CITY OF HAWLEY
HAWLEY, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025

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CITY OF HAWLEY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2025

Mayor	Sean Mork
Vice Mayor	Brad Eldred
Council Member	Stacey Riedberger
Council Member	David Asleson
Council Member	Marc Ness
City Administrator	Lonnie Neuner
Clerk Treasurer	Erica Polley

BradyMartz

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash basis financial position of each major governmental fund and the aggregate remaining fund information; and the financial position of each major proprietary fund of the City of Hawley as of December 31, 2025, and the receipts it received and disbursements it paid for each major governmental fund and the aggregate remaining governmental fund information; and the respective changes in financial position and cash flows for each major proprietary fund for the year then ended in accordance with the financial reporting provisions of the regulatory basis of accounting described in Note 1.

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" section of our report, the accompanying financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Hawley, as of December 31, 2025, or changes in net position and cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hawley, and to meet our other ethical responsibilities, in accordance with the relevant ethical

requirements relating to our audit. 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 of the financial statements, the financial statements are prepared by the City of Hawley on the basis of the financial reporting provisions of the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Minnesota Statute 471.698. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the regulatory basis of accounting. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hawley's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawley's basic financial statements. The budgetary comparison schedules, combining statements, schedules, and notes as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, combining statements, schedules, and notes are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the City Officials and Other Information as noted in the table of contents but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2026, on our consideration of the City of Hawley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

March 9, 2026

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CITY OF HAWLEY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 3,207,523	$ 120,995	$ 1,254,974	$ 4,583,492
Cash with Fiscal Agent			107,975	107,975
Due From Other Funds	837			837
TOTAL ASSETS	$ 3,208,360	$ 120,995	$ 1,362,949	$ 4,692,304
LIABILITIES				
Due to Other Funds	$	$	$ 837	$ 837
TOTAL LIABILITIES			837	837
FUND BALANCES				
Restricted for:				
Revolving Loan			271,703	271,703
TIF Districts			16,299	16,299
Debt Service			308,485	308,485
Committed for:				
Levy Reduction	66,089			66,089
Seal Coat/Crack Fill	247,959			247,959
Plow Truck/Equipment	140,600			140,600
Street Patching	38,073			38,073
Sidewalks	22,000			22,000
Lawn Mower	21,600			21,600
Park - Brekken	1,256			1,256
Park - Disc Golf	2,000			2,000
Police - Night to Unite	5,715			5,715
Police Vehicle	33,595			33,595
Zoning Comprehensive Fund	5,760			5,760
Economic Development	16,800			16,800
River Meandering - Phase 3	20,000			20,000
Community Center	15,773			15,773
Public Works Vehicle	64,838			64,838
Library	25,660			25,660
Police Building	16,170			16,170
Police Public Safety Aid	19,351			19,351
Health Savings Account	81,525			81,525
Prosecution	40,700			40,700
Organizational Study	29,845			29,845
Administrative Discretionary	1,270			1,270
Municipal Airport		120,995		120,995
Garbage Service/Recycling			374,801	374,801
Deputy Registrar/Office			121,751	121,751
Storm Water Maint/Repairs			121,275	121,275
Building Upkeep/Repair			148,635	148,635
Unassigned	2,291,781		(837)	2,290,944
TOTAL FUND BALANCES	3,208,360	120,995	1,362,112	4,691,467
TOTAL LIABILITIES AND FUND BALANCES	$ 3,208,360	$ 120,995	$ 1,362,949	$ 4,692,304

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	General Fund	Airport	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property Taxes	$ 761,232	$	$ 128,472	$ 889,704
Tax Increment Financing			325,754	325,754
Special Assessments	2,464		327,350	329,814
Licenses and Permits	19,704			19,704
Intergovernmental	919,820	248,143	45,000	1,212,963
Charges for Services	20,222		696,996	717,218
Fines and Forfeitures	7,155			7,155
Investment Earnings	47,505	862	21,841	70,208
Miscellaneous	221,009	97,874	110,036	428,919
TOTAL RECEIPTS	1,999,111	346,879	1,655,449	4,001,439
DISBURSEMENTS				
Current				
General Government	290,198		165,602	455,800
Public Safety	845,069		20,873	865,942
Streets and Highways	240,551			240,551
Sanitation			403,100	403,100
Culture and Recreation	231,086			231,086
Conservation of Natural Resources	31,988			31,988
Economic Development	72,745		257,128	329,873
Airport		142,358		142,358
Debt Service				
Principal			779,000	779,000
Interest and Other Charges			137,348	137,348
Capital Outlay				
General Government	1,922			1,922
Public Safety	17,366			17,366
Streets and Highways	6,521		495,577	502,098
Culture and Recreation	138,400			138,400
TOTAL DISBURSEMENTS	1,875,846	142,358	2,258,628	4,276,832
Receipts Over (Under) Disbursements	123,265	204,521	(603,179)	(275,393)
OTHER FINANCING SOURCES (USES)				
Transfer In	760,439		899,031	1,659,470
Transfer In - Interfund Loan	16,038			16,038
Transfer Out	(450,576)		(680,546)	(1,131,122)
Transfer Out - Interfund Loan		(111,376)	(56,038)	(167,414)
TOTAL OTHER FINANCING SOURCES (USES)	325,901	(111,376)	162,447	376,972
Net Change in Fund Balances	449,166	93,145	(440,732)	101,579
Fund Balances - Beginning	2,759,194	27,850	1,802,844	4,589,888
Fund Balances - Ending	$ 3,208,360	$ 120,995	$ 1,362,112	$ 4,691,467

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Water	Sewer	Electric	Gas	Liquor	Total
ASSETS						
Current Assets						
Cash and Investments	$ 551,459	$ 482,744	$ 630,722	$ 864,983	$ 276,867	$ 2,806,775
Accounts Receivable	34,132	25,534	340,488	149,150		549,304
Inventory	19,069		268,877	15,607	184,323	487,876
Total Current Assets	604,660	508,278	1,240,087	1,029,740	461,190	3,843,955
Noncurrent Assets						
Assessments Receivable		84,127				84,127
Capital Assets						
Land			32,241		55,000	87,241
Building	16,273		234,925	71,094	436,676	758,968
Improvements Other Than Building	6,547,092	5,614,327	2,378,627	1,626,759		16,166,805
Equipment	56,269	8,000	508,899	48,040	99,715	720,923
Less: Accumulated Depreciation	(3,516,507)	(4,125,202)	(2,405,520)	(908,594)	(261,636)	(11,217,459)
Net Capital Assets	3,103,127	1,497,125	749,172	837,299	329,755	6,516,478
Other Assets						
Cash-Restricted for Lottery					15,243	15,243
Advance to Other Funds		474,455	343,879	121,848		940,182
Total Other Assets		474,455	343,879	121,848	15,243	955,425
TOTAL ASSETS	3,707,787	2,563,985	2,333,138	1,988,887	806,188	11,399,985
DEFERRED OUTFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	9,372	10,036	33,464	20,079	16,060	89,011
LIABILITIES						
Current Liabilities						
Accounts Payable	1,406	501	164,770	59,633	1,276	227,586
Salary Payable	1,183	1,513	6,490	4,462	2,826	16,474
Advance from Other Funds	596,303					596,303
Due to Other Governmental Units	7,930				15,242	23,172
Customer Deposits			48,718			48,718
Unearned Revenue			11,325			11,325
Interest Payable					580	580
Compensated Absences	26,615	30,700	57,065	32,319	59,693	206,392
Current Portion - Long-Term Liabilities					33,000	33,000
Total Current Liabilities	633,437	32,714	288,368	96,414	112,617	1,163,550
Long-Term Liabilities						
Bonds Payable					70,000	70,000
Net Pension Liability	31,088	33,310	111,032	66,619	53,296	295,345
Less: Current Portion - Long-Term Debt					(33,000)	(33,000)
Total Long-Term Liabilities	31,088	33,310	111,032	66,619	90,296	332,345
TOTAL LIABILITIES	664,525	66,024	399,400	163,033	202,913	1,495,895

