

CITY OF HAYWARD, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CITY OF HAYWARD, MINNESOTA

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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

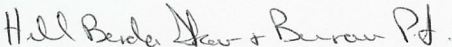
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, those financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hayward as of December 31, 2018 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, 2018 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 13, 2019

BASIC FUND FINANCIAL STATEMENTS

CITY OF HAYWARD, MINNESOTA
Statement of Balances Arising From Cash Transactions
GOVERNMENTAL FUNDS
For the year ended December 31, 2018

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 300,163	\$ 273,535	\$ 290,584	\$ 35,570	\$ 899,852
Investments	118,085	-	-	-	118,085
Total Assets	<u>\$ 418,248</u>	<u>\$ 273,535</u>	<u>\$ 290,584</u>	<u>\$ 35,570</u>	<u>\$ 1,017,937</u>
Cash Fund Balance					
Committed for					
Fire protection	\$ -	\$ 49,005	\$ -	\$ -	\$ 49,005
Fire Station Remodel	-	150,000	-	-	150,000
Equipment	-	74,530	-	-	74,530
Street Repairs	-	-	290,584	-	290,584
Restricted for					
Debt service	-	-	-	35,570	35,570
Assigned for					
City Hall	150,000	-	-	-	150,000
City Equipment	17,000	-	-	-	17,000
Park Improvements	25,000	-	-	-	25,000
Civil Defense	5,000	-	-	-	5,000
Unassigned	221,248	-	-	-	221,248
Total Cash Fund Balances	<u>\$ 418,248</u>	<u>\$ 273,535</u>	<u>\$ 290,584</u>	<u>\$ 35,570</u>	<u>\$ 1,017,937</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, 2018

	General Fund	Fire Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Receipts:					
Property taxes	\$ 108,002	\$ 4,982	\$ 63,011	\$ 21,951	\$ 197,946
Franchise fees	1,314	-			1,314
Grant Income	-	2,500	-	-	2,500
Small City Assistance	3,282	-	3,282	-	6,564
Intergovernmental	37,952	12,819	-	-	50,771
Donations	-	15,100	-	-	15,100
Interest income	450	-	-	-	450
Charges for services	16,803	-	-	-	16,803
Township fire contracts and firecalls	-	34,760	-	-	34,760
Miscellaneous	2,169	7	7	-	2,183
Total receipts	<u>169,972</u>	<u>70,168</u>	<u>66,300</u>	<u>21,951</u>	<u>328,391</u>
Disbursements:					
Current					
General government	124,505	-	-	-	124,505
Streets and highways	-	-	20,225	-	20,225
Public safety	-	37,872	-	-	37,872
Capital outlay	-	-	57,280	-	57,280
Debt service:					
Principal	-	-	-	10,000	10,000
Interest and other charges	-	-	-	3,870	3,870
Total disbursements	<u>124,505</u>	<u>37,872</u>	<u>77,505</u>	<u>13,870</u>	<u>253,752</u>
Excess of receipts over disbursements	<u>45,467</u>	<u>32,296</u>	<u>(11,205)</u>	<u>8,081</u>	<u>74,639</u>
Net change in cash fund balances	45,467	32,296	(11,205)	8,081	74,639
Fund balance, beginning of year	<u>372,781</u>	<u>241,239</u>	<u>301,789</u>	<u>27,489</u>	<u>943,298</u>
Fund balance, end of year	<u>\$ 418,248</u>	<u>\$ 273,535</u>	<u>\$ 290,584</u>	<u>\$ 35,570</u>	<u>\$ 1,017,937</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, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current assets:			
Cash	\$ 110,132	\$ 51,188	\$ 161,320
Total assets	\$ 110,132	\$ 51,188	\$ 161,320
 Net Position:			
Restricted for debt service	\$ 19,163	\$ -	\$ 19,163
Unrestricted-net assets	90,969	51,188	142,157
Total Net Position	\$ 110,132	\$ 51,188	\$ 161,320

