,215</u>	<u>143,905</u>
Noncurrent Assets:			
Property and equipment	384,445	458,212	842,657
Accumulated depreciation	<u>(288,956)</u>	<u>(146,639)</u>	<u>(435,595)</u>
Total Noncurrent Assets	<u>95,489</u>	<u>311,573</u>	<u>407,062</u>
Total Assets	173,179	377,788	550,967
Liabilities:			
Current Liabilities			
Accounts payable	520	6,021	6,541
Total Current Liabilities	<u>520</u>	<u>6,021</u>	<u>6,541</u>
Noncurrent Liabilities			
Bonds, Notes and loans payable	<u>112,000</u>	<u>148,268</u>	<u>260,268</u>
Total Liabilities	<u>112,520</u>	<u>154,289</u>	<u>266,809</u>
Net Position:			
Invested in capital assets, net of related debt	(17,937)	164,896	146,959
Unrestricted	<u>78,596</u>	<u>58,603</u>	<u>137,199</u>
Total Net Position	<u>\$ 60,659</u>	<u>\$ 223,499</u>	<u>\$ 284,158</u>

CITY OF HAYWARD, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS

For the year ended December 31, 2016

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues:			
User charges	\$ 57,991	\$ 57,478	\$ 115,469
Grant income	-	2,132	2,132
Late charges	1,350	-	1,350
Total Operating Receipts	<u>59,341</u>	<u>59,610</u>	<u>118,951</u>
Operating Expenses:			
Wages	13,091	21,401	34,492
Testing	1,062	3,007	4,069
Insurance	667	2,083	2,750
Fees, dues and permits	1,089	125	1,214
Professional fees	1,465	11,950	13,415
Payroll tax	1,001	1,637	2,638
Repairs and maintenance	15,903	10,689	26,592
Utilities	6,001	3,857	9,858
Depreciation	8,574	16,586	25,160
Miscellaneous	300	900	1,200
Total Operating Expenses	<u>49,153</u>	<u>72,235</u>	<u>121,388</u>
Operating Income (loss)	10,188	(12,625)	(2,437)
Nonoperating Revenue(Expense)			
Interest income	-	2,218	2,218
Interest expense	(4,830)	(1,275)	(6,105)
Total Nonoperating Revenue (Expenses)	<u>(4,830)</u>	<u>943</u>	<u>(3,887)</u>
Change in Net Position	5,358	(11,682)	(6,324)
Total Net Position - Beginning	<u>55,301</u>	<u>235,181</u>	<u>290,482</u>
Total Net Position - Ending	<u>\$ 60,659</u>	<u>\$ 223,499</u>	<u>\$ 284,158</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, 2016

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Change in net position	\$ 5,358	\$ (11,682)	\$ (6,324)
Adjustments to reconcile to net cash from operating:			
Depreciation	8,574	16,586	25,160
(Increase) Decrease in accounts receivable	5,050	(2,935)	2,115
Increase (Decrease) in accounts payable	(608)	4,848	4,240
Other receipts (payments)	-	-	-
Net cash provided by operating activities	18,374	6,817	25,191
Cash flows from capital and related financing activities			
Capital purchases	-	(18,728)	(18,728)
Increase (Decrease) in long term notes payable	(10,000)	3,733	(6,267)
Net cash provided by (used in) capital and related financing activities	(10,000)	(14,995)	(24,995)
Net increase (decrease) in cash and cash equivalents	8,374	(8,178)	196
Cash balances - beginning of year	58,582	58,966	117,548
Cash balances - end of year	\$ 66,956	\$ 50,788	\$ 117,744
Cash and cash equivalents			
Cash and cash equivalents	\$ 66,956	\$ 50,788	\$ 117,744
Total cash and cash equivalents - end of year	\$ 66,956	\$ 50,788	\$ 117,744

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Schedule of Indebtedness
 For the Year Ended December 31, 2016

<u>Bonded Indebtedness</u>	Interest Rate	Issue Date	Final Maturity Date	Outstanding January 1, 2016	Issued in 2016	Paid in 2016	Outstanding December 31, 2016
General Obligation Revenue							
1995 Third Addition Improvement	5.38%	10/1/1997	1/1/2025	106,000	-	13,000	93,000
2010 Water Revenue Bonds	4.00%	9/1/2010	2/1/2026	122,000	-	10,000	112,000
General Obligation Revenue Note of 2015	1.00%	5/11/2015	8/20/2030	144,535	5,766	2,033	148,268
Total Bonded Indebtedness				<u>372,535</u>	<u>5,766</u>	<u>25,033</u>	<u>353,268</u>
Total Indebtedness				<u>\$ 372,535</u>	<u>\$ 5,766</u>	<u>\$ 25,033</u>	<u>\$ 353,268</u>

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Receivable
For the Year Ended December 31, 2016

<u>Fund</u>	<u>Source of Revenue</u>	<u>Purpose</u>	<u>Amount</u>
Water	Customers	User Charges	10,734
Sewer	Customers	User Charges	15,427
Total			\$ 26,161

*1st Qtr in 2017
For Svcs 2016*

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Payable
For the Year Ended December 31, 2016

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Amount</u>
General	Waste Management	Garbage	\$ 42
	Intuit Payroll Service	Payroll expense	4
	Freeborn County	Election	905
	Minnesota Energy Resources	Utilities	514
	Freeborn County Coop Oil	Fuel	120
	Zenk Read and Trygstad	Engineering	300
	Verizon	Telephone	46
	Albert Lea Electric	Repair	75
	H & K Propane	Utilities	81
	Freeborn Mower Coop Svs	Utilities	315
Total General Fund			<u>2,402</u>
Street	Freeborn Mower Coop Svs	Utilities	368
	Freeborn County Highway Dept	Repairs	359
	Freeborn County Coop Oil	Fuel	106
Total Street Fund			<u>833</u>
Fire	Freeborn Mower Coop Svs	Utilities	27
	Heiman Fire Equipment	Supplies	1,891
	Freeborn County Coop Svs	Fuel	42
	Freeborn County Fire Assoc	Dues	50
Total Fire Fund			<u>2,010</u>
Water	Freeborn Mower Coop Svs	Utilities	393
	HACH Company	testing	127
Total Water Fund			<u>520</u>
Sewer	Freeborn Mower Coop Svs	Utilities	55
	Utility Consultants	Testing	80
	Zenk Read Trygstad	Engineering	5,886
Total Sewer Fund			<u>6,021</u>
Total			<u>\$ 11,786</u>

HILL, BENDA, SKOV & BERNAU, P. A.

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Lance E. Skov, C.P.A.

Andrew M. Bernau, C.P.A.

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Members of the City Council

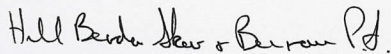
Hayward, Minnesota 56043

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, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 8, 2017.

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, Benda, Skov & Bernau, P.A.

May 8, 2017