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Water	Sewer	Electric	Gas	Liquor	Total
DEFERRED INFLOWS OF RESOURCES						
Cost Sharing Defined Benefit Pension Plan	$ 20,561	$ 22,032	$ 73,438	$ 44,062	$ 35,249	$ 195,342
NET POSITION						
Net Investment in Capital Assets	3,103,127	1,497,125	749,172	837,299	259,755	6,446,478
Unrestricted	(71,054)	988,840	1,144,592	964,572	324,331	3,351,281
TOTAL NET POSITION	$ 3,032,073	$ 2,485,965	$ 1,893,764	$ 1,801,871	$ 584,086	$ 9,797,759

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water	Sewer	Electric	Gas	Liquor	Total
Operating Revenues						
Sales	$	$	$	$	$ 1,534,369	$ 1,534,369
Cost of Sales					(1,102,754)	(1,102,754)
Gross Profit					431,615	431,615
Charges for Sales and Services	506,684	376,312	3,180,047	1,065,268		5,128,311
Other Charges and Income	437	3,490	152,706	611	1,096	158,340
Total Operating Revenue	507,121	379,802	3,332,753	1,065,879	432,711	5,718,266
Operating Expenses						
Purchased Power and Gas			1,826,975	381,150		2,208,125
Salaries and Wages	65,986	79,903	383,137	256,925	202,362	988,313
Employee Benefits	20,896	20,797	104,657	67,693	48,308	262,351
Repairs and Maintenance	36,359	6,638	430,374	172,650	6,231	652,252
Chemicals	7,735	10,917				18,652
Utilities	25,165	5,602	12,636	6,104	21,418	70,925
Insurance	7,960	10,125	6,595	5,820	5,141	35,641
Professional Fees	27,847	34,584	30,752	13,220	9,325	115,728
Supplies	3,758	984	27,124	16,930	11,315	60,111
Other Expenses	6,041	2,359	73,459	35,241	42,112	159,212
Depreciation	144,145	124,058	55,607	38,042	15,815	377,667
Total Operating Expenses	345,892	295,967	2,951,316	993,775	362,027	4,948,977
Operating Income	161,229	83,835	381,437	72,104	70,684	769,289
Nonoperating Income (Expense)						
Investment Earnings	9,929	16,650	24,339	38,781	2,264	91,963
Interest and Other Charges	(11,231)				(2,465)	(13,696)
Special Assessments		42,937				42,937
Total Nonoperating Income (Expense)	(1,302)	59,587	24,339	38,781	(201)	121,204
Net Income Before Transfers	159,927	143,422	405,776	110,885	70,483	890,493
Transfers Out	(139,352)	(138,900)	(149,416)	(85,680)	(15,000)	(528,348)
Change in Net Position	20,575	4,522	256,360	25,205	55,483	362,145
Net Position, Beginning	3,011,498	2,481,443	1,637,404	1,776,666	528,603	9,435,614
Net Position, Ending	$ 3,032,073	$ 2,485,965	$ 1,893,764	$ 1,801,871	$ 584,086	$ 9,797,759

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water	Sewer	Electric	Gas	Liquor	Total
Cash Flows From Operating Activities:						
Receipts from Customers	$ 508,386	$ 384,091	$ 3,287,001	$ 1,067,427	$ 1,537,859	$ 6,784,764
Payments to Suppliers	(108,811)	(70,708)	(2,436,221)	(622,897)	(1,199,712)	(4,438,349)
Payments to Employees	(86,781)	(99,862)	(495,097)	(328,647)	(246,943)	(1,257,330)
Net Cash Provided By Operating Activities	312,794	213,521	355,683	115,883	91,204	1,089,085
Cash Flows From Noncapital Financing Activities:						
Transfers to Other Funds	(139,352)	(138,900)	(149,416)	(85,680)	(15,000)	(528,348)
Advance From (To) Other Funds		6,781	32,475	147,830		187,086
Net Cash Provided (Used) By Noncapital Financing Activities	(139,352)	(132,119)	(116,941)	62,150	(15,000)	(341,262)
Cash Flows From Capital and Related Financing Activities:						
Capital Asset Purchased	(30,000)	(30,000)	(62,250)	(370,234)		(492,484)
Advance from Other Funds	(45,419)					(45,419)
Special Assessment Revenue Received		8,541				8,541
Principal Paid on Debt					(34,000)	(34,000)
Interest and Other Charges Paid on Debt	(11,231)				(2,825)	(14,056)
Net Cash Used By Capital and Related Financing Activities	(86,650)	(21,459)	(62,250)	(370,234)	(36,825)	(577,418)
Cash Flows From Investing Activities:						
Investment Earnings	9,929	16,650	24,339	38,781	2,261	91,960
Net Cash Provided By Investing Activities	9,929	16,650	24,339	38,781	2,261	91,960
Net Increase (Decrease) In Cash, Cash Equivalents, and Restricted Cash	96,721	76,593	200,831	(153,420)	41,640	262,365
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	454,738	406,151	429,891	1,018,403	250,470	2,559,653
Cash, Cash Equivalents, and Restricted Cash - End of Year	$ 551,459	$ 482,744	$ 630,722	$ 864,983	$ 292,110	$ 2,822,018
Reconciliation of Cash, Cash Equivalents, and Restricted Cash						
Cash and Investments	$ 551,459	$ 482,744	$ 630,722	$ 864,983	$ 276,867	$ 2,806,775
Restricted Cash - Lottery					15,243	15,243
Total Cash, Cash Equivalents, and Restricted Cash	$ 551,459	$ 482,744	$ 630,722	$ 864,983	$ 292,110	$ 2,822,018

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CASH FLOWS – CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water	Sewer	Electric	Gas	Liquor	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating Income	$ 161,229	$ 83,835	$ 381,437	$ 72,104	$ 70,684	$ 769,289
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation	144,145	124,058	55,607	38,042	15,815	377,667
Effects on Operating Cash Flows due to Changes in:						
Accounts Receivable	1,641	4,289	(44,478)	1,548		(37,000)
Inventory	5,242		(33,930)	3,247	9,577	(15,864)
Accounts Payable	812	501	5,624	4,971	(10,993)	915
Salary Payable	876	1,141	4,619	3,211	1,830	11,677
Due to Other Governments	(376)				2,394	2,018
Unearned Revenue			(1,274)			(1,274)
Net Pension	(1,656)	(1,774)	(5,914)	(3,549)	(2,839)	(15,732)
Deferred Outflows	(2,146)	(2,299)	(7,664)	(4,599)	(3,678)	(20,386)
Deferred Inflows	(2,650)	(2,839)	(9,462)	(5,678)	(4,542)	(25,171)
Compensated Absences	5,677	6,609	11,118	6,586	12,956	42,946
Total Adjustments	151,565	129,686	(25,754)	43,779	20,520	319,796
Net Cash Provided by Operating Activities	$ 312,794	$ 213,521	$ 355,683	$ 115,883	$ 91,204	$ 1,089,085

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2025

	Custodial
ASSETS	
Cash and Investments	$ 112,298
TOTAL ASSETS	$ 112,298
NET POSITION	
Restricted for Other Governments	$ 112,298
TOTAL RESTRICTED FOR OTHER GOVERNMENTS	$ 112,298

See Notes to the Financial Statements

CITY OF HAWLEY, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

ADDITIONS		
Intergovernmental		
City of Hawley	$	107,596
Townships		84,835
Fire Relief		150,000
Local Grant		10,681
Lease Revenue		66,800
Investment Earnings		1,316
Miscellaneous		5,986
Interfund Transfer - Fire District Checking Account		7,945
TOTAL ADDITIONS		435,159
DEDUCTIONS		
Current		
Insurance		10,573
Professional Services		63,000
Training		7,279
Supplies		10,458
Fuel and Additives		2,267
Repairs and Maintenance		2,099
Utilities		6,815
Salaries and Benefits		26,921
RRR Dispatch		1,524
Miscellaneous		200,702
Capital Outlay		70,283
TOTAL DEDUCTIONS		401,921
CHANGES IN ASSETS AND NET POSITION		33,238
ASSETS AND NET POSITION, BEGINNING		79,060
ASSETS AND NET POSITION, ENDING	$	112,298

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Fund Financial Statements

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

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

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

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

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the proprietary funds, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

The custodial funds have no measurement focus but utilize the cash basis of accounting for reporting their assets and net position.

Major Governmental Funds

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

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

Major Proprietary Funds

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

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

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

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

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

Additionally, the City reports the following fiduciary fund type:

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

D. Specific Account Information

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

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

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

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensated Absences – The City compensates all employees for all unused vacation upon termination. As of December 31, 2025, a liability for unpaid vacation has been set up for the proprietary fund employees and is included in compensated absences.