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, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Operating receipts			
User charges	\$ 62,314	\$ 55,687	\$ 118,001
Late fees	949	-	949
Other income	-	4,707	4,707
Total operating receipts	63,263	60,394	123,657
Operating disbursements			
Wages	9,895	14,829	24,724
PERA	742	1,112	1,854
Payroll tax	757	1,134	1,891
Testing	-	1,825	1,825
Supplies	-	4,012	4,012
Fees, dues and permits	1,925	-	1,925
Legal and professional	1,440	1,440	2,880
Repairs and maintenance	8,922	13,577	22,499
Insurance	599	1,165	1,764
Utilities	5,661	3,432	9,093
Miscellaneous	167	1,093	1,260
Total operating disbursements	30,108	43,619	73,727
Operating income (loss)	33,155	16,775	49,930
Nonoperating Receipts (Disbursements)			
Interest income	-	3,310	3,310
Interest expense	(3,880)	(1,489)	(5,369)
Debt principal	(11,000)	(11,000)	(22,000)
Total Nonoperating Receipts (Disbursements)	(14,880)	(9,179)	(24,059)
Change in net position	18,275	7,596	25,871
Total net cash position, beginning of year	91,857	43,592	135,449
Total net cash position, end of year	\$ 110,132	\$ 51,188	\$ 161,320

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Cash Flows - Cash Basis
PROPRIETARY FUNDS
For the year ended December 31, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Receipts from customers	\$ 63,263	\$ 60,394	\$ 123,657
Payments to suppliers	(20,213)	(28,790)	(49,003)
Payments to employees	(9,895)	(14,829)	(24,724)
Net cash provided by operating activities	<u>33,155</u>	<u>16,775</u>	<u>49,930</u>
Cash flows from capital and related financing activities			
Interest income	-	3,310	3,310
Principal paid on capital debt	(11,000)	(11,000)	(22,000)
Interest paid on capital debt	(3,880)	(1,489)	(5,369)
Net cash provided by (used in) capital and related financing activities	<u>(14,880)</u>	<u>(9,179)</u>	<u>(24,059)</u>
Net increase (decrease) in cash and cash equivalents	18,275	7,596	25,871
Cash balances - beginning of year	<u>91,857</u>	<u>43,592</u>	<u>135,449</u>
Cash balances - end of year	<u>\$ 110,132</u>	<u>\$ 51,188</u>	<u>\$ 161,320</u>
Cash and cash equivalents			
Cash and cash equivalents	<u>\$ 110,132</u>	<u>\$ 51,188</u>	<u>\$ 161,320</u>
Total cash and cash equivalents - end of year	<u>\$ 110,132</u>	<u>\$ 51,188</u>	<u>\$ 161,320</u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018

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 regulatory basis of accounting for all funds. The financial statements were prepared on the regulatory 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 regulatory 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 regulatory 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
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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, 2018

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	\$ 1,017,937
Business-type fund activities	
Cash and CDs	<u>161,320</u>
Total Cash and CDs	<u>\$ 1,179,257</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, 2018 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
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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, 2018:

	<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	1,180,248	1,179,257
(3) Uncollateralized or collateralized with securities not in the City's name	-	-
Totals	<u>\$ 1,180,248</u>	<u>\$ 1,179,257</u>

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

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

General Employees Plan 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

CITY OF HAYWARD, MINNESOTA
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and peace officers who qualify for membership by statute are covered by the Police and Fire Plan. 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 security, custody, and control of the county correctional institution and its inmates are covered by the Correctional Plan.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by State Statute. Benefits for members of the General Employees Plan vest after five years of credited service. Benefits for the Police and Fire Plan vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years. In the Correctional Plan, benefits vest on a prorated basis from 50 percent after 5 years up to 100 percent after 10 years. The defined retirement benefits are based on a members highest average salary for any 60 successive months 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 Police and Fire Plan 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 Correctional Plan members.

Normal retirement age is 55 for Police and Fire and Correctional plan 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 with an actuarial reduction in the member's benefit. For all General Employee Plan 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. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

A full unreduced pension is earned when Police and Fire and Correctional plan members meet the following conditions: age 55 and vested or age plus years of service total at least 90 if first hired prior to July 1, 1989.

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

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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 General Employees, Police and Fire, and Correctional plans. That report may be obtained on the PERA's website at www.mnpera.org

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. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.5%, respectively, of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.8% of their annual covered salary in 2018 and Correctional Plan members were required to contribute 5.83% of their annual covered salary. In 2018, the City of Hayward was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.5% for Coordinated Plan members, and 16.2% for Police and Fire Plan members, and 8.75% for members of the Correctional Plan.

The City's contributions to the General Employees Fund for the years ending December 31, 2018, 2017, and 2016 were \$7,060, \$7,235, and \$6,823, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2018, 2017, and 2016 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>
1995 Addition Bond	10,899	13,870	2,971

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 2018.

CITY OF HAYWARD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
 December 31, 2018

Note 6. Long-term Debt

The following is a summary of debt transactions for the year ended December 31, 2018:

	<u>Debt Outstanding</u>
Balance payable January 1, 2018	\$322,872
Debt issued in 2018	0
Payment on debt	<u>(32,000)</u>
Balance payable December 31, 2018	<u>\$ 290,872</u>

At December 31, 2018, 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 12/31/2018</u>
1995 Third Addition Improvement	5.375%	10/01/1997	01/01/2025	\$ 62,000
2015 General Obligation Revenue Note	1.00%	05/11/2015	08/20/2030	137,872
2010 General Obligation Water Revenue	4.00%	09/01/2010	02/01/2026	<u>91,000</u>
Total outstanding debt				<u>\$ 290,872</u>

Annual debt service requirements necessary to service the outstanding debt at December 31, 2018, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	33,000	9,123
2020	33,000	7,982
2021	35,000	6,820
2022	35,000	5,585
2023	37,000	4,330
2024 to 2028	95,000	6,298
2029 to 2033	22,872	338

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 13, 2019 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, 2018

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Receipts:				
Taxes:				
General property taxes	\$ 92,096	\$ 92,096	\$ 108,002	\$ 15,906
	92,096	92,096	108,002	15,906
Licenses and permits:				
Licenses and permits	2,500	2,500	-	(2,500)
Total licenses and permits	2,500	2,500	-	(2,500)
Intergovernmental revenue:				
State aid:				
Local government aid	37,613	37,613	37,613	-
Small city assistance	-	-	3,282	3,282
Market value credit	-	-	195	195
PERA rate increase aid	144	144	144	-
Total Intergovernmental revenue	37,757	37,757	41,234	3,477
Miscellaneous:				
Franchise fee	1,500	1,500	1,314	(186)
Interest income	1,000	1,000	450	(550)
Miscellaneous income	700	700	2,169	1,469
Rental income	17,680	17,680	16,803	(877)
Total miscellaneous	20,880	20,880	20,736	(144)
Total receipts	\$ 153,233	\$ 153,233	\$ 169,972	\$ 16,739

See accompanying notes to financial statements.