Unused sick leave may be accumulated up to a maximum of 120 days. Upon termination, unused accumulated sick leave will be paid into a health care savings plan at a prorated amount depending on years of service if the employee has been with the City for more than two years, is 55 years of age or older, and are in good standing. As of December 31, 2025, a liability for unused sick leave has been set up for the proprietary fund employees and is included in the compensated absences.

The City accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability.

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

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

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

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

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

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

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

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

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

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

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

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

E. Use of Estimates

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

NOTE 2 BUDGETARY DATA

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

Appropriations are authorized by the city council at the fund level, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. All unexpended appropriations lapse at year-end. Any changes in the total budget of each fund must be approved by a majority vote of the city council.

NOTE 3 DEFICIT FUND BALANCE

The Fire Hall fund had a deficit fund balance as of December 31, 2025, of $837. The City will relieve the deficit with future revenues and lease revenue.

NOTE 4 DEPOSITS AND INVESTMENTS

The City maintains a cash account at its depository bank. Investments are carried at fair value. The City considers certificates of deposit to be cash. The City's interest income for the year ended December 31, 2025, was $136,822. The pooled cash and investment account is comprised of the following:

Cash and Investments	
Governmental Funds	$ 4,583,492
Proprietary Funds	2,822,018
Fiduciary Funds	112,298
	$ 7,517,808
Deposits	
Cash, Checking and Change Funds	$ 609,248
Certificates of Deposits	680,748
Savings	5,422,675
Investments	805,137
	$ 7,517,808

As of December 31, 2025, the City had the following investments:

Investments	Maturities	Level	Fair Value
4-M External Investment Pool	N/A	N/A	$ 805,137

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

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

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

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

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

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

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the city council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2025, the City was not exposed to custodial credit risk.

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

NOTE 5 RESTRICTED CASH

The liquor fund is required to have a reserve account of $15,243 for the lottery account.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Proprietary Fund				
Capital Assets, Not Being Depreciated:				
Land	$ 87,241	$	$	$ 87,241
Total Capital Assets, Not Being Depreciated	87,241			87,241
Capital Assets, Being Depreciated:				
Building	758,968			758,968
Improvements Other Than Buildings	15,751,196	415,609		16,166,805
Equipment	644,048	76,875		720,923
Total Capital Assets, Being Depreciated	17,154,212	492,484		17,646,696
Less Accumulated Depreciation for:				
Building	372,300	18,899		391,199
Improvements Other Than Buildings	9,953,148	335,485		10,288,633
Equipment	514,344	23,283		537,627
Total Accumulated Depreciation	10,839,792	377,667		11,217,459
Total Capital Assets, Being Depreciated, Net	6,314,420	114,817		6,429,237
Proprietary Fund Capital Assets, Net	$ 6,401,661	$ 114,817	$	$ 6,516,478

Depreciation expense was charged to the functions as follows:

Proprietary Funds:	
Water	$ 144,145
Sewer	124,058
Electric	55,607
Gas	38,042
Liquor	15,815
Total Depreciation Expense - Proprietary Funds	$ 377,667

NOTE 7 DEFINED BENEFIT PENSION PLANS-STATEWIDE

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

Plan Description – The City of Hawley participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to *Minnesota Statutes*, chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Plan)
Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than $425 in a month, unless the employee meets exclusion criteria.

Public Employees Police and Fire Retirement Plan (Police and Fire Plan)
Membership in the Police & Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in Minnesota Statutes section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police & Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity's governing body. The resolution must state that the position meets plan requirements.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan Benefits
General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the

annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a prorated increase.

Police and Fire Plan Benefits
Benefits for Police and Fire Plan members first hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2020, are 50% vested after five years of service and 100% vested after ten years. After five years, vesting increases by 10% each full year of service until members are 100% vested after ten years. Police and Fire Plan members receive 3% of the highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417% each month the members are younger than age 55.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of June 30 before the effective date of the increase will receive a prorated increase.

Contributions – *Minnesota Statutes* chapters 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions
General Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2025 and the City was required to contribute 7.50% for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025 were $92,332. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions
Police and Fire Plan members were required to contribute 11.80% of their annual covered salary in fiscal year 2025 and the City was required to contribute 17.70% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2025 were $62,741. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – *General Employees Fund Pension Costs*
At December 31, 2025, the City reported a liability of $444,128 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled $10,694.

City's proportionate share of the net pension liability	$	444,128
State of Minnesota's proportionate share of the net pension liability associated with the City		10,694
Total	$	454,822

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The

City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024 through June 30, 2025 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0134% at the end of the measurement period and 0.0127% for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of ($293,746) for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional ($1,643) as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 42,316	$
Difference between projected and actual investment earnings		176,723
Changes in actuarial assumptions	10,701	102,192
Changes in proportion	34,662	14,831
Contributions paid to PERA subsequent to the measurement date	46,166	
Total	$ 133,845	$ 293,746

$46,166 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2026	$ (51,082)
2027	(52,592)
2028	(46,309)
2029	(56,084)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7.0 percent. The 7.0 percent assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7.0 percent is within that range.

- Inflation is assumed to be 2.25 percent for the General Employees Plan and Police and Fire Plan.
- Benefit increases after retirement are assumed to be 1.50% for the General Employees Plan and 1% for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3% after 27 years of service. In the Police and Fire Plan, salary growth assumptions range in annual increments from 10.75% after one year of service to 3% after 23 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The Police and Fire Plan was reviewed in 2024. The assumption changes were adopted by the board and became effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund
Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Police and Fire Fund
Changes in Actuarial Assumptions:

- Assumed rates of salary increases were reduced slightly.

- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70% to 65%.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33% to 13% for vested, terminated members and from 2% to 38% for non-vested, terminated members.

Changes in Plan provisions:

- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026 benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years to 100% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).
- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 100% funded for a minimum of three consecutive years to 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis).
- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025 through June 30, 2048.
- Joint and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

Discount Rate – The discount rate used to measure the total pension liability in 2025 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees and Police and Fire Plans were projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

City Proportionate Share of NPL		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
$ 1,078,717	$ 444,128	$ (70,667)

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

NOTE 8 LEASE AGREEMENTS

The City financed construction of a medical facility in 1982. The facility is leased to Sanford Health. Monthly lease payments of $2,575 to the City are made by the organization. The lease was extended through March 31, 2026.

NOTE 9 LONG-TERM LIABILITIES

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was $9,091,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The general obligations issued for general government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	1.0 - 4.0%	2026/43	$ 5,222,000
Total			$ 5,222,000

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

Year Ending December 31	Governmental Fund	
	Principal	Interest
2026	$ 542,000	$ 113,554
2027	493,000	103,330
2028	454,000	95,381
2029	415,000	87,579
2030	421,000	79,903
2031-2035	1,932,000	280,266
2036-2040	650,000	121,400
2041-2043	315,000	25,600
	$ 5,222,000	$ 907,013

B. General Obligation Revenue Bonds

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The Water fund had net revenues, excluding depreciation and interest, of $302,173 that exceeded the annual payments from the pledged revenue for debt

of $209,000. The Sewer fund had net revenues, excluding depreciation, of $218,398 that exceeded the annual payments from the pledged revenue for debt of $69,000. The original amount of general obligation revenue bonds issued in prior years was $4,785,718. General obligation revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Governmental Fund	1.0 - 2.3%	2026/41	$ 811,000
			$ 811,000

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

Year Ending December 31	Governmental Fund Principal	Interest
2026	$ 62,000	$ 8,382
2027	63,000	7,632
2028	46,000	6,860
2029	46,000	6,400
2030	47,000	5,940
2031-2035	241,000	22,580
2036-2040	254,000	10,270
2041	52,000	520
	$ 811,000	$ 68,584

C. Revenue Bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The Liquor fund had net revenues, excluding depreciation and interest, of $89,103 that exceeded the annual payments from the pledged revenue for debt of $34,000. The original amount of revenue bonds issued in prior years was $329,000. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Maturity Dates	Amount
Proprietary Fund - Refunding	3.25%	2026/27	$ 70,000

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

Year Ending December 31	Proprietary Fund Principal	Interest
2026	$ 33,000	$ 1,738
2027	37,000	601
	$ 70,000	$ 2,339

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Fund					
General Obligation Bonds	$ 5,723,000	$	$ 501,000	$ 5,222,000	$ 542,000
General Obligation Revenue Bonds	1,089,000		278,000	811,000	62,000
Governmental Fund Long-Term Liabilities	6,812,000		779,000	6,033,000	604,000
Proprietary Fund					
Revenue Bonds	104,000		34,000	70,000	33,000
Proprietary Fund Long-Term Liabilities	104,000		34,000	70,000	33,000
Total Long-Term Liabilities	$ 6,916,000	$	$ 813,000	$ 6,103,000	$ 637,000

The City's interest expense for the year ended December 31, 2025, was $148,816.