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

For the year ended December 31, 2018

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Disbursements:				
General government:				
Mayor and council salaries	\$ 5,100	\$ 5,100	\$ 4,100	\$ 1,000
Election expense	1,000	1,000		1,000
Finance clerk salary	15,170	15,170	16,111	(941)
Insurance	9,916	9,916	13,392	(3,476)
Wages	48,643	48,643	43,785	4,858
Dues, subscriptions and meetings	600	600	751	(151)
Office supplies	1,750	1,750	1,737	13
Professional fees	8,950	8,950	8,245	705
Supplies and repairs	5,125	5,125	5,769	(644)
Fuel, oil, utilities & communication	9,800	9,800	10,915	(1,115)
Miscellaneous	6,150	6,150	3,488	2,662
Capital expenditure	-	-	-	-
Property tax expense	11,000	11,000	3,256	7,744
Payroll taxes and PERA	9,751	9,751	12,956	(3,205)
Total General Government	<u>132,955</u>	<u>132,955</u>	<u>124,505</u>	<u>8,450</u>
Bike Trail				
Wages	-	-	-	-
Payroll tax and PERA	-	-	-	-
Professional fees	-	-	-	-
Supplies and repairs	-	-	-	-
Insurance	-	-	-	-
Capital expenditure	-	-	-	-
Total Culture and Recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Disbursements	<u>132,955</u>	<u>132,955</u>	<u>124,505</u>	<u>8,450</u>
Excess of receipts over (under) disbursements	<u>20,278</u>	<u>20,278</u>	<u>45,467</u>	<u>25,189</u>
Net change in cash fund balances	20,278	20,278	45,467	25,189
Fund balance, beginning of year	<u>372,781</u>	<u>372,781</u>	<u>372,781</u>	<u>-</u>
Fund balance, end of year	<u>\$ 393,059</u>	<u>\$ 393,059</u>	<u>\$ 418,248</u>	<u>\$ 25,189</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, 2018

	Street Fund	Fire Fund	Total Special Revenue Funds
Receipts:			
Property taxes	\$ 63,011	\$ 4,982	\$ 67,993
Donations	-	15,100	15,100
Small city assistance	3,282	-	3,282
Fire contracts	-	32,510	32,510
Fire calls	-	2,250	2,250
State fire aid	-	12,819	12,819
Grant income	-	2,500	2,500
Other income	7	7	14
Total receipts	66,300	70,168	136,468
Disbursements			
Wages	6,676	2,861	9,537
PERA	500	215	715
Payroll tax	511	219	730
Repair & maintenance	1,147	1,892	3,039
Legal and professional	1,470	1,800	3,270
Insurance	390	1,320	1,710
Utilities	6,264	5,101	11,365
Miscellaneous	172	661	833
Education seminars	-	805	805
Capital outlay	57,280	-	57,280
Relief Association-donation	-	9,000	9,000
Relief Association-state aid	-	12,819	12,819
Supplies	3,095	1,179	4,274
Total disbursements	77,505	37,872	115,377
Excess of receipts over (under) disbursements	(11,205)	32,296	21,091
Net Change in Cash Fund Balance	(11,205)	32,296	21,091
Fund balance, beginning of year	301,789	241,239	543,028
Fund balance, end of year	\$ 290,584	\$ 273,535	\$ 564,119

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, 2018

	<u>1995 3rd Addition Debt Fund</u>
Receipts:	
Tax assessments	\$ 21,951
Total receipts	<u>21,951</u>
 Disbursements:	
Debt payment	
Principal	10,000
Interest	3,870
Total disbursements	<u>13,870</u>
Excess of receipts over (under) disbursements	<u>8,081</u>
Net Change in Cash Fund Balance	8,081
Fund balance, beginning of year	<u>27,489</u>
Fund balance, end of year	<u><u>\$ 35,570</u></u>

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Statement of Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 110,132	\$ 51,188	\$ 161,320
Accounts receivable	16,000	13,483	29,483
Total Current Assets	126,132	64,671	190,803
Noncurrent Assets:			
Property and equipment	384,445	473,665	858,110
Accumulated depreciation	(305,037)	(182,631)	(487,668)
Total Noncurrent Assets	79,408	291,034	370,442
Total Assets	205,540	355,705	561,245
Liabilities:			
Current Liabilities			
Accounts payable	1,173	360	1,533
Total Current Liabilities	1,173	360	1,533
Noncurrent Liabilities			
Bonds, Notes and loans payable	91,000	137,872	228,872
Total Liabilities	92,173	138,232	230,405
Net Position:			
Invested in capital assets, net of related debt	(11,592)	153,162	141,570
Unrestricted	124,959	64,311	189,270
Total Net Position	\$ 113,367	\$ 217,473	\$ 330,840

CITY OF HAYWARD, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS
For the year ended December 31, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues:			
User charges	\$ 67,897	\$ 60,392	\$ 128,289
Late charges	949	-	949
Total Operating Receipts	<u>68,846</u>	<u>60,392</u>	<u>129,238</u>
Operating Expenses:			
Wages	9,895	14,829	24,724
Testing	-	1,825	1,825
Insurance	599	1,165	1,764
Supplies	-	4,012	4,012
Fees, dues and permits	2,096	-	2,096
Professional fees	1,440	1,440	2,880
Payroll tax and PERA	1,499	2,246	3,745
Repairs and maintenance	8,922	13,450	22,372
Utilities	5,716	3,390	9,106
Depreciation	7,537	18,704	26,241
Miscellaneous	211	1,119	1,330
Total Operating Expenses	<u>37,915</u>	<u>62,180</u>	<u>100,095</u>
Operating Income (loss)	30,931	(1,788)	29,143
Nonoperating Revenue(Expense)			
Interest income	-	3,310	3,310
Other income	-	4,707	4,707
Interest expense	(3,880)	(1,489)	(5,369)
Total Nonoperating Revenue (Expenses)	<u>(3,880)</u>	<u>6,528</u>	<u>2,648</u>
Change in Net Position	27,051	4,740	31,791
Total Net Position - Beginning	<u>86,316</u>	<u>212,733</u>	<u>299,049</u>
Total Net Position - Ending	<u>\$ 113,367</u>	<u>\$ 217,473</u>	<u>\$ 330,840</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, 2018

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Change in net position	\$ 27,051	\$ 4,740	\$ 31,791
Adjustments to reconcile to net cash from operating:			
Depreciation	7,537	18,704	26,241
(Increase) Decrease in accounts receivable	(5,583)	(4,705)	(10,288)
Increase (Decrease) in accounts payable	270	(143)	127
Net cash provided by operating activities	29,275	18,596	47,871
Cash flows from capital and related financing activities			
Increase (Decrease) in long term notes payable	(11,000)	(11,000)	(22,000)
Net cash provided by (used in) capital and related financing activities	(11,000)	(11,000)	(22,000)
Net increase (decrease) in cash and cash equivalents	18,275	7,596	25,871
Cash balances - beginning of year	91,857	43,592	135,449
Cash balances - end of year	\$ 110,132	\$ 51,188	\$ 161,320
Cash and cash equivalents			
Cash and cash equivalents	\$ 110,132	\$ 51,188	\$ 161,320
Total cash and cash equivalents - end of year	\$ 110,132	\$ 51,188	\$ 161,320

See accompanying notes to financial statements.

CITY OF HAYWARD, MINNESOTA
Schedule of Indebtedness
 For the Year Ended December 31, 2018

<u>Bonded Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Outstanding January 1, 2018</u>	<u>Issued in 2018</u>	<u>Paid in 2018</u>	<u>Outstanding December 31, 2018</u>
<u>General Obligation Revenue</u>							
1995 Third Addition Improvement	5.38%	10/1/1997	1/1/2025	72,000	-	10,000	62,000
2010 Water Revenue Bonds	4.00%	9/1/2010	2/1/2026	102,000	-	11,000	91,000
General Obligation Revenue Note of 2015	1.00%	5/11/2015	8/20/2030	148,871	-	11,000	137,871
Total Bonded Indebtedness				<u>322,871</u>	<u>-</u>	<u>32,000</u>	<u>290,871</u>
Total Indebtedness				<u>\$ 322,871</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 290,871</u>