See the Schedule of Indebtedness for detail and payment provisions.

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2025, is as follows:

Due From / To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$ 837

The interfund loans are to cover the cash shortages in the Fire Hall fund.

Advance From / To Other Funds:

Receivable Fund	Payable Fund	Amount
Electric	Nonmajor Governmental	$ 343,879
Gas	Water	121,848
Sewer	Water	474,455
Nonmajor Governmental	General	16,038
Total		$ 956,220

Based on the amortization schedules, $125,647 will be paid in 2025.

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Liquor	$ 15,000
General	Sewer	45,000
General	Electric	149,416
General	Gas	85,680
General	Nonmajor Governmental	465,343
Nonmajor Governmental	Nonmajor Governmental	215,203
Nonmajor Governmental	General	450,576
Nonmajor Governmental	Water	139,352
Nonmajor Governmental	Sewer	93,900
		$ 1,659,470

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

NOTE 11 JOINT POWERS AGREEMENT

A. Hawley Area Fire District – Joint Powers

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

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

City of Hawley	50%
Six Townships	50%

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

B. Hawley Area Emergency Response District – Joint Powers

In June of 1994, the City of Hawley, Minnesota, Cromwell Township, Highland Grove Township, Hawley Township, Eglon Township, Skree Township and Parke Township entered into a joint powers agreement to provide First Responder services for the residents located within the governmental unit boundaries of the named entities. The goal was to reduce the financial burden to the respective townships through the sharing of facilities, equipment and manpower. The City

has agreed to advance funds as necessary to carry out the purpose of the agreement. However, budgeted contributions from the participating entities have been adequate to fund the operations. Each entity will contribute to the joint operations in the following percentages:

City of Hawley	66.66%
Six Townships	33.34%

The participating government agencies are responsible for determining the allocation of cost responsibilities. The agreement calls for the City of Hawley to act as the fiscal agent and to maintain the funds in a separate fund. The joint powers agreement will be in effect until terminated by action of all its members. Any entity may elect to withdraw from participation upon giving a one-year written notice. The agreement was updated in March of 2007 to clarify roles and ensure compliance with laws. The new agreement will be in effect until terminated by affirmative vote of a two-thirds majority of the members, and the contract will be reviewed every five years to assure compliance with law changes. The District changed to a contract with a service provider effective January 1, 2009. The amount of contract in 2025 was $50,000.

NOTE 12 CONTINGENCIES

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

NOTE 13 COMMITTED CONTRACTS

The City entered into several agreements in 2017, 2018, 2019, 2020, and 2021 with Constellation Energy-Gas Division for its natural gas requirements. In 2021, the City enacted an additional contract to cover 100% MMBtu (5-year average) of the monthly requirements through October 2028, and ½ the usage for November and December 2028.

The contracts consist of: a lock May 22, 2018 at 3.00 per MMBtu from November 2021 to October 2023; a lock June 19, 2019, at 2.976 per MMBtu from November 2023 to October 2024; a lock August 13, 2019, at 2.99 per MMBtu which goes from November 2024 to October 2025, and a lock January 15, 2020 at 2.89 per MMBtu for November 2025 to October 2028. The July 8, 2021 lock brought the Fixed Amount MMBtu up to an estimated 100% lock each month at 3.14 from October 2021 to December 2028. The estimated average lock is 3.05 through 2028. Any remaining gas requirement that may exceed the locks will be purchased in the Managed Procurement Fund. Any additional gas locked but not used by the City will be resold through the Managed Procurement Fund and those proceeds will be credited to the City.

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

The City extended the Firm Transportation Agreement with Viking Gas Transmission Company for additional capacity on November 1, 2020 for five more years, now ending October 31, 2025.

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

NOTE 14 IN-KIND PAYMENTS

The electric fund provides street lighting for the City of Hawley at no charge. The total in-kind payment to the City of Hawley for the year ended December 31, 2025 was $14,851.

NOTE 15 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers compensation for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage in fiscal 2025.

NOTE 16 TAX ABATEMENT DISCLOSURE

Purpose of Tax Abatement	Percentage of Taxes Abated During the Fiscal Year	Amount of Taxes Abated
Residential New Housing Tax Abatement-2 year duration		
New Houses Built: 6 in 2018, 6 in 2019, 5 in 2020, 3 in 2021, 3 in 2022, 0 in 2023, 5 in 2024, 6 in 2025	100% of City taxes on the first $400,000 value (Zoning Permits from 2019 on)	$ 10,954
AmericInn/Hawley Hotel Partners Tax Abatement - to reimburse for certain development costs of Nationally Franchised "AmericInn" 10 year duration	75% of City taxes abated	11,785
Tonys SV Hardware Store Tax Abatement 9 year duration	100% of the increased taxes abated	6,139
Total Abatements 2025		$ 28,878

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

City provided Housing Abatement on the first $200,000 of value for new homes built in 2018 and prior. In 2019 the City increased the Housing Abatement to cover the first $400,000 of value for new homes built in 2019 and 2020 and again approved for 2021 and 2022 new houses. In 2022, the City approved Housing Abatements for houses built in 2023 and 2024 on the whole value of the home.

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

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

NOTE 17 NEW PRONOUNCEMENTS

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

GASB Statement No. 105, *Subsequent Events*, defines subsequent events as transactions or other events occurring after the financial statement date but before the statements are available for issuance. Financial statements are considered available for issuance when they are complete in accordance with generally accepted accounting principles and have received all required approvals. The Statement also requires disclosure of the date through which subsequent events were evaluated and clarifies the distinction between recognized and nonrecognized subsequent events, including related note disclosure requirements. This statement is effective for fiscal years beginning after June 15, 2026. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the City's financial statements.

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	2025				
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	2024 Actual
RECEIPTS					
Property Taxes	$ 727,368	$ 761,368	$ 761,232	$ (136)	$ 698,403
Tax Increment Financing		6,000			
Special Assessments	7,000	2,500	2,464	(36)	8,153
Licenses and Permits	18,600	19,800	19,704	(96)	24,601
Intergovernmental					
State					
Local Government Aid	739,839	739,839	739,839		738,678
Fire State Aid	36,000	52,200	52,199	(1)	44,266
Police State Aid	36,000	69,300	69,293	(7)	63,059
Small Cities Assistance	51,700	25,000	24,935	(65)	38,889
Other State Aid	13,600	14,400	17,445	3,045	22,772
Local - County	15,500	16,150	16,109	(41)	15,393
Total Intergovernmental	892,639	916,889	919,820	2,931	923,057
Charges for Services					
Franchise Fee - Cable	7,200	6,700	6,822	122	6,844
Street Charges and Sales	1,000	4,400	4,400		8,000
Parks	9,000	9,000	9,000		9,000
Total Charges for Services	17,200	20,100	20,222	122	23,844
Fines and Forfeitures	13,000	10,500	7,155	(3,345)	11,265
Investment Earnings	25,000	46,000	47,505	1,505	61,719
Miscellaneous					
Rents	5,601	2,601	2,346	(255)	5,006
Donations	5,000	11,400	11,420	20	11,090
Insurance Proceeds	4,000	4,000	1,042	(2,958)	5,450
Other Receipts	53,200	201,700	206,201	4,501	127,759
TOTAL RECEIPTS	1,768,608	2,002,858	1,999,111	2,253	1,900,347
DISBURSEMENTS					
General Government					
Current					
City Council	64,375	49,980	48,323	(1,657)	123,046
Election					7,595
Finance	96,560	90,260	91,582	1,322	88,663
Assessor	7,500	7,500	7,468	(32)	7,468
Legal	50,000	25,000	22,143	(2,857)	23,746
Other General Government	95,750	155,675	120,682	(34,993)	165,901
Capital Outlay	35,000	2,000	1,922	(78)	1,317
Total General Government	349,185	330,415	292,120	(38,295)	417,736
Public Safety					
Current					
Police Protection	782,528	648,863	650,483	1,620	826,152
Fire Relief	36,000	52,200	52,199	(1)	44,266
Fire Joint Powers District	95,500	95,500	95,475	(25)	92,250
Animal Control	1,100	1,300	1,391	91	1,318

cont.

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2025

	2025				
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	2024 Actual
DISBURSEMENTS - Continued					
Public Safety - Continued					
Current - Continued					
Emergency Response					
Joint Powers District	$ 45,620	$ 45,620	$ 45,521	$ (99)	$ 44,893
Capital Outlay	52,500	17,905	17,366	(539)	84,548
Total Public Safety	1,013,248	861,388	862,435	1,047	1,093,427
Streets and Highways					
Current					
Street Maintenance	225,600	214,200	240,551	26,351	242,586
Capital Outlay	175,000	7,000	6,521	(479)	68,406
Total Streets and Highways	400,600	221,200	247,072	25,872	310,992
Culture and Recreation					
Current					
Community Building	22,875	70,913	72,112	1,199	115,099
Parks	141,850	127,750	130,756	3,006	149,203
Library	8,150	28,400	28,218	(182)	5,721
Capital Outlay	53,500	138,433	138,400	(33)	91,665
Total Culture and Recreation	226,375	365,496	369,486	3,990	361,688
Conservation of Natural Resources					
Vector Control	32,100	12,250	11,537	(713)	15,703
Forestry Shade Tree	19,000	21,100	20,451	(649)	12,830
Total Conservation of Natural Resources	51,100	33,350	31,988	(1,362)	28,533
Economic Development					
Current					
Economic Development	103,100	80,500	72,745	(7,755)	92,150
Total Economic Development	103,100	80,500	72,745	(7,755)	92,150
TOTAL DISBURSEMENTS	2,143,608	1,892,349	1,875,846	(16,503)	2,304,526
Receipts Over (Under) Disbursements	(375,000)	110,509	123,265	18,756	(404,179)
OTHER FINANCING SOURCES (USES)					
Transfer In	375,000	361,200	760,439	399,239	310,895
Transfer In - Interfund Loan			16,038	16,038	
Transfer Out			(450,576)	(450,576)	(139,039)
TOTAL OTHER FINANCING SOURCES (USES)	375,000	361,200	325,901	(35,299)	171,856
Net Change in Fund Balances		471,709	449,166	(16,543)	(232,323)
Fund Balances - Beginning	2,759,194	2,759,194	2,759,194		2,991,517
Fund Balances - Ending	$ 2,759,194	$ 3,230,903	$ 3,208,360	$ (16,543)	$ 2,759,194

CITY OF HAWLEY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
AIRPORT FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	2025				
	Original Budget	Final Budget	Actual Amounts	Over (Under) Final Budget	2024 Actual
RECEIPTS					
Intergovernmental					
Federal	$	$ 239,650	$ 226,753	$ (12,897)	$ 14,522
State	21,608	21,608	21,390	(218)	15,849
Total Intergovernmental	21,608	261,258	248,143	(13,115)	30,371
Investment Earnings	900	900	862	(38)	455
Miscellaneous					
Rents	60,000	65,000	66,900	1,900	69,982
Other Receipts	29,500	33,000	30,974	(2,026)	26,883
TOTAL RECEIPTS	112,008	360,158	346,879	(13,279)	127,691
DISBURSEMENTS					
Current	111,850	143,175	142,358	(817)	156,596
TOTAL DISBURSEMENTS	111,850	143,175	142,358	(817)	156,596
Receipts Over (Under) Disbursements	158	216,983	204,521	(12,462)	(28,905)
OTHER FINANCING USES					
Transfer Out - Interfund Loan			(111,376)	(111,376)	
TOTAL OTHER FINANCING USES			(111,376)	(111,376)	
Net Change in Fund Balances	158	216,983	93,145	(123,838)	(28,905)
Fund Balances - Beginning	27,850	27,850	27,850		56,755
Fund Balances - Ending	$ 28,008	$ 244,833	$ 120,995	$ (123,838)	$ 27,850

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

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA	2016	$ 62,916	$ 62,916	$	$ 838,877	7.50 %
	2017	63,645	63,645		848,596	7.50
	2018	65,273	65,273		870,302	7.50
	2019	64,300	64,300		857,336	7.50
	2020	64,086	64,086		854,475	7.50
	2021	70,097	70,097		934,627	7.50
	2022	74,470	74,470		992,374	7.50
	2023	79,351	79,351		1,058,095	7.50
	2024	87,232	87,232		1,163,101	7.50
	2025	92,332	92,332		1,228,969	7.51

See Note to the Pension Schedules

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

	Fiscal Year Ended June 30	City's Proportionate Share of the Net Pension Liability		City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll		Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	
PERA	2016	0.0136	%	$ 1,104,253	$ 14,445	$ 1,118,698	$ 847,750	130.26	%	68.90	%
	2017	0.0131		836,295	10,512	846,807	843,736	100.36		75.90	
	2018	0.0128		710,092	23,257	733,349	859,449	85.33		79.53	
	2019	0.0123		680,039	21,166	701,205	863,819	81.17		80.23	
	2020	0.0119		713,459	22,060	735,519	855,906	85.93		79.06	
	2021	0.0123		525,265	15,945	541,210	894,551	60.50		87.00	
	2022	0.0130		1,029,604	30,228	1,059,832	963,501	110.00		76.67	
	2023	0.0131		732,537	20,252	752,789	1,025,235	73.43		83.10	
	2024	0.0127		467,784	12,096	479,880	1,110,598	43.21		89.08	
	2025	0.0134		444,128	10,694	454,822	1,196,035	38.03		90.78	

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

NOTE 1 DEFINED BENEFIT PLANS

PERA

General Employees Fund

2025 Changes

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

Exhibit A-1

	Special Revenue Exhibit B-1	Debt Service Exhibit B-3	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	$ 946,489	$ 308,485	$ 1,254,974
Cash with Fiscal Agent	107,975		107,975
TOTAL ASSETS	$ 1,054,464	$ 308,485	$ 1,362,949
LIABILITIES			
Due to Other Funds	$ 837	$	$ 837
TOTAL LIABILITIES	837		837
FUND BALANCES			
Restricted for:			
Revolving Loan	271,703		271,703
TIF Districts	16,299		16,299
Debt Service		308,485	308,485
Committed for:			
Garbage Service/Recycling	374,801		374,801
Deputy Registrar/Office	121,751		121,751
Storm Water Maint/Repairs	121,275		121,275
Building Upkeep/Repair	148,635		148,635
Unassigned	(837)		(837)
TOTAL FUND BALANCES	1,053,627	308,485	1,362,112
TOTAL LIABILITIES AND FUND BALANCES	$ 1,054,464	$ 308,485	$ 1,362,949

CITY OF HAWLEY, MINNESOTA

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2025

Exhibit A-2

	Special Revenue Exhibit B-2	Debt Service Exhibit B-4	Capital Projects			Total Nonmajor Governmental Funds
			PHE NE	15th Street Project	2025 Street Project	
RECEIPTS						
Property Taxes	$	$ 128,472	$	$	$	$ 128,472
Tax Increment Financing	325,754					325,754
Special Assessments		327,350				327,350
Intergovernmental - Local				45,000		45,000
Charges for Services	696,996					696,996
Investment Earnings	13,537	7,979	325			21,841
Miscellaneous						
Rent	97,700					97,700
Other Receipts	12,336					12,336
TOTAL RECEIPTS	1,146,323	463,801	325	45,000		1,655,449
DISBURSEMENTS						
Current						
General Government	165,602					165,602
Public Safety	20,873					20,873
Sanitation	403,100					403,100
Economic Development	257,128					257,128
Debt Service						
Principal		779,000				779,000
Interest and Other Charges		137,348				137,348
Capital Outlay						
Streets and Highways				325,306	170,271	495,577
TOTAL DISBURSEMENTS	846,703	916,348		325,306	170,271	2,258,628
Receipts Over (Under) Disbursements	299,620	(452,547)	325	(280,306)	(170,271)	(603,179)
OTHER FINANCING SOURCES (USES)						
Transfer In		448,454		280,306	170,271	899,031
Transfer Out	(203,807)	(437,928)	(38,811)			(680,546)
Transfer Out - Interfund Loan	(56,038)					(56,038)
TOTAL OTHER FINANCING SOURCES (USES)	(259,845)	10,526	(38,811)	280,306	170,271	162,447
Net Change in Fund Balances	39,775	(442,021)	(38,486)			(440,732)
Fund Balances - Beginning	1,013,852	750,506	38,486			1,802,844
Fund Balances - Ending	$ 1,053,627	$ 308,485	$	$	$	$ 1,362,112