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Receivable
 For the Year Ended December 31, 2018

Fund	Source of Revenue	Purpose	Amount
Water	Customers	User Charges	16,000
Sewer	Customers	User Charges	13,483
Total			\$ 29,483

CITY OF HAYWARD, MINNESOTA
Schedule of Accounts Payable
For the Year Ended December 31, 2018

Fund	Vendor Name	Item and Purpose	Amount	
General	Waste Management	Garbage	\$ 131	
	DVS Renewal	Licenses	20	
	Earl Andersen	Office supplies	72	
	Freeborn County Auditor	Election	1,140	
	MN Energy Resource	Utilities	477	
	Jaguar Communication	Telephone	66	
	Freeborn Mower Coop Svs	Utilities	142	
	Freeborn County Coop Oil	Fuel	29	
	Albert Lea Tribune	Ad	176	
	Cardmember Services	Office supplies	95	
	Total Glass and Lock	Repairs	62	
	Verizon Wireless	Telephone	31	
	H & K Propane	Utilities	500	
	Home Depot	Repairs	23	
	Street	Hayward Coop	Snow plow truck expense	335
		Freeborn Mower Coop Svs	Utilities	379
Verizon Wireless		Telephone	8	
Kibble Equipment		Repairs	334	
Jaguar Communication		Telephone	9	
Carquest		Fuel	21	
Fire	Freeborn County Coop Oil	Fuel	29	
	Carquest	Fuel	21	
	Albert Lea Tribune	Ad	175	
	Com Tech Land Mobile Radio	Communication/Repairs	931	
	Ernies Canvas	Clothing expense	10	
	Waste Management	Garbage	23	
	Freeborn Mower Coop Svs	Utilities	30	
	Heiman Fire Equipment	Clothing expense	508	
	MN Energy Resources	Utilities	207	
	Water	Freeborn Mower Coop Svs	Utilties	497
Freeborn Construction		Repairs	250	
MN DNR		Fees	171	
Verizon Wireless		Telephone	5	
Jaguar Communication		Telephone	9	
Home Depot		Repairs	149	
Cardmember Services		Supplies	37	
Freeborn County Coop Oil		Fuel	29	
Gopher State One Call		Locates	26	
Sewer		Verizon Wireless	Telephone	8
	Freeborn Mower Coop Svs	Utilities	176	
	Jaguar Communication	Telephone	41	
	Freeborn County Coop Oil	Fuel	29	
	Gopher State One Call	Locates	26	
	Utility Consultants	Testing	80	
Total			<u>\$ 7,517</u>	

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

Certified Public Accountants

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Tel (507) 377-1333 Fax (507) 377-2536

Heather L. Benda, C.P.A.
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, 2018, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2019.

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 13, 2019

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

Certified Public Accountants

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

Report on Internal Control

In planning and performing our audit of the financial statements for the City of Hayward, Minnesota as of and for the year ended December 31, 2018 in accordance with auditing standards generally accepted in the United States of America we considered Hayward's internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hayward's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City of Hayward's internal control to be significant deficiencies

Lack of segregation of duties:

The limited number of staff prevents proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in organizations of this size, but the council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

The absence of these controls over the reporting process is considered a significant deficiency because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the company's internal control.

This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Hill Benda Skov & Bernau P.A.".

Hill, Benda, Skov & Bernau, P.A.

May 13, 2019

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

Certified Public Accountants

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Andrew M. Bernau, C.P.A.

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

We have audited the financial statements of the City of Hayward, Minnesota for the year ended December 31, 2018, and have issued our report thereon dated May 13, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 5, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve your management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hayward are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter May 13, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Please also refer to the report on internal control for other weaknesses.


We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on the supplementary statements and schedules accompanying the financial statements. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with Minnesota minimum reporting requirements, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the city council and management of the City of Hayward, Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Hill, Benda, Skov & Bernau, P.A.

May 13, 2019