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2025

	Nonmajor Funds							Total Nonmajor		Total
	Revolving Loan	Garbage	Deputy Registrar	Storm Water	Clinic	Fire Hall	TIF Thor Investments	Special Revenue Exhibit A-1	Major Fund Airport	Special Revenue
ASSETS										
Cash and Investments	$ 163,728	$ 374,801	$ 121,751	$ 121,275	$ 148,635	$	$ 16,299	$ 946,489	$ 120,995	$ 1,067,484
Cash with Fiscal Agent	107,975							107,975		107,975
TOTAL ASSETS	$ 271,703	$ 374,801	$ 121,751	$ 121,275	$ 148,635	$	$ 16,299	$ 1,054,464	$ 120,995	$ 1,175,459
LIABILITIES										
Due to Other Funds	$	$	$	$	$	$ 837	$	$ 837	$	$ 837
TOTAL LIABILITIES						837		837		837
FUND BALANCES										
Restricted for:										
Revolving Loan	271,703							271,703		271,703
TIF Districts							16,299	16,299		16,299
Committed for:										
Municipal Airport									120,995	120,995
Garbage Service/Recycling		374,801						374,801		374,801
Deputy Registrar/Office			121,751					121,751		121,751
Storm Water Maint/Repairs				121,275				121,275		121,275
Building Upkeep/Repair					148,635			148,635		148,635
Unassigned						(837)		(837)		(837)
TOTAL FUND BALANCES	271,703	374,801	121,751	121,275	148,635	(837)	16,299	1,053,627	120,995	1,174,622
TOTAL LIABILITIES AND FUND BALANCES	$ 271,703	$ 374,801	$ 121,751	$ 121,275	$ 148,635	$	$ 16,299	$ 1,054,464	$ 120,995	$ 1,175,459

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

Exhibit B-2

	Nonmajor Funds							
	Revolving Loan	GN Property TIF	Garbage	Deputy Registrar	Storm Water	Clinic	Fire Hall	TIF RDO
RECEIPTS								
Tax Increment Financing	$	$ 45,044	$	$	$	$	$	$ 179,157
Intergovernmental - Federal								
Intergovernmental - State								
Charges for Services			433,173	149,163	114,660			
Investment Earnings	3,547		4,544	1,926	1,573	1,947		
Miscellaneous								
Rent						30,900	66,800	
Other Receipts	9,000		2,255	1,081				
TOTAL RECEIPTS	12,547	45,044	439,972	152,170	116,233	32,847	66,800	179,157
DISBURSEMENTS								
Current								
General Government				148,726		16,876		
Public Safety							20,873	
Sanitation			403,100					
Economic Development	23,180	45,044						103,650
Airport								
TOTAL DISBURSEMENTS	23,180	45,044	403,100	148,726		16,876	20,873	103,650
Receipts Over (Under) Disbursements	(10,633)		36,872	3,444	116,233	15,971	45,927	75,507
OTHER FINANCING USES								
Transfer Out			(20,000)	(10,000)	(98,300)			(75,507)
Transfer Out - Interfund Loan			(16,038)				(40,000)	
TOTAL OTHER FINANCING USES			(36,038)	(10,000)	(98,300)		(40,000)	(75,507)
Net Change in Fund Balances	(10,633)		834	(6,556)	17,933	15,971	5,927	
Fund Balances - Beginning	282,336		373,967	128,307	103,342	132,664	(6,764)	
Fund Balances - Ending	$ 271,703	$	$ 374,801	$ 121,751	$ 121,275	$ 148,635	$ (837)	$

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2025

Exhibit B-2

	Nonmajor Funds				Total Nonmajor Special Revenue Exhibit A-2	Major Fund Airport	Total Special Revenue
	TIF Hefty	TIF Goldmine	TIF Autumn Ridge Apts	TIF Thor Investments			
RECEIPTS							
Tax Increment Financing	$ 14,000	$ 12,307	$ 39,780	$ 35,466	$ 325,754	$	$ 325,754
Intergovernmental - Federal						226,753	226,753
Intergovernmental - State						21,390	21,390
Charges for Services					696,996		696,996
Investment Earnings					13,537	862	14,399
Miscellaneous							
Rent					97,700	66,900	164,600
Other Receipts					12,336	30,974	43,310
TOTAL RECEIPTS	14,000	12,307	39,780	35,466	1,146,323	346,879	1,493,202
DISBURSEMENTS							
Current							
General Government					165,602		165,602
Public Safety					20,873		20,873
Sanitation					403,100		403,100
Economic Development	14,000	12,307	39,780	19,167	257,128		257,128
Airport						142,358	142,358
TOTAL DISBURSEMENTS	14,000	12,307	39,780	19,167	846,703	142,358	989,061
Receipts Over (Under) Disbursements				16,299	299,620	204,521	504,141
OTHER FINANCING USES							
Transfer Out					(203,807)		(203,807)
Transfer Out - Interfund Loan					(56,038)	(111,376)	(167,414)
TOTAL OTHER FINANCING USES					(259,845)	(111,376)	(371,221)
Net Change in Fund Balances				16,299	39,775	93,145	132,920
Fund Balances - Beginning					1,013,852	27,850	1,041,702
Fund Balances - Ending	$	$	$	$ 16,299	$ 1,053,627	$ 120,995	$ 1,174,622

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS
DECEMBER 31, 2025

Exhibit B-3

	Nonmajor Funds				
	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	Autumn View	Nature Lane
ASSETS					
Cash and Investments	$ 20,216	$ 2,283	$ 45,238	$ 51,711	$ 42,976
TOTAL ASSETS	$ 20,216	$ 2,283	$ 45,238	$ 51,711	$ 42,976
FUND BALANCES					
Restricted for Debt Service	$ 20,216	$ 2,283	$ 45,238	$ 51,711	$ 42,976
TOTAL FUND BALANCES	$ 20,216	$ 2,283	$ 45,238	$ 51,711	$ 42,976

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
DEBT SERVICE FUNDS – CONTINUED
DECEMBER 31, 2025

Exhibit B-3

	Nonmajor Funds			Total Nonmajor Debt Service Exhibit A-1	Total Debt Service
	2021 Phase 3	PFA 2022	PHE NE		
ASSETS					
Cash and Investments	$ 91,180	$ 26,773	$ 28,108	$ 308,485	$ 308,485
TOTAL ASSETS	$ 91,180	$ 26,773	$ 28,108	$ 308,485	$ 308,485
FUND BALANCES					
Restricted for Debt Service	$ 91,180	$ 26,773	$ 28,108	$ 308,485	$ 308,485
TOTAL FUND BALANCES	$ 91,180	$ 26,773	$ 28,108	$ 308,485	$ 308,485

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

Exhibit B-4

	Nonmajor Funds					
	2006 PFA Water	2006 PFA Sewer	2008 PFA Water	2008 PFA Sewer	11 Street Rebuild	Bond TIF
RECEIPTS						
Property Taxes	$	$	$	$	$ 37,257	$
Special Assessments	74,020	34,292			35,454	
Investment Earnings	2,848	2,080	135	19	723	
TOTAL RECEIPTS	76,868	36,372	135	19	73,434	
DISBURSEMENTS						
Debt Service						
Principal	155,000	61,000	9,000	8,000	80,000	80,000
Interest and Other Charges	2,418	647	348	573	5,695	2,647
TOTAL DISBURSEMENTS	157,418	61,647	9,348	8,573	85,695	82,647
Receipts Over (Under) Disbursements	(80,550)	(25,275)	(9,213)	(8,554)	(12,261)	(82,647)
OTHER FINANCING SOURCES (USES)						
Transfer In	88,877	33,200	10,000	8,700		78,091
Transfer Out	(246,621)	(191,307)				
TOTAL OTHER FINANCING SOURCES (USES)	(157,744)	(158,107)	10,000	8,700		78,091
Net Change in Fund Balances	(238,294)	(183,382)	787	146	(12,261)	(4,556)
Fund Balances - Beginning	238,294	183,382	19,429	2,137	57,499	4,556
Fund Balances - Ending	$	$	$ 20,216	$ 2,283	$ 45,238	$

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2025

Exhibit B-4

	Nonmajor Funds						
	Autumn View	Nature Lane	2021 Phase 3	PFA 2022	PHE NE	Total Nonmajor Debt Service Exhibit A-2	Total Debt Service
RECEIPTS							
Property Taxes	$	$	$ 91,215	$	$	$ 128,472	$ 128,472
Special Assessments	38,785	59,920	84,879			327,350	327,350
Investment Earnings	430	361	702	258	423	7,979	7,979
TOTAL RECEIPTS	39,215	60,281	176,796	258	423	463,801	463,801
DISBURSEMENTS							
Debt Service							
Principal	31,000	45,000	265,000	45,000		779,000	779,000
Interest and Other Charges	6,307	11,195	40,213	8,210	59,095	137,348	137,348
TOTAL DISBURSEMENTS	37,307	56,195	305,213	53,210	59,095	916,348	916,348
Receipts Over (Under) Disbursements	1,908	4,086	(128,417)	(52,952)	(58,672)	(452,547)	(452,547)
OTHER FINANCING SOURCES (USES)							
Transfer In			138,775	52,000	38,811	448,454	448,454
Transfer Out						(437,928)	(437,928)
TOTAL OTHER FINANCING SOURCES (USES)			138,775	52,000	38,811	10,526	10,526
Net Change in Fund Balances	1,908	4,086	10,358	(952)	(19,861)	(442,021)	(442,021)
Fund Balances - Beginning	49,803	38,890	80,822	27,725	47,969	750,506	750,506
Fund Balances - Ending	$ 51,711	$ 42,976	$ 91,180	$ 26,773	$ 28,108	$ 308,485	$ 308,485

CITY OF HAWLEY, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND NET POSITION
CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Balance 1/1/2025	Additions	Deductions	Balance 12/31/2025
HAWLEY AREA FIRE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	$ 79,060	$ 366,878	$ 334,960	$ 110,978
Total Assets	$ 79,060	$ 366,878	$ 334,960	$ 110,978
NET POSITION				
Restricted for Other Governments	$ 79,060	$ 366,878	$ 334,960	$ 110,978
Total Restricted for Other Governments	$ 79,060	$ 366,878	$ 334,960	$ 110,978
HAWLEY AREA EMERGENCY RESPONSE DISTRICT - JOINT POWERS				
ASSETS				
Cash and Investments	$	$ 68,281	$ 66,961	$ 1,320
NET POSITION				
Restricted for Other Government	$	$ 68,281	$ 66,961	$ 1,320
TOTAL				
ASSETS				
Cash and Investments	$ 79,060	$ 435,159	$ 401,921	$ 112,298
	$ 79,060	$ 435,159	$ 401,921	$ 112,298
NET POSITION				
Restricted for Other Government	$ 79,060	$ 435,159	$ 401,921	$ 112,298
	$ 79,060	$ 435,159	$ 401,921	$ 112,298

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2025

Governmental Funds	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
General Fund						
Committed for:						
2016 Levy Reduction	$ 66,089	$	$	$	$	$ 66,089
Seal Coat/Crack Fill	247,959					247,959
Plow Truck/Equipment	140,600					140,600
Street Patching	143,700	70,000	175,627			38,073
Sidewalks	21,000	1,000				22,000
Lawn Mower	11,600	10,000				21,600
Park Board Sinking Fund	49,011		49,011			
Park - Brekken	1,256					1,256
Park - Prairie Hills		625	625			
Park - Disc Golf	2,000					2,000
Park Donations	11,759		11,759			
Police - Night to Unite	3,866	1,849				5,715
Police Vehicle		33,595				33,595
Zoning Comprehensive Plan	5,760					5,760
Economic Development	16,800					16,800
River Remeandering - Phase 3	20,000					20,000
Community Center	15,773					15,773
Public Works Vehicle	54,838	10,000				64,838
Library	25,660					25,660
Police Building	11,170	5,000				16,170
Police Public Safety Aid	19,351					19,351
Health Savings Account	93,125		11,600			81,525
Prosecution	15,700	25,000				40,700
Organizational Study	29,845					29,845
15th Street Paving	97,404	30,000	127,404			
2025 Street Rebuild Project	55,564	91,983	147,547			
Administrative Discretionary	1,270					1,270
Unassigned	1,598,094	1,720,059	1,352,273	309,863	16,038	2,291,781
Total General Fund	2,759,194	1,999,111	1,875,846	309,863	16,038	3,208,360
Special Revenue						
Revolving Loan	282,336	12,547	23,180			271,703
TIF RDO		179,157	103,650	(75,507)		
GN Property		45,044	45,044			
TIF Hefty		14,000	14,000			
TIF Goldmine		12,307	12,307			
TIF Autumn Ridge Apts		39,780	39,780			
TIF Thor Investments		35,466	19,167			16,299
Garbage	373,967	439,972	403,100	(20,000)	(16,038)	374,801
Deputy Registrar	128,307	152,170	148,726	(10,000)		121,751
Airport	27,850	346,879	142,358		(111,376)	120,995
Storm Water	103,342	116,233		(98,300)		121,275
Clinic	132,664	32,847	16,876			148,635
Fire	(6,764)	66,800	20,873		(40,000)	(837)
Capital Project						
PHE NE	38,486	325		(38,811)		
15th Street Project		45,000	325,306	280,306		
2025 Street Project			170,271	170,271		

CITY OF HAWLEY, MINNESOTA

SCHEDULE OF CHANGES IN FUND BALANCES AND CHANGES IN NET POSITION - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2025

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
Debt Service						
2006 PFA Water	$ 238,294	$ 76,868	$ 157,418	$ (157,744)	$	$
2006 PFA Sewer	183,382	36,372	61,647	(158,107)		
2008 PFA Water	19,429	135	9,348	10,000		20,216
2008 PFA Sewer	2,137	19	8,573	8,700		2,283
11 Street Rebuild	57,499	73,434	85,695			45,238
Bond TIF	4,556		82,647	78,091		
Autumn View Bond	49,803	39,215	37,307			51,711
Nature Lane Bond	38,890	60,281	56,195			42,976
2021 Phase 3	80,822	176,796	305,213	138,775		91,180
PFA 2022	27,725	258	53,210	52,000		26,773
PHE NE	47,969	423	59,095	38,811		28,108
Total Governmental Funds	$ 4,589,888	$ 4,001,439	$ 4,276,832	$ 528,348	$ (151,376)	$ 4,691,467

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Transfers Interfund Loan	Balance End of Year
Proprietary Funds						
Water	$ 3,011,498	$ 517,050	$ 357,123	$ (139,352)	$	$ 3,032,073
Sewer	2,481,443	439,389	295,967	(138,900)		2,485,965
Electric	1,637,404	3,357,092	2,951,316	(149,416)		1,893,764
Gas	1,776,666	1,104,660	993,775	(85,680)		1,801,871
Liquor	528,603	1,537,729	1,467,246	(15,000)		584,086
Total Proprietary Funds	$ 9,435,614	$ 6,955,920	$ 6,065,427	$ (528,348)	$	$ 9,797,759

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Interest Rate	Date of Issue	Maturity Dates	Amount of Issue	Balance 12/31/2024	Issued 2025	Retired 2025	Balance 12/31/2025	Principal Due In 2026	Interest Due In 2026
General Obligation Bonds										
G.O. Improvement Bonds, 2011B	3.25%	2011	2026	$ 1,260,000	$ 160,000	$	$ 80,000	$ 80,000	$ 80,000	$ 2,600
G.O. TIF Bonds 2014A		2014		1,270,000	80,000		80,000			
G.O. Improvement Note 2016B	2.65%	2016	2026/31	411,000	238,000		31,000	207,000	32,000	5,486
G.O. Improvement Bonds 2017A	2.0 - 3.0%	2017	2026/32	605,000	395,000		45,000	350,000	45,000	9,800
G.O. Bonds 2021A	1.0-1.6%	2021	2026/36	4,080,000	3,385,000		265,000	3,120,000	325,000	37,068
G.O. Improvement Bonds 2023A	4.00%	2023	2026/43	1,465,000	1,465,000			1,465,000	60,000	58,600
Total General Obligation Bonds					5,723,000		501,000	5,222,000	542,000	113,554
General Obligation Revenue Bonds										
G.O. Water Revenue Note, 2006A		2006		2,565,987	155,000		155,000			
G.O. Sewer Revenue Note, 2006B		2006		1,010,110	61,000		61,000			
G.O. Water Revenue Note, 2008A	1.29%	2008	2026/27	150,010	27,000		9,000	18,000	9,000	232
G.O. Sewer Revenue Note, 2008B	2.29%	2008	2026/27	132,954	25,000		8,000	17,000	8,000	390
G.O. MPFA Clean Water 2021	1.00%	2021	2026/41	926,657	821,000		45,000	776,000	45,000	7,760
Total General Obligation Revenue Bonds					1,089,000		278,000	811,000	62,000	8,382
Revenue Bonds										
Refunding Revenue Note, 2016A	3.25%	2016	2026/27	329,000	104,000		34,000	70,000	33,000	1,738
Total Revenue Bonds					104,000		34,000	70,000	33,000	1,738
Total					$ 6,916,000	$	$ 813,000	$ 6,103,000	$ 637,000	$ 123,674

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

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines & Forfeitures	Special Assessments	Interest	Tax Increment Financing	Misc-ellaneous	Total
2016	$ 519,475	$ 19,129	$ 996,263	$ 492,685	$ 20,711	$ 708,555	$ 6,394	$ 264,069	$ 221,162	$ 3,248,443
2017	573,634	17,037	1,142,813	537,413	22,341	773,884	10,740	269,164	176,854	3,523,880
2018	596,442	16,106	1,271,118	562,927	24,329	619,550	22,523	199,841	233,689	3,546,525
2019	630,837	19,911	807,228	597,336	23,075	666,953	32,297	249,728	342,546	3,369,911
2020	665,503	19,395	995,899	616,970	19,145	505,952	18,597	253,956	262,650	3,358,067
2021	704,673	23,333	1,210,412	653,666	12,913	507,162	18,317	272,655	358,667	3,761,798
2022	741,509	18,279	1,092,845	642,006	16,369	487,212	23,583	284,528	644,820	3,951,151
2023	798,750	15,380	1,184,890	663,346	22,843	427,038	71,625	303,558	310,541	3,797,971
2024	826,341	24,601	953,428	686,614	11,265	319,906	85,984	258,831	363,674	3,530,644
2025	889,704	19,704	1,212,963	717,218	7,155	329,814	70,208	325,754	428,919	4,001,439

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

Fiscal Year	General Government	Public Safety	Streets and Highways	Sanitation	Culture and Recreation	Debt Service	Capital Outlay	Other	Total
2016	$ 308,992	$ 565,007	$ 166,665	$ 227,400	$ 106,574	$ 1,111,805	$ 722,094	$ 456,387	$ 3,664,924
2017	299,613	551,616	224,755	274,286	122,889	1,081,900	1,184,859	447,734	4,187,652
2018	312,475	530,329	187,372	273,830	143,528	1,342,862	846,409	274,150	3,910,955
2019	359,258	643,675	188,191	282,262	114,063	1,225,592	382,178	303,770	3,498,989
2020	382,034	757,698	187,286	288,070	127,963	773,495	444,781	317,204	3,278,531
2021	380,185	755,955	166,472	313,774	132,669	890,838	6,302,933	318,155	9,260,981
2022	439,332	829,648	232,164	329,567	147,937	1,050,354	1,839,298	479,588	5,347,888
2023	402,378	851,293	218,809	343,906	134,719	1,096,926	2,461,812	457,231	5,967,074
2024	563,485	1,015,294	242,586	355,809	270,023	948,299	449,078	451,863	4,296,437
2025	455,800	865,942	240,551	403,100	231,086	916,348	659,786	504,219	4,276,832

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

Levy Year	Tax Capacity	Tax Levy	Tax Capacity Rates					
			City	School	County	Water Shed District	EDA/HRA	Total
2016	$ 1,249,225	$ 519,500	41.586	25.435	45.173	1.724		113.918
2017	1,381,939	566,300	40.979	23.203	46.477	1.697		112.356
2018	1,567,890	601,000	38.332	22.360	47.888	1.706		110.286
2019	1,584,181	631,000	39.831	26.774	48.859	1.674	0.563	117.701
2020	1,631,309	662,500	40.612	26.617	51.180	1.694	0.326	120.429
2021	1,677,536	696,000	41.490	28.030	52.321	1.838		123.679
2022	1,731,479	738,000	42.623	28.174	53.521	1.905		126.223
2023	1,979,499	800,700	40.450	51.654	50.292	1.741		144.137
2024	2,322,683	829,513	35.714	48.419	45.441	1.744	0.266	131.584
2025	2,453,216	880,838	35.905	44.618	46.001	1.634	0.306	128.464

Note: Information obtained from the Clay County Auditor

CITY OF HAWLEY, MINNESOTA

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND NET POSITION – CUSTODIAL FUND –
HAWLEY AREA EMERGENCY RESPONSE DISTRICT – JOINT POWERS
FOR THE YEAR ENDED DECEMBER 31, 2025
(UNAUDITED)

ADDITIONS	
Operating Reimbursements	
City of Hawley	$ 45,521
Townships	22,760
TOTAL ADDITIONS	68,281
DEDUCTIONS	
Current	
Professional Services	63,000
RRR Dispatch	3,961
TOTAL DEDUCTIONS	66,961
CHANGES IN ASSETS AND NET POSITION	1,320
ASSETS AND NET POSITION, BEGINNING	
ASSETS AND NET POSITION, ENDING	$ 1,320

CITY OF HAWLEY, MINNESOTA
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND NET POSITION – CUSTODIAL FUND –
HAWLEY AREA FIRE DISTRICT – JOINT POWERS
FOR THE YEAR ENDED DECEMBER 31, 2025
(UNAUDITED)

ADDITIONS		
Intergovernmental		
City of Hawley	$	62,075
Townships		62,075
Fire Relief		150,000
Local Grant		10,681
Lease Revenue		66,800
Investment Earnings		1,316
Miscellaneous		5,986
Interfund Transfer - Fire District Checking Account		7,945
TOTAL ADDITIONS		366,878
DEDUCTIONS		
Current		
Professional Services		
Insurance		10,573
Training		7,279
Supplies		10,458
Fuel and Additives		2,267
Repairs and Maintenance		2,099
Utilities		6,815
Salaries and Benefits		26,921
RRR Dispatch		1,524
Miscellaneous		196,741
Capital Outlay		70,283
TOTAL DEDUCTIONS		334,960
CHANGES IN ASSETS AND NET POSITION		31,918
ASSETS AND NET POSITION, BEGINNING		79,060
ASSETS AND NET POSITION, ENDING	$	110,978

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 9, 2026. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities,* promulgated by the State Auditor pursuant to Minn. Stat. §6.65, insofar as they relate to accounting matters. 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 insofar as they relate to accounting matters.

Purpose of the Report

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

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

March 9, 2026

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BradyMartz

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Hawley as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City of Hawley's basic financial statements and have issued our report thereon dated March 9, 2026. Our report disclosed that, as described in Note 1 to the financial statements, the City prepares its financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2025-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and described in the accompanying schedule of findings. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Brady Martz

BRADY MARTZ
GRAND FORKS, NORTH DAKOTA

March 9, 2026

2025-001 FINDING

Criteria
An appropriate system of internal control requires the City to prepare financial statements in compliance with the regulatory basis of accounting.

Condition
The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. However, the City currently does not prepare the financial statements, including the accompanying note disclosures, as required by the regulatory basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The City elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the City's financial statements.

Recommendation
We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review the financial statements disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The City agrees with the recommendation and will review on an annual basis.

CITY OF HAWLEY, MINNESOTA
CORRECTIVE ACTION PLAN
DECEMBER 31, 2025

2025-001 FINDING

Contact Person – Erica Polley, City Clerk/Treasurer

Corrective Action Plan - Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing