

**CITY OF HUGO, MINNESOTA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2016**

**PREPARED BY:  
FINANCE DIRECTOR'S OFFICE  
FINANCE DIRECTOR  
RONALD OTKIN**



**CITY OF HUGO, MINNESOTA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Fiscal Year Ended December 31, 2016**

**TABLE OF CONTENTS**

	<u>REFERENCE</u>	<u>PAGE</u>
<b>INTRODUCTORY SECTION</b>		
Letter of Transmittal		i
GFOA Certificate of Achievement		v
Elected and Appointed Officials		vi
Organizational Chart		vii
 <b>FINANCIAL SECTION</b>		
Independent Auditor's Report		1
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-wide Financial Statements		
Statement of Net Position		15
Statement of Activities		16
Fund Financial Statements		
Balance Sheet - Governmental Funds		18
Reconciliation of Net Position in the Government-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements		19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds		20
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities		21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund		22
Statement of Net Position - Proprietary Fund		27
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund		28
Statement of Cash Flows - Proprietary Fund		29
Notes to Financial Statements		30
Required Supplementary Information		
Schedule of City Contributions		
General Employees Retirement Plan		68
Schedule of Proportionate Share of Net Pension Liability		
General Employees Retirement Plan		68
City of Hugo Firefighter's Relief Association		
Schedule of Funding Progress for the Fire Relief Association		69
Schedule of Employer Contributions for the Fire Relief Association		69
Combining and Individual Nonmajor Fund Financial Statements and Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds		70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds		71
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Special Park Fund		72
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Firefighter's Relief Fund		73

**CITY OF HUGO, MINNESOTA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Fiscal Year Ended December 31, 2016**

**TABLE OF CONTENTS (CONTINUED)**

	REFERENCE	PAGE
<b>FINANCIAL SECTION (CONTINUED)</b>		
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Tax Increment Financing Collection Fund		74
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Abatement Levy Offset Fund		75
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Obligation Bonds Fund		76
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Compensated Absences Fund		77
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Property and Equipment Acquisition Fund		78
Schedule of Revenues and Expenses - By Department - Proprietary Fund		79
Supplementary Information		
Schedule of Cash and Investments - All Funds		80
Schedule of Debt Service Requirements - All Funds		82
Schedule of Bonds Payable		83
<b>STATISTICAL SECTION (UNAUDITED)</b>		
Net Position by Component	Schedule 1	84
Changes in Net Position	Schedule 2	86
Fund Balances, Governmental Funds	Schedule 3	90
Changes in Fund Balances, Governmental Funds	Schedule 4	92
Tax Capacity and Estimated Actual Value of Taxable Property	Schedule 5	94
Property Tax Rates and Tax Levies - Direct and Overlapping Property Tax Rates	Schedule 6	95
Principal Property Taxpayers	Schedule 7	96
Schedule of Property Tax Levies and Collections	Schedule 8	97
Water and Sanitary Sewer Charges by Customer	Schedule 9	99
Ratios of Outstanding Debt by Type	Schedule 10	101
Ratios of General Bonded Debt Outstanding	Schedule 11	103
Computation of Direct and Indirect General Obligation Bonded Debt and Legal Debt Margin	Schedule 12	105
Legal Debt Margin Information	Schedule 13	106
Pledged Revenue Coverage	Schedule 14	108
Demographic and Economic Statistics	Schedule 15	109
Principal Employers	Schedule 16	110
Full-Time Equivalent Employees by Function	Schedule 17	111
Operating Indicators by Function/Program	Schedule 18	113
Capital Assets Statistics by Function/Program	Schedule 19	115
<b>OTHER REPORT SECTION</b>		
Independent Auditor's Report on Minnesota Legal Compliance		116

**CITY OF HUGO, MINNESOTA**  
**INTRODUCTORY SECTION**  
**December 31, 2016**

***This Page Left Blank Intentionally***

# *City of Hugo*

*14669 Fitzgerald Avenue North*

*Hugo, MN 55038*

*PHONE: (651) 762-6300 FAX: (651) 426-2859*

June 14, 2017

To the Honorable Mayor and Council Members of the City of Hugo:

Minnesota statutes require all cities to issue an annual report on its financial position and activity prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Hugo for the fiscal year ended December 31, 2016.

This report consists of management's representations concerning the finances of the City of Hugo. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hugo has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Hugo's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Hugo's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Hugo's financial statements have been audited by Smith, Schafer and Associates, Ltd., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hugo for the fiscal year ended December 31, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hugo's financial statements for the fiscal year ended December 31, 2016 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A "Single Audit" designed to meet the special needs of federal grantor agencies was not performed for the year ended December 31, 2016 as the City did not participate in any programs that required this additional independent audit.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Hugo's MD&A can be found immediately following the report of the independent auditors.

## CITY OF HUGO, MINNESOTA

### PROFILE OF THE GOVERNMENT

The Village of Hugo was incorporated in 1906. In January, 1972, the Township of Oneka and the Village were consolidated, creating the City of Hugo. The City is located approximately 17 miles northeast of the Minneapolis/Saint Paul metropolitan area. Located in Washington County, it covers an area of 36 square miles and has an estimated population of 14,576.

The City of Hugo is a statutory city. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the city's administrator and attorney. The city's administrator is responsible for carrying out the policies and ordinances of the governing council and overseeing the day-to-day operations of the city. The council is elected on a non-partisan basis. The mayor serves a two-year term and council members serve four-year staggered terms, with two of these positions elected every two years. Three of the council members are elected by ward. The mayor and one council member are elected at large.

The City of Hugo provides a wide range of services including police and fire protection; construction and maintenance of streets and infrastructure; recreational facilities; and water and sewer services.

The annual budget serves as the foundation for the city's financial planning and control. All departments and agencies of the city submit requests for appropriation to the city's finance director in August of each year. The finance director uses these requests as the starting point for developing a proposed budget. The finance director then provides this proposed budget to the council for review. Work sessions are then held with the council covering each department budget. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than December 31, the close of the city's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between funds, however, require the special approval of the city council. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented starting on page 22. For nonmajor governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 72.

### FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hugo operates.

**Economic condition and outlook.** Although the city's tax base, as measured by total tax capacity, decreased 1.8% from a year ago, it has increased a substantial 11% over the past ten years, evidencing both Hugo's favorable location in the Twin Cities metropolitan area as well as significant residential and commercial development. Rapid growth is further reflected in population estimates in 2016 (14,576), or a 129% increase over the 2000 census count.



## CITY OF HUGO, MINNESOTA

### **Economic condition and outlook (continued)**

The city has continued to see strong residential development. From 2009 to 2016, an average of 81 housing units were constructed each year. During 2016, 99 new single-family housing units and 9 new townhome units were constructed with a value of \$28,018,000. New residential development is expected to remain strong in 2017.

Commercial development is also increasing in response to the growing population and increasing demand for goods and services. Over \$27,000,000 in new commercial development has been constructed within the past five years, including health clinics, dental clinics, daycare facilities and other businesses located primarily along the newly improved CSAH 8 corridor.

The city's tax base is comprised mainly of residential homestead (67.7%) and commercial/industrial property (14.6%). The balance consists of non-homestead residential property (11.3%), agricultural and seasonal recreational property (4.5%), and personal property (1.9%).

The ten largest taxpayers make up 8.78% of the city's net tax capacity, providing the city with a stable source of property tax revenue. The city's industrial parks contain five major employers with a total employee count in excess of 800. Median Effective Buying Income (EBI) is 129% of the state median.

The financial policies employed by the City of Hugo did not have a significant impact on the 2016 financial statements.

**Long-term financial planning.** The city council is directing city staff on numerous projects that will affect the growth of the city. A partial list includes:

- 2040 Comprehensive Plan. The city has begun work on updating its comprehensive plan, which occurs on a 10-year cycle. The plan will accommodate a population of 40,000 by the year 2040, and include development of a diverse mix of housing options, connected by a robust pedestrian trail network and ultimately a multi-modal transportation system. A major focus of the city council within this planning cycle is economic development. The city has set aside land for the development of multiple employment centers along transportation corridors, especially TH 61, CSAH 8 and CSAH 4.
- Transportation Corridor Planning. The city has partnered with the State of Minnesota, Washington County, Regional Rail Authority, and adjacent cities and counties to develop plans for future transportation improvements. Planned improvements include right-of-way preservation and expansion of several roadways into multi-lane, multi-functional transportation corridors that can accommodate the vehicle, pedestrian and mass transit growth needs expected to occur in the city by the year 2040.
- Emerging Service and Entertainment Industries. With the anticipated stagnation of the retail market segment, the city is well positioned, as the retail sector has not been overbuilt in Hugo. Medical office buildings, service-based uses, professional office space and dining establishments have been constructed in recent years along the major traffic arterials.

## CITY OF HUGO, MINNESOTA

### Long-term financial planning (continued)

- Downtown Redevelopment. With funding provided by the Metropolitan Council, the city completed a master plan and marketing study for the downtown area, with the goal of reinvigorating the town center. The city also completed a transportation plan for the downtown area and has secured funding for improvements to Trunk Highway 61. The city has also purchased several properties in the downtown area and is working with property owners interested in redeveloping their properties.
- Industrial Expansion and Cultivation of Home-Based Business. The city's industrial sector has seen substantial employment growth within the last 5 years. The city staff is working on several major building expansions within the city's industrial parks. Additionally, the city has created a regulatory environment that encourages small home-based businesses. Major expansion of high-speed internet connectivity is occurring in 2017 in the rural residential and agricultural sections of the city, leading to further growth potential of home-based business.
- Water Supply Sustainability. The city has made significant progress toward a city council goal of diversifying the city's water supply. The city has implemented a plan to use storm water as a major source of water for non-potable uses. Several large storm water irrigation systems have been constructed within the last 3 years, with several more planned for 2017. This program reduces the city's dependence on its primary water supply from an underground aquifer, and also reduces the peak summertime demand on the city's municipal water supply system.

### AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hugo, Minnesota for its comprehensive annual financial report for the fiscal year ended December 31, 2015. This was the sixteenth consecutive year that the city has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report could not be accomplished without the professional, efficient services of many dedicated people. We first express our appreciation to all members of the city staff who assisted and contributed in preparing the report. We also thank the staff of Smith, Schafer and Associates, Ltd. for their assistance and review of the document. And finally, we acknowledge the Mayor and the members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Ronald J. Otkin  
Finance Director



Bryan J. Bear  
City Administrator



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Hugo  
Minnesota**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

**CITY OF HUGO, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
December 31, 2016**

POSITION	NAME	TERM EXPIRES
----------	------	--------------

**ELECTED OFFICIALS**

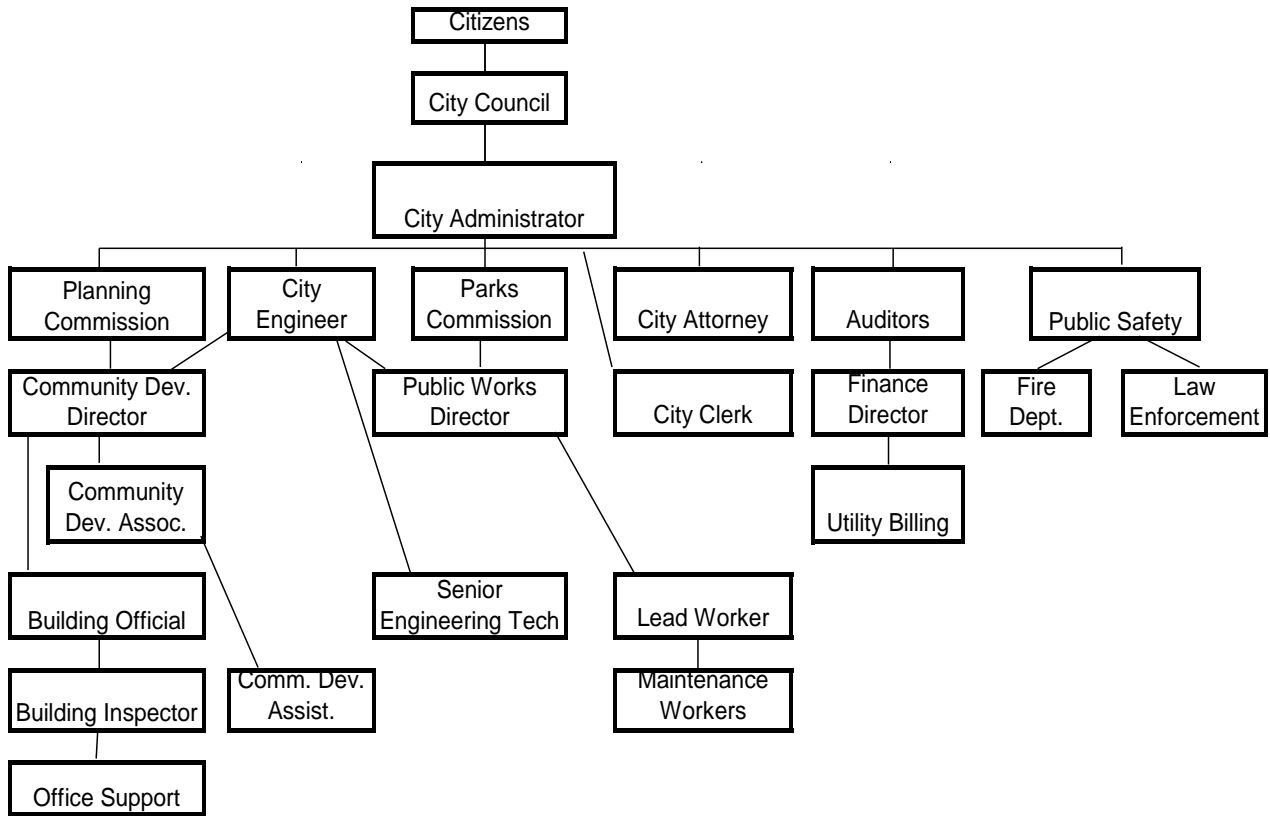
City Council:

Mayor	Tom Weidt	December 31, 2018
Council Member Ward I	Becky Petryk	December 31, 2018
Council Member Ward II	Phil Klein	December 31, 2020
Council Member Ward III	Chuck Haas	December 31, 2018
Council Member At Large	Mike Miron	December 31, 2020

**APPOINTED OFFICIALS**

City Administrator	Bryan J. Bear	Continuous
Finance Director	Ronald J. Otkin	Continuous
City Clerk	Michele Lindau	Continuous

**CITY OF HUGO, MINNESOTA  
ORGANIZATIONAL CHART  
December 31, 2016**



***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**FINANCIAL SECTION**  
**December 31, 2016**

***This Page Left Blank Intentionally***



## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
**City of Hugo, Minnesota**

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hugo, Minnesota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hugo, Minnesota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hugo, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, supplementary information and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and Members of the City Council  
Page 3

*Other Information (continued)*

The combining and individual nonmajor fund financial statements and schedules and the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Smith, Schepf and Associates, Ltd.*

Minneapolis, Minnesota  
June 14, 2017

***This Page Left Blank Intentionally***

## **CITY OF HUGO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Hugo, Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hugo for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in pages i – iv of this report.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Hugo exceeded its liabilities at the close of the most recent fiscal year by \$78,298,032 (*net position*). Of this amount, \$28,876,782 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$3,688,064, primarily due to charges for services and other income in the City's sewer and water fund in excess of operating expenses (including depreciation) as well as capital grants and contributions and property tax revenues received by governmental activities.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,603,086 or 60 percent of total general fund expenditures. Given the uncertainty of state funding, to plan for the future and to be prepared for any contingencies, the City believes this is an appropriate amount.
- As of the close of the current fiscal year, the City of Hugo's governmental funds reported combined ending fund balances of \$16,527,108.
- The City of Hugo decreased general long-term debt obligations by \$1,570,000 during the current fiscal year primarily as a result of scheduled debt service payments.
- The City was again recognized in 2016 by the Government Finance Officers Association of the United States and Canada (GFOA) for obtaining a Certificate of Achievement for Excellence in Financial Reporting.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Hugo's basic financial statements. The City of Hugo's basic financial statements are comprised of the following three components:

**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Hugo's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Hugo's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Hugo is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Hugo that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Hugo include general government, community development, public safety, highways and streets, and parks. The business-type activities of the City of Hugo includes the sewer and water fund. The government-wide financial statements can be found on pages 15-17 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hugo, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Hugo can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City's fund balances are classified by the following types:

Non-spendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources committed for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance the City intends to use for a specific purpose. The Council has authorized the City Administrator and City Finance Director to assign fund balance.

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative balance.

Detail information regarding the fund balance classifications are found in Notes 1 and 3 in the Notes to the Financial Statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Hugo maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general obligation bonds fund, the public improvements fund and the property and equipment acquisition fund, which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Hugo adopts an annual budget for its general fund and certain special revenue, debt service and capital project funds. Budgetary comparison statements have been provided for the general fund (pages 22-26), the special park fund (page 72), the firefighter's relief fund (page 73), the tax increment financing collection fund (page 74), the abatement levy offset fund (page 75), and the other debt service and capital project funds with a budget (pages 76-78) to demonstrate compliance with the budget. The basic governmental fund financial statements can be found on pages 18-21 of this report.

**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Proprietary funds.** The City of Hugo maintains one type of proprietary fund – enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hugo uses enterprise funds to account for its sewer and water operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer and water fund, which is considered to be a major fund of the City of Hugo. The basic proprietary fund financial statements can be found on pages 27-29 and 79 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-67 of this report.

**Other information.** The combining and individual fund statements referred to earlier in connection with nonmajor governmental funds can be found on pages 70-78 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Hugo, assets exceeded liabilities by \$78,298,032 at the close of the most recent fiscal year. A significant portion of the City of Hugo's net position (56 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The balance of the City's net investment in capital assets increased 2 percent from the prior year due primarily to the addition of capital assets. The City of Hugo uses its capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Hugo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Hugo, Minnesota's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 21,945,362	\$ 21,616,812	\$ 20,206,928	\$ 19,257,201	\$ 42,152,290	\$ 40,874,013
Capital assets	30,208,303	29,201,788	16,735,066	16,679,906	46,943,369	45,881,694
Total assets	<u>52,153,665</u>	<u>50,818,600</u>	<u>36,941,994</u>	<u>35,937,107</u>	<u>89,095,659</u>	<u>86,755,707</u>
Deferred outflows of resources	737,470	145,730	145,294	31,474	882,764	177,204
Long-term liabilities outstanding	9,213,400	10,148,889	381,105	249,735	9,594,505	10,398,624
Other liabilities	1,764,932	1,662,474	92,050	72,581	1,856,982	1,735,055
Total liabilities	<u>10,978,332</u>	<u>11,811,363</u>	<u>473,155</u>	<u>322,316</u>	<u>11,451,487</u>	<u>12,133,679</u>
Deferred inflows of resources	188,468	157,245	40,436	32,019	228,904	189,264
Net assets:						
Net investment in capital assets	26,906,049	26,217,435	16,735,066	16,679,906	43,641,115	42,897,341
Restricted	5,780,135	6,569,231			5,780,135	6,569,231
Unrestricted	9,038,151	6,209,056	19,838,631	18,934,340	28,876,782	25,143,396
Total net position	<u>\$ 41,724,335</u>	<u>\$ 38,995,722</u>	<u>\$ 36,573,697</u>	<u>\$ 35,614,246</u>	<u>\$ 78,298,032</u>	<u>\$ 74,609,968</u>



**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

An additional portion of the City of Hugo's net position (7 percent) represents resources that are subject to external restrictions on how they may be used. The balance of the City's restricted net position decreased 12 percent from the prior year, primarily as a result of scheduled debt service payments made during the year. The City of Hugo's balance of *unrestricted net position* at December 31, 2016 (\$28,876,782) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position increased by 15 percent during the year due primarily to property taxes and capital grants received for street and utilities construction.

At the end of the current fiscal year, the City of Hugo was able to report positive balances in all categories of net position, both for the government as a whole, as well as for its business-type activities. The same was true at the end of the prior fiscal year.

**Governmental activities.** Governmental activities increased the City of Hugo's net position by \$2,728,613. The most significant factors accounting for this increase relate to property taxes and increased service revenue as a result of housing development within the City.

**Business-type activities.** Business-type activities increased the City of Hugo's net position by \$959,451. The majority of this increase is attributable to noncash capital contributions and charges for services.

A condensed version of the Statement of Activities follows:

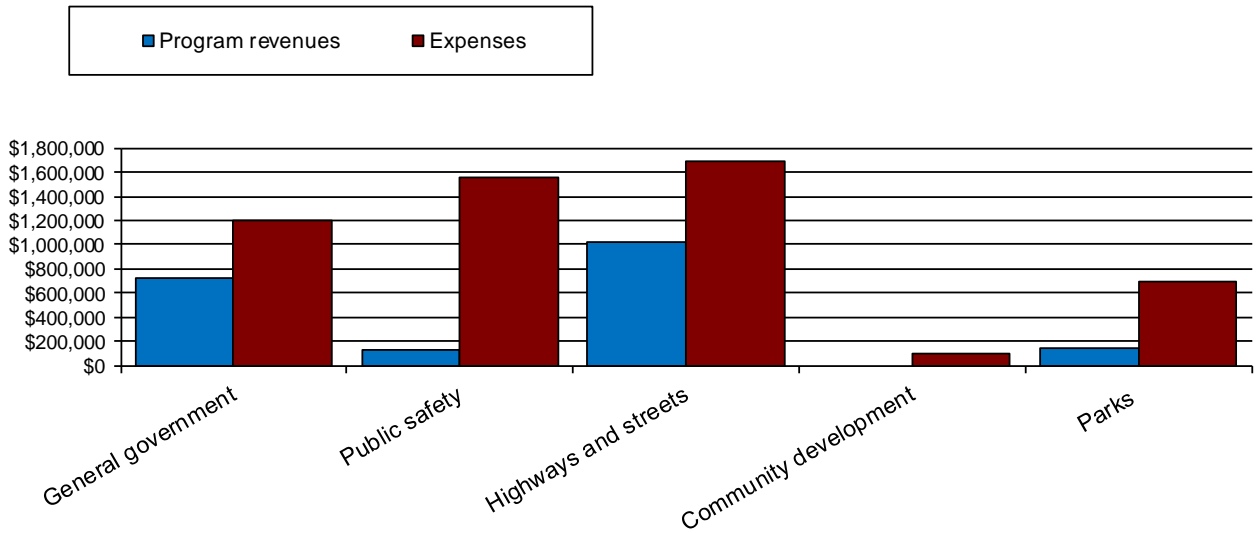
**City of Hugo, Minnesota's Change in Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 748,354	\$ 599,373	\$ 2,364,489	\$ 2,536,840	\$ 3,112,843	\$ 3,136,213
Operating grants and contributions	317,012	342,514			317,012	342,514
Capital grants and contributions	963,391	2,618,455	606,704	1,041,058	1,570,095	3,659,513
General revenues:						
Property taxes	5,858,093	5,930,619			5,858,093	5,930,619
Grants and contributions not restricted to specific programs	12,343	12,987			12,343	12,987
Other	77,557	89,291	622,529	317,129	700,086	406,420
Total revenues	<u>7,976,750</u>	<u>9,593,239</u>	<u>3,593,722</u>	<u>3,895,027</u>	<u>11,570,472</u>	<u>13,488,266</u>
Expenses:						
General government	1,197,701	1,122,799			1,197,701	1,122,799
Public safety	1,557,907	1,766,538			1,557,907	1,766,538
Highways and streets	1,693,873	2,798,767			1,693,873	2,798,767
Community development	95,450	44,810			95,450	44,810
Parks	691,817	629,830			691,817	629,830
Interest on long-term debt	120,457	245,855			120,457	245,855
Sewer and water			2,525,203	2,257,189	2,525,203	2,257,189
Total expenses	<u>5,357,205</u>	<u>6,608,599</u>	<u>2,525,203</u>	<u>2,257,189</u>	<u>7,882,408</u>	<u>8,865,788</u>
Increase in net position before transfers	2,619,545	2,984,640	1,068,519	1,637,838	3,688,064	4,622,478
Transfers	109,068	107,839	(109,068)	(107,839)		
Increase in net position	2,728,613	3,092,479	959,451	1,529,999	3,688,064	4,622,478
Net position, beginning of year	38,995,722	35,903,243	35,614,246	34,084,247	74,609,968	69,987,490
Net position, end of year	<u>\$ 41,724,335</u>	<u>\$ 38,995,722</u>	<u>\$ 36,573,697</u>	<u>\$ 35,614,246</u>	<u>\$ 78,298,032</u>	<u>\$ 74,609,968</u>

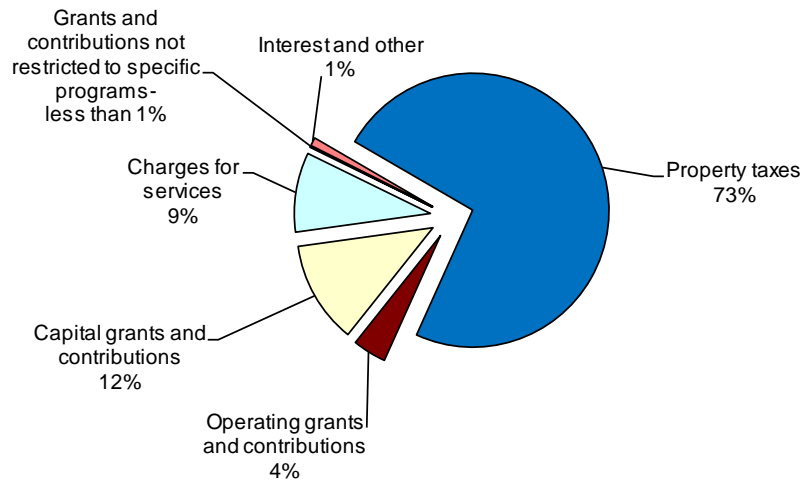
**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

**Expenses and Program Revenues - Governmental Activities**



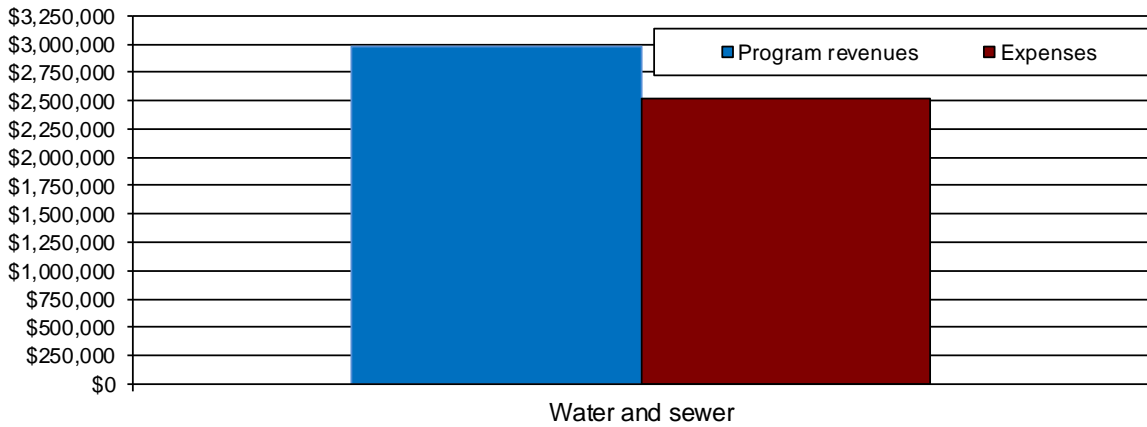
**Revenues by Source - Governmental Activities**



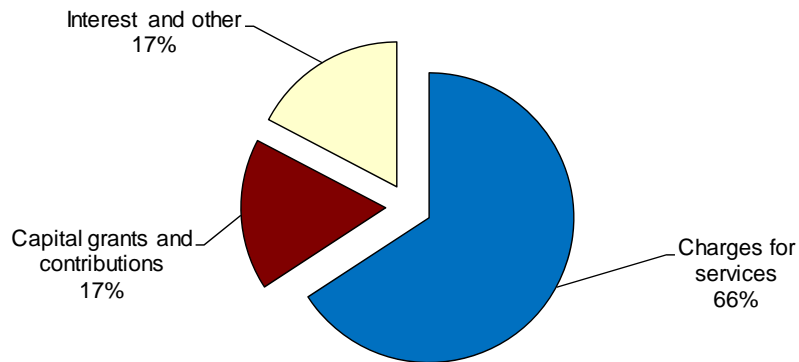
**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the business-type activity's program revenues with its expenses. Since this activity requires significant physical assets to operate, any excess revenues are held for planned capital replacement and expansion to keep pace with growing demand for services.

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Analysis of the Government's Funds**

As noted earlier, the City of Hugo uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Hugo's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Hugo's financing requirements. In particular, *committed, assigned and unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Hugo's governmental funds reported combined ending fund balances of \$16,527,108, an increase of \$690,970 from the prior year primarily as a result of decreased capital outlay and debt service expenditures as a result of the refunding of the 2004 and 2005 general obligation bonds in the prior year. The entire ending fund balance of the governmental funds constitutes *spendable fund balance*, which is further classified as *restricted, committed, assigned or unassigned*.

The general fund is the chief operating fund of the City of Hugo. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,603,086. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 60 percent of total general fund expenditures.

The general fund's total fund balance increased by \$180,372 during the current fiscal year. This year's increase was primarily due to licenses and permit and charges for services revenues in excess of expectations related to increased building activity. Revenues in the general fund met or exceeded budget projections in all cases except investment earnings. General fund expenditures met or were less than budgeted projections in all departments.

The general obligations bonds fund decreased its fund balance by \$251,783 for the year due primarily to debt service payments in excess of property taxes and intergovernmental revenues allocated to this fund. The public improvements fund increased its fund balance by \$767,650 for the year due primarily to intergovernmental revenues and collection of property taxes and special assessments in excess of capital outlay expenditures. The property and equipment acquisition fund decreased its fund balance by \$84,279 for the year due primarily to capital outlay expenditures in excess of transfers from other funds.

The special revenue funds increased their fund balances by \$157,094 for the year due primarily to collection of property taxes and developer fees in excess of capital outlay expenditures.

The debt service funds (other than the general obligations fund as described as a major fund above) have a total fund balance of \$854,313 as of December 31, 2016. These fund balances decreased by \$78,084 for the year due primarily to transfers to other funds for bond principal and interest payments.

## **CITY OF HUGO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Proprietary funds.** The City of Hugo's proprietary funds statements found on pages 27-29 and 79 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary fund totaled \$19,838,631 at December 31, 2016. The proprietary fund's net position increased by \$959,451 due largely to one-time infrastructure fees for new development and noncash capital contributions from developers.

Although metered water connections increased 2.8% in 2016, revenue from the sale of water decreased 1.0%. This was primarily due to a decrease in water sold for irrigation purposes due to record rainfall. Increasing calls for higher water conservation may lead to the need to adjust rates in 2017.

Although sewer connections increased 2.7% in 2016, revenue remained relatively the same. The sewer utility had operating income of \$73,682 in 2016, a decrease of \$55,155 from 2015. This was primarily due to increasing sewage treatment costs imposed by the Metropolitan Council. Sewer utility rates were last adjusted in 2013 and may need to be readjusted in 2017.

### **General Fund Budgetary Highlights**

The city's general fund operations remain healthy due to historically sound financial management and conservative budgeting practices. The general fund balance of \$2.6 million is a substantial 60% of general fund expenditures. The City's general fund year end results were better than budgeted, particularly in nonbusiness licenses revenue and charges for services, as well as highways and street expenses and park expenses for which the city traditionally budgets conservatively. The city no longer receives local government aid from the state. This loss in aid created short-term pressures which were offset by budget planning and the city now has more stability in its revenue stream as it will no longer be as vulnerable to additional state reductions. Significant differences between the final budget and actual results can be briefly summarized as follows:

- Licenses and permits revenue exceeded budget by \$283,475 due primarily to higher than budgeted building permit revenue as a result of increased construction in the City.
- Charges for services revenue exceeded budget by \$186,717 due primarily to various fees related to increased construction in the City.
- General government expenditures were less than budget by \$93,161 due primarily to lower than budgeted legal services and insurance premiums paid for governmental buildings.
- Public safety expenditures were less than budget by \$61,316 due primarily to lower than budgeted police and fire protection services.
- Highways and streets expenditures were less than budget by \$261,083 due primarily to lower than expected street materials and repairs and maintenance costs.
- Parks expenditures were less than budget by \$73,912 due primarily to lower than expected insurance premiums for park facilities and lower expenses for park programming activities.

**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Capital Asset and Debt Administration**

**Capital assets.** The City of Hugo's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$46,943,369 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, and highways. The total increase in the City of Hugo's reported investment in capital assets for the current fiscal year was \$1,061,675, or 2.3 percent. The increase in governmental activities and in business-type activities capital assets is due primarily to various street construction projects within the City during 2016.

**City of Hugo, Minnesota's Capital Assets**  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,631,808	\$ 4,628,249	\$ 259,560	\$ 259,560	\$ 4,891,368	\$ 4,887,809
Construction in progress			48,245	48,245	48,245	48,245
Buildings	3,570,052	3,763,902	16,217,227	16,221,606	19,787,279	19,985,508
Improvements other than buildings	318,646	457,990			318,646	457,990
Machinery and equipment	2,474,360	2,175,999	210,034	150,495	2,684,394	2,326,494
Infrastructure	19,213,437	18,175,648			19,213,437	18,175,648
Total	<u>\$ 30,208,303</u>	<u>\$ 29,201,788</u>	<u>\$ 16,735,066</u>	<u>\$ 16,679,906</u>	<u>\$ 46,943,369</u>	<u>\$ 45,881,694</u>

Additional information on the City of Hugo's capital assets can be found in Note 3:C. on pages 47-48 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Hugo had \$7,225,000 in bonds outstanding. The entire amount of this debt is backed by the full faith and credit of the government.

**City of Hugo, Minnesota's Outstanding Debt**  
General Obligation Bonds Payable

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	<u>\$ 7,225,000</u>	<u>\$ 8,795,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,225,000</u>	<u>\$ 8,795,000</u>

**CITY OF HUGO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Hugo's total bonds, certificates and notes payable decreased by \$1,570,000 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3:D., beginning on page 49.

The City of Hugo maintains an AA+ bond rating on its general obligation bonds from Standard and Poor's.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the City of Hugo (Washington County) ended 2016 at 3.4 percent, up from 3.0 percent a year ago. This compares favorably to the State of Minnesota average unemployment rate of 4.1 percent and the United States average rate of 4.7 percent.
- Hugo continues to see new construction growth, primarily in residential properties. Although the city's total market valuation of existing properties declined 2.3% for taxes payable year 2016, new construction added 0.9%, limiting the overall decline to 1.4%.

All of these factors were considered in preparing the City of Hugo's budget for the 2017 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion and capital acquisitions, the city routinely puts aside resources. The City will continue to monitor developments at the state level that may impact city funding or the City's long term planning. Continued State budget deficits, legislative inactivity or additional State mandates imposed on the city will have an impact on future tax rates and the level of services provided to citizens.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Hugo's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 14669 Fitzgerald Avenue North, Hugo, MN 55038.

***This Page Left Blank Intentionally***



**CITY OF HUGO, MINNESOTA**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**December 31, 2016**

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**STATEMENT OF NET POSITION**

December 31, 2016

	Governmental Activities	Business-Type Activities	Totals
<b>Assets</b>			
Cash and investments	\$ 18,149,119	\$ 19,398,346	\$ 37,547,465
Receivables (net of allowance for uncollectibles)	1,253,006	807,082	2,060,088
Deposits receivable		1,500	1,500
Due from other governmental units	2,031,386		2,031,386
Net pension asset	511,851		511,851
Capital assets:			
Nondepreciable	4,631,808	307,805	4,939,613
Depreciable, net	25,576,495	16,427,261	42,003,756
Total Assets	52,153,665	36,941,994	89,095,659
<b>Deferred Outflows of Resources</b>			
Deferred outflows from pension activity	737,470	145,294	882,764
<b>Liabilities</b>			
Accounts payable	218,343	75,145	293,488
Accrued interest payable	48,739		48,739
Accrued expenses	36,993	3,906	40,899
Due to other governmental units	458,188	11,999	470,187
Unearned revenue	1,002,669	1,000	1,003,669
Noncurrent liabilities:			
Due within one year	1,750,564	20,242	1,770,806
Due in more than one year	5,803,490	6,572	5,810,062
Net pension liability	1,659,346	354,291	2,013,637
Total Liabilities	10,978,332	473,155	11,451,487
<b>Deferred Inflows of Resources</b>			
Deferred inflows from pension activity	188,468	40,436	228,904
<b>Net Position</b>			
Net investment in capital assets	26,906,049	16,735,066	43,641,115
Restricted for:			
Creditors	5,384,236		5,384,236
Regulations	395,899		395,899
Unrestricted	9,038,151	19,838,631	28,876,782
Total Net Position	\$ 41,724,335	\$ 36,573,697	\$ 78,298,032

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,197,701	\$ 685,861	\$ 31,827	\$
Public safety	1,557,907	37,793	86,116	7,300
Highways and streets	1,693,873		199,069	829,311
Community development	95,450			
Parks	691,817	24,700		126,780
Interest on long-term debt	120,457			
Total governmental activities	<u>5,357,205</u>	<u>748,354</u>	<u>317,012</u>	<u>963,391</u>
Business-Type activities:				
Water and sewer	<u>2,525,203</u>	<u>2,364,489</u>	<u></u>	<u>606,704</u>
Total	<u>\$ 7,882,408</u>	<u>\$ 3,112,843</u>	<u>\$ 317,012</u>	<u>\$ 1,570,095</u>

General revenues:  
    General property taxes  
    Grants and contributions not restricted to specific programs  
    Investment earnings  
    Net (decrease) in fair value of investments  
    Miscellaneous  
Transfers  
    Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

**See Notes to Financial Statements**

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (480,013)	\$	\$ (480,013)
(1,426,698)		(1,426,698)
(665,493)		(665,493)
(95,450)		(95,450)
(540,337)		(540,337)
(120,457)		(120,457)
<u>(3,328,448)</u>		<u>(3,328,448)</u>
	445,990	445,990
<u>(3,328,448)</u>	<u>445,990</u>	<u>(2,882,458)</u>
5,858,093		5,858,093
12,343		12,343
57,287	65,119	122,406
(19,853)	(22,568)	(42,421)
40,123	579,978	620,101
109,068	(109,068)	
<u>6,057,061</u>	<u>513,461</u>	<u>6,570,522</u>
2,728,613	959,451	3,688,064
<u>38,995,722</u>	<u>35,614,246</u>	<u>74,609,968</u>
<u>\$ 41,724,335</u>	<u>\$ 36,573,697</u>	<u>\$ 78,298,032</u>

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**FUND FINANCIAL STATEMENTS**  
**December 31, 2016**

**CITY OF HUGO, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

	Debt Service Fund		Capital Project Fund		Other Governmental Funds	Total
	General	General Obligation Bonds	Public Improvements	Property and Equipment Acquisition		
<b>Assets</b>						
Cash and investments	\$ 4,135,672	\$ 2,845,511	\$ 4,430,802	\$ 4,402,154	\$ 2,334,980	\$ 18,149,119
Receivables (Net of Allowance for Uncollectibles)						
Accounts	15,067					15,067
Accrued interest	3,956	2,389	4,394	4,573	2,417	17,729
Taxes	59,125	10,369	5,554		1,440	76,488
Special assessments		555,967	587,755			1,143,722
Due from other governmental units	61,386	1,970,000				2,031,386
<b>TOTAL ASSETS</b>	<b>\$ 4,275,206</b>	<b>\$ 5,384,236</b>	<b>\$ 5,028,505</b>	<b>\$ 4,406,727</b>	<b>\$ 2,338,837</b>	<b>\$ 21,433,511</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 117,045	\$	\$ 98,110	\$ 415	\$ 2,773	\$ 218,343
Unearned revenue	1,000,769			1,900		1,002,669
Salaries payable	36,993					36,993
Due to other governmental units	458,188					458,188
Total Liabilities	1,612,995		98,110	2,315	2,773	1,716,193
<b>Deferred Inflows of Resources</b>						
Unavailable revenue:						
Property taxes	59,125	10,369	5,554		1,440	76,488
Special assessments		555,967	587,755			1,143,722
Due from other governmental units		1,970,000				1,970,000
Total Deferred Inflows of Resources	59,125	2,536,336	593,309		1,440	3,190,210
<b>Fund Balance</b>						
Fund Balance						
Restricted		2,847,900			395,899	3,243,799
Committed					1,864,591	1,864,591
Assigned			4,337,086	4,404,412	74,134	8,815,632
Unassigned	2,603,086					2,603,086
Total Fund Balance	2,603,086	2,847,900	4,337,086	4,404,412	2,334,624	16,527,108
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 4,275,206</b>	<b>\$ 5,384,236</b>	<b>\$ 5,028,505</b>	<b>\$ 4,406,727</b>	<b>\$ 2,338,837</b>	<b>\$ 21,433,511</b>

**See Notes to Financial Statements**



**CITY OF HUGO, MINNESOTA  
RECONCILIATION OF NET POSITION IN THE  
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES  
IN THE FUND BASIS FINANCIAL STATEMENTS  
December 31, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (page 18)		\$ 16,527,108
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 47,372,726	
Less: Accumulated depreciation	<u>(17,164,423)</u>	
		30,208,303
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 76,488	
Deferred and delinquent special assessments	1,143,722	
Due from other governmental units	<u>1,970,000</u>	
		3,190,210
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (7,225,000)	
Net pension liability (asset), deferred outflows and inflows from pension activity	(598,493)	
Compensated absences	(322,204)	
Accrued interest	(48,739)	
Unamortized bond premiums and discounts	<u>(6,850)</u>	
		<u>(8,201,286)</u>
Net position of governmental activities (page 15)		<u><u>\$ 41,724,335</u></u>

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	General	Debt Service Fund	Capital Project Fund		Other Governmental Funds	Total
		General Obligation Bonds	Public Improvements	Property and Equipment Acquisition		
<b>Revenues</b>						
Property taxes	\$ 4,492,766	\$ 611,599	\$ 605,024	\$ 1,086	\$ 192,517	\$ 5,902,992
Special assessments		119,447	251,309			370,756
Licenses and permits	388,743					388,743
Intergovernmental revenues	128,144	492,732	698,996	25,708	264	1,345,844
Charges for services	266,392					266,392
Court fines	37,793					37,793
Other Revenue						
Investment earnings	14,044	7,593	12,852	15,101	7,697	57,287
Net (decrease) in the fair value of investments	(4,867)	(2,631)	(4,454)	(5,234)	(2,667)	(19,853)
Rent	7,595			16,150	8,950	32,695
Contributions	7,300				20,000	27,300
Developer fees			5,980		100,800	106,780
Miscellaneous	32,600					32,600
<b>Total Revenues</b>	<b>5,370,510</b>	<b>1,228,740</b>	<b>1,569,707</b>	<b>52,811</b>	<b>327,561</b>	<b>8,549,329</b>
<b>Expenditures</b>						
Current:						
General government	1,014,614					1,014,614
Public safety	1,549,208					1,549,208
Highways and streets	1,182,129					1,182,129
Community development	76,355					76,355
Parks	375,433					375,433
Unallocated	137,007					137,007
Capital outlay			1,128,270	668,105	168,548	1,964,923
Bond principal retirement		1,570,000				1,570,000
Interest on bonds		126,237				126,237
Fiscal charges and other		2,675				2,675
<b>Total Expenditures</b>	<b>4,334,746</b>	<b>1,698,912</b>	<b>1,128,270</b>	<b>668,105</b>	<b>168,548</b>	<b>7,998,581</b>
Excess (deficiency) of revenues over (under) expenditures	1,035,764	(470,172)	441,437	(615,294)	159,013	550,748
<b>Other Financing Sources (Uses)</b>						
Sale of capital assets				31,154		31,154
Transfers in		218,493	2,111,086	499,861	29,422	2,858,862
Transfers out	(855,392)	(104)	(1,784,873)		(109,425)	(2,749,794)
<b>Total Other Financing Sources (Uses)</b>	<b>(855,392)</b>	<b>218,389</b>	<b>326,213</b>	<b>531,015</b>	<b>(80,003)</b>	<b>140,222</b>
Net change in fund balances	180,372	(251,783)	767,650	(84,279)	79,010	690,970
<b>FUND BALANCES, beginning</b>	<b>2,422,714</b>	<b>3,099,683</b>	<b>3,569,436</b>	<b>4,488,691</b>	<b>2,255,614</b>	<b>15,836,138</b>
<b>FUND BALANCES, ending</b>	<b>\$ 2,603,086</b>	<b>\$ 2,847,900</b>	<b>\$ 4,337,086</b>	<b>\$ 4,404,412</b>	<b>\$ 2,334,624</b>	<b>\$ 16,527,108</b>

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 20)	\$	690,970
--	----	---------

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay-capitalized	\$ 2,595,796		
Depreciation expense	<u>(1,329,554)</u>		1,266,242

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.	(259,727)
---	-----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Unavailable revenue, End of year	\$ 3,190,210		
Unavailable revenue, Beginning of year	<u>(3,800,420)</u>		(610,210)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(20,100)
----------------------	----------

Bond, contract and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal retirement on long-term debt	\$ 1,570,000		
Change in net pension liability	82,983		
Change in accrued interest	7,718		
Change in bond discounts and premium	<u>737</u>		<u>1,661,438</u>

Change in net position of governmental activities (pages 16 and 17)	\$	<u><u>2,728,613</u></u>
---	----	-------------------------

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
<b>General Property Taxes</b>				
Ad Valorem	\$ 4,313,039	\$ 4,313,039	\$ 4,338,295	\$ 25,256
Franchise	148,730	148,730	154,471	5,741
Total General Property Taxes	4,461,769	4,461,769	4,492,766	30,997
<b>Licenses and Permits</b>				
Business	18,315	18,315	19,180	865
Nonbusiness	86,953	86,953	369,563	282,610
Total Licenses and Permits	105,268	105,268	388,743	283,475
<b>Intergovernmental Revenues</b>				
Homestead and other tax credits			10,201	10,201
Fire 2% insurance aid	81,540	81,540	80,916	(624)
Curbside recycling grant	30,376	30,376	30,376	
Pera rate increase aid	1,451	1,451	1,451	
Other aid and grants	2,500	2,500	5,200	2,700
Total Intergovernmental Revenues	115,867	115,867	128,144	12,277
<b>Charges for Services</b>				
	79,675	79,675	266,392	186,717
<b>Court Fines</b>				
	35,925	35,925	37,793	1,868
<b>Miscellaneous Revenues</b>				
Refunds and reimbursements			1,944	1,944
Investment earnings	23,500	23,500	14,044	(9,456)
Net (decrease) in the fair value of investments			(4,867)	(4,867)
Penalties and interest	9,000	9,000	22,931	13,931
Non-levy related taxes	8,433	8,433	7,725	(708)
Contributions			7,300	7,300
Rental income	5,990	5,990	7,595	1,605
Total Miscellaneous Revenues	46,923	46,923	56,672	9,749
<b>TOTAL REVENUES</b>	\$ 4,845,427	\$ 4,845,427	\$ 5,370,510	\$ 525,083

(Continued)

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual (Continued)**  
**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>EXPENDITURES</b>				
<b>General Government</b>				
Mayor and Council				
Personal services	\$ 34,125	\$ 34,125	\$ 28,950	\$ 5,175
Other services and charges	6,287	6,287	2,727	3,560
Ordinance and proceedings	4,100	4,100	1,606	2,494
Total Mayor and Council	<u>44,512</u>	<u>44,512</u>	<u>33,283</u>	<u>11,229</u>
Administration				
Personal services	67,834	67,834	68,408	(574)
Supplies	7,385	7,385	7,095	290
Other services and charges	44,596	44,596	44,970	(374)
Professional services	50,390	50,390	53,849	(3,459)
Capital outlay	2,000	2,000		2,000
Total Administration	<u>172,205</u>	<u>172,205</u>	<u>174,322</u>	<u>(2,117)</u>
Audio/Video				
Personal services	1,446	1,446	1,004	442
Capital outlay	4,000	4,000		4,000
Other services and charges	8,419	8,419	5,685	2,734
Total Audio/Video	<u>13,865</u>	<u>13,865</u>	<u>6,689</u>	<u>7,176</u>
Elections				
Supplies	500	500	1,085	(585)
Other services and charges	16,279	16,279	14,585	1,694
Total Elections	<u>16,779</u>	<u>16,779</u>	<u>15,670</u>	<u>1,109</u>
Clerk/Treasurer				
Personal services	85,686	85,686	78,330	7,356
Supplies	250	250	166	84
Other services and charges	42,174	42,174	35,182	6,992
Total Clerk/Treasurer	<u>\$ 128,110</u>	<u>\$ 128,110</u>	<u>\$ 113,678</u>	<u>\$ 14,432</u>

**(Continued)**

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA  
GENERAL FUND  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual (Continued)  
For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>EXPENDITURES (CONTINUED)</b>				
<b>General Government (Continued)</b>				
Finance Director				
Personal services	\$ 164,096	\$ 164,096	\$ 164,841	\$ (745)
Supplies	1,250	1,250	970	280
Other services and charges	62,354	62,354	59,184	3,170
Capital outlay	3,000	3,000		3,000
Total Finance Director	<u>230,700</u>	<u>230,700</u>	<u>224,995</u>	<u>5,705</u>
Assessing	<u>76,995</u>	<u>76,995</u>	<u>70,627</u>	<u>6,368</u>
Planning and Zoning				
Personal services	78,991	78,991	76,170	2,821
Supplies	500	500	376	124
Other services and charges	16,621	16,621	23,975	(7,354)
Professional services	4,200	4,200	4,178	22
Capital outlay	2,000	2,000		2,000
Total Planning and Zoning	<u>102,312</u>	<u>102,312</u>	<u>104,699</u>	<u>(2,387)</u>
Engineering				
Personal services	91,379	91,379	92,838	(1,459)
Supplies	4,950	4,950	2,650	2,300
Other services and charges	17,355	17,355	18,808	(1,453)
Professional services	20,200	20,200	27,287	(7,087)
Capital outlay	3,650	3,650	500	3,150
Total Engineering	<u>137,534</u>	<u>137,534</u>	<u>142,083</u>	<u>(4,549)</u>
Legal Fees	<u>93,406</u>	<u>93,406</u>	<u>70,024</u>	<u>23,382</u>
General Government Building				
Personal services	7,580	7,580	6,880	700
Supplies	5,850	5,850	4,001	1,849
Other services and charges	72,927	72,927	45,382	27,545
Capital outlay	5,000	5,000	2,281	2,719
Total General Government Building	<u>91,357</u>	<u>91,357</u>	<u>58,544</u>	<u>32,813</u>
Total General Government	<u>\$ 1,107,775</u>	<u>\$ 1,107,775</u>	<u>\$ 1,014,614</u>	<u>\$ 93,161</u>

**(Continued)**

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA  
GENERAL FUND  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual (Continued)  
For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>EXPENDITURES (CONTINUED)</b>				
<b>Public Safety</b>				
Police				
Contracted services	\$ 874,853	\$ 874,853	\$ 836,438	\$ 38,415
Fire Protection				
Personal services	169,510	169,510	170,403	(893)
Supplies	23,250	23,250	27,044	(3,794)
Other services and charges	228,956	228,956	206,596	22,360
Capital outlay	12,000	12,000	10,715	1,285
Total Fire Protection	433,716	433,716	414,758	18,958
Protective Inspection				
Personal services	200,813	200,813	201,735	(922)
Supplies	1,000	1,000	1,557	(557)
Other services and charges	88,142	88,142	87,162	980
Professional services	4,000	4,000	2,879	1,121
Capital outlay	2,000	2,000		2,000
Total Protective Inspection	295,955	295,955	293,333	2,622
Animal Control				
Professional services	6,000	6,000	4,679	1,321
Total Public Safety	1,610,524	1,610,524	1,549,208	61,316
<b>Highways and Streets</b>				
Administration and Engineering				
Personal services	461,358	461,358	423,274	38,084
Supplies	485,618	485,618	328,299	157,319
Other services and charges	329,892	329,892	280,889	49,003
Capital outlay	2,500	2,500	5,300	(2,800)
Total Administration and Engineering	1,279,368	1,279,368	1,037,762	241,606
Streets/Recycling	16,439	16,439	10,053	6,386
Street Lighting	147,405	147,405	134,314	13,091
Total Highways and Streets	\$ 1,443,212	\$ 1,443,212	\$ 1,182,129	\$ 261,083

(Continued)

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA  
GENERAL FUND  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual (Continued)  
For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>EXPENDITURES (CONTINUED)</b>				
<b>Community Development</b>				
Personal services	\$ 77,476	\$ 77,476	\$ 64,511	\$ 12,965
Other services and charges	14,744	14,744	11,844	2,900
Capital outlay	2,000	2,000		2,000
Total Community Development	94,220	94,220	76,355	17,865
<b>Parks</b>				
Personal services	230,863	230,863	219,177	11,686
Other services and charges	216,482	216,482	156,256	60,226
Capital outlay	2,000	2,000		2,000
Total Parks	449,345	449,345	375,433	73,912
<b>Other Unallocated</b>				
Remittance to Fire Relief Association	81,540	81,540	80,916	624
Contributions	17,250	17,250	16,667	583
Miscellaneous	41,561	41,561	39,424	2,137
Total Other Unallocated	140,351	140,351	137,007	3,344
<b>TOTAL EXPENDITURES</b>	4,845,427	4,845,427	4,334,746	510,681
Excess (deficiency) of revenues over (under) expenditures			1,035,764	1,035,764
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out			(855,392)	(855,392)
<b>Net Change in Fund Balance</b>			180,372	180,372
<b>FUND BALANCE, beginning</b>	2,422,714	2,422,714	2,422,714	
<b>FUND BALANCE, ending</b>	\$ 2,422,714	\$ 2,422,714	\$ 2,603,086	\$ 180,372

**See Notes to Financial Statements**



**CITY OF HUGO, MINNESOTA  
 PROPRIETARY FUND  
 Statement of Net Position  
 December 31, 2016**

<hr/>	
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 19,398,346
Receivables	
Accounts receivable	554,680
Accrued interest	20,940
Special assessments (net of allowance for uncollectibles)	231,462
Deposits	<u>1,500</u>
Total Current Assets	<u>20,206,928</u>
<b>Noncurrent Assets</b>	
Property and Equipment	
Nondepreciable	307,805
Depreciable	<u>25,335,762</u>
Total Property and Equipment	<u>25,643,567</u>
Less: Accumulated depreciation	<u>8,908,501</u>
Net Property and Equipment	<u>16,735,066</u>
<b>Total Assets</b>	<u>36,941,994</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows from pension activity	<u>145,294</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Current portion of long-term debt (compensated absences)	20,242
Accounts payable	75,145
Due to other governmental units	11,999
Salaries payable	3,906
Unearned revenue	<u>1,000</u>
Total Current Liabilities	<u>112,292</u>
<b>Long-term Liabilities</b>	
Net pension liability	354,291
Compensated absences, net of current portion	<u>6,572</u>
Total Long-Term Liabilities	<u>360,863</u>
<b>Total Liabilities</b>	<u>473,155</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows from pension activity	<u>40,436</u>
<b>NET POSITION</b>	
Net investment in capital assets	16,735,066
Unrestricted	<u>19,838,631</u>
<b>Total Net Position</b>	<u>\$ 36,573,697</u>

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA  
 PROPRIETARY FUND  
 Statement of Revenues, Expenses  
 and Changes in Fund Net Position  
 For the Year Ended December 31, 2016**

<b>Operating Revenue</b>	
Water charges	\$ 858,525
Meter sales	32,770
Sewer charges	1,101,429
Total Operating Revenues	1,992,724
<b>Operating Expenses</b>	
Personal services	387,354
Engineering	61,673
Electricity	99,656
Repairs and maintenance	741,376
Sewer charges - MCES	514,502
Depreciation	606,578
Miscellaneous	114,064
Total Operating Expenses	2,525,203
<b>Operating (Loss)</b>	(532,479)
<b>Nonoperating Revenue</b>	
Future infrastructure charges	371,765
Rental income	30,874
Intergovernmental revenue	445,984
Investment earnings	65,119
Net decrease in the fair value of investments	(22,568)
Miscellaneous	103,120
Total Nonoperating Revenue	994,294
<b>Net Income Before Transfers and Contributions</b>	461,815
Capital contributions - special assessments	37,076
Noncash capital contributions	569,628
Transfers out	(109,068)
Change in net position	959,451
<b>Net Position, Beginning of Year</b>	35,614,246
<b>Net Position, End of Year</b>	\$ 36,573,697

**See Notes to Financial Statements**

**CITY OF HUGO, MINNESOTA  
 PROPRIETARY FUND  
 Statement of Cash Flows  
 For the Year Ended December 31, 2016**

<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 2,670,439
Cash paid to suppliers	(1,512,597)
Cash paid to employees	(360,592)
Other income received	579,978
Net Cash Provided By Operating Activities	<u>1,377,228</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Transfers to other funds	<u>(109,068)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of capital assets	(92,110)
Special assessments and property taxes received	43,018
Net Cash (Used In) Capital and Related Financing Activities	<u>(49,092)</u>
<b>Cash Flows From Investing Activities</b>	
Investment earnings received	53,666
Net (decrease) in the fair value of investments	<u>(22,568)</u>
Net Cash Provided By Investing Activities	<u>31,098</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,250,166
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>18,148,180</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 19,398,346</u>
<b>RECONCILIATION OF OPERATING INCOME    TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating (loss)	\$ (532,479)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	606,578
Change in net pension liability	23,369
Future infrastructure charges, included in nonoperating revenues	371,765
Other income	579,978
(Increase) Decrease In:	
Accounts receivable	(82,438)
Due from other governmental units	388,388
Increase (Decrease) In:	
Accounts payable	17,261
Due to other governmental units	1,413
Salaries payable	795
Estimated liability for compensated absences	2,598
Net Cash Provided By Operating Activities	<u>\$ 1,377,228</u>
<b>Noncash Investing, Capital and Financing Activities</b>	
Receipt of contributed property	\$ 569,628

**See Notes to Financial Statements**

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

---

**1. Summary of Significant Accounting Policies**

---

The financial statements of the City of Hugo, Minnesota, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

The City was incorporated under the laws of the State of Minnesota and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hugo (the primary government) and its component unit. A component unit is a legally separate entity for which the 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 include whether or not the primary government appoints the potential component unit's board, is able to impose its will on the potential unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

*Blended Component Unit*

The Economic Development Authority of the City of Hugo serves all the citizens of the government and is governed by a board comprised of the City's elected council. The rates for user charges, if any, and bond issuance authorization are approved by the City's council and legal liability for the General Obligation portion of the Authority's debt remains with the City. The activities of the Authority are reported in the Debt Service Funds and Capital Projects Funds. Activities of the Economic Development Authority, if any, will be included in the General Obligation Bonds Fund or a new fund will be created. The debt issued by the Authority (if any) is included in noncurrent liabilities on the statement of net position. The Authority does not issue separate financial statements.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. **Summary of Significant Accounting Policies (Continued)**

---

A. Reporting Entity (Continued)

*Related Organizations*

The Hugo Firefighter's Relief Association is organized as a non-profit organization, legally separate from the City, by its members to provide pension and other benefits to its members in accordance with Minnesota statutes. The membership appoints the board of this Association and separate financial statements are issued by this Association. All funding is conducted in accordance with Minnesota statutes. Although the City levies property taxes for the Association, this Association is fiscally independent to determine and levy taxes. The City's portion of the costs of the Association's pension benefits are included in the General Fund. The Association does not have any significant operational or financial relationship with the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. **Summary of Significant Accounting Policies (Continued)**

---

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *general obligation bonds fund* accounts for the accumulation of resources (property tax and special assessments revenue) for payment of general obligation improvement bonds and interest.

The *public improvements fund* is an accumulation of resources (taxes, special assessments, intergovernmental revenues, transfers from other funds, etc.) for expenditures for public improvements including traffic signals and other public assets.



CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. Summary of Significant Accounting Policies (Continued)

---

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

The *property and equipment acquisition fund* accounts for the accumulation of resources (special assessments, intergovernmental revenues, developers' fees, etc.) for acquisition of high dollar value property and equipment for use in the operation of the City.

The City reports the following major proprietary funds:

The *sewer and water utility fund* accounts for the operation of the City owned sewer and water utility system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. Summary of Significant Accounting Policies (Continued)

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and investments (including cash equivalents)

Cash balances from all funds (including cash equivalents) are pooled and invested to the extent available in various securities as authorized by Minnesota statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the basic financial statements includes amounts in demand deposits as well as all investments held by the City.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December of each year and are certified to Washington County for collection in 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 January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. **Summary of Significant Accounting Policies (Continued)**

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

2. Receivables and payables (continued)

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years with interest charges ranging from 4.27% to 7.50%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. The net amount of delinquent assessments receivable are fully offset by deferred inflows of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

3. Tax Increment Districts

Tax increment revenues received are recorded in the applicable Special Revenue Fund. Such amounts are transferred to the Debt Service Fund as needed to service bond principal and interest payments.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. Summary of Significant Accounting Policies (Continued)

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period. Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	<u>Useful Life in Years</u>
Buildings	20 - 30
Infrastructure	30 - 40
Other Improvements	10 - 15
Machinery and Equipment	5 - 30

The City reviews its property, plant and equipment for impairment whenever events indicate the decline in service utility of the capital asset is significant in magnitude and the event of change in circumstances is outside the normal cycle of the capital assets.

5. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liability only if they have matured, for example, as a result of employee's resignations and retirements.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. **Summary of Significant Accounting Policies (Continued)**

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

5. Compensated absences benefits (continued)

The City compensates employees upon termination for the balance of unused personal time off (PTO) and compensatory time up to specified maximum accumulations. The maximum PTO accumulation per employee is 520 hours and the maximum compensatory time accumulation is 40 hours for exempt employees and 120 hours for nonexempt employees. The compensation is computed at the employee's rate of pay at the time of termination. The City has created a debt service fund to ensure funds are available to pay for compensated absences. Transfers are made from the General Fund as deemed necessary to fund the Compensated Absences Debt Service Fund.

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

7. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. Summary of Significant Accounting Policies (Continued)

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

7. Fund equity

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – amounts are restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Council rescinds or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The Council has delegated the power to assign fund balances to the City Administrator and Finance Director.

Unassigned – includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds. The general fund is the only governmental fund that can report a positive unassigned fund balance.

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**1. Summary of Significant Accounting Policies (Continued)**

---

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

7. Fund equity (continued)

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts when expenditures are made.

E. Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash, investments and accounts and loans receivable. Credit risk associated with cash and investments is discussed in Note 3. The City's accounts and loans receivable are concentrated geographically, and for the most part, amounts are due from individuals residing in and businesses located in the City of Hugo.

F. Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

G. Conduit Debt Obligations

The City has issued a Tax Increment Revenue Note to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The note is secured solely by tax increments. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. The outstanding principal balance of the note as of December 31, 2016 was \$187,963.

Additionally, the City issued lease revenue bonds during 2014 to provide funding to a private sector entity for a project deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City. As of December 31, 2016, the outstanding principal amount of these bonds was \$20,985,000.

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**1. Summary of Significant Accounting Policies (Continued)**

---

**G. Conduit Debt Obligations (continued)**

The City also issued lease revenue bonds during 2015 to provide funding to a nonprofit entity for a project deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City. As of December 31, 2016, the outstanding principal amount of these bonds was \$8,800,000.

---

**2. Stewardship, Compliance, and Accountability**

---

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund, certain Special Revenue and Debt Service Funds and the Property and Equipment Acquisition Capital Project Fund. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and the Property and Equipment Acquisition Capital Project Fund. Budgetary control for other Capital Project Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information. The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements.

1. Budget requests are submitted by all department heads to the City Administrator. The Administrator's office compiles the budget requests into an overall preliminary City budget, balancing budget requests with available revenue.
2. The preliminary budget is submitted to the City Council in September for its review and/or modification.
3. City administration presents the proposed budget to the City Council which in turn holds a truth-in-taxation public hearing on the proposed budget. The budget resolution adopted by the City Council sets forth the budget at the fund level for the General Fund, Special Revenue Funds, Debt Service Funds and certain Capital Projects Funds.



**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**2. Stewardship, Compliance, and Accountability**

---

Budgetary Information (continued)

4. All budgeted appropriations lapse at the end of the fiscal year. The legal level of control (the level on which expenditures may not legally exceed appropriations) for each budget is at the fund level. Management cannot legally amend or transfer appropriations between funds without the approval of the City Council once the budget has been approved. Any over expenditures of appropriations or transfers of appropriated amounts must be approved by the City Council.
5. Budgeted amounts are as originally adopted, or as amended by the City Council. The budget cannot be amended without approval by the City Council.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget (which are the same for the year ended December 31, 2016).

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as commitments of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances at December 31, 2016.

---

**3. Detailed Notes on All Funds**

---

**A. Deposits and Investments**

In accordance with applicable Minnesota statutes, the City maintains deposits at depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System.

Minnesota statutes require that all deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in the investment policy section. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than the institution furnishing the collateral.

The City's deposits in banks at December 31, 2016 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

---

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**3. Detailed Notes on All Funds**

---

**A. Deposits and Investments (continued)**

Investment Policy

The City does not maintain a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates or that would limit its investment choices as a means of managing its exposure to credit risk.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- (h) Guaranteed investment contracts (gic's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies and with a credit quality in one of the top two highest categories.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal policy related to interest rate risk for its investments, but one of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

The following is a summary of the City of Hugo's cash and investment portfolio including the range of maturities and investment ratings by type of investment:

<u>Investment</u>	<u>Range of Maturities</u>	<u>Rating</u>	<u>Value</u>
Cash	N/A	N/A	\$ 377,073
Non-Negotiable Certificates of Deposit	January 2017 - November 2017	N/A	8,975,126
Money Market Funds	N/A	Unrated	19,061,732
U.S. Government Securities	August 2018 - June 2022	AAA - AA+*	9,133,534
Total			<u>\$37,547,465</u>

N/A Not applicable or not available

\* Where rated

A reconciliation of cash and temporary investments as shown on the Statement of Net Position for the City follows:

Carrying amount of deposits	\$ 377,073
Investments	<u>37,170,392</u>
Total	<u>\$37,547,465</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City's investments are rated by various credit rating agencies, where applicable, to indicate the associated credit risk. Investment ratings by investment type are included in the preceding summary of investments.

The City does not have a formal policy related to the credit risk of its investments, but continues to buy safe and liquid assets that are allowable under Minnesota Statutes.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

3. Detailed Notes on All Funds (Continued)

---

A. Deposits and Investments (continued)

Concentration of Credit Risk

The City places no limit on the amount the City may invest with any one issuer. Investments in any one issuer that represented 5% or more of total investments as of December 31, 2016 were as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Value</u>
RBC Wealth Management	Money Market Funds	\$ 19,061,732

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2016 all investments were insured or registered or the securities were held by the City or its agent in the City's name.

Fair Value Measurements

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets
  - Quoted prices for identical assets or liabilities in inactive markets
  - Inputs other than quoted prices that are observable for the asset or liability
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (continued)

Fair Value Measurements (continued)

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The City's investments within the fair value hierarchy at December 31, 2016 and 2015 were as follows:

<b>As of December 31, 2016</b>				
	<b>Assets</b>	<b>Fair Value Hierarchy Level</b>		
	<b>Measured at</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Government Securities	\$ 9,133,534	\$	\$ 9,133,534	\$
Total	<u>\$ 9,133,534</u>	<u>\$</u>	<u>\$ 9,133,534</u>	<u>\$</u>
<b>As of December 31, 2015</b>				
	<b>Assets</b>	<b>Fair Value Hierarchy Level</b>		
	<b>Measured at</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Government Securities	\$ 8,380,653	\$	\$ 8,380,653	\$
Total	<u>\$ 8,380,653</u>	<u>\$</u>	<u>\$ 8,380,653</u>	<u>\$</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

3. Detailed Notes on All Funds (Continued)

---

B. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2016 were as follows:

<u>Fund Type</u>	<u>Washington County</u>	<u>Ind. School District #624</u>	<u>Total</u>
General	\$ 61,386	\$	\$ 61,386
Debt Service		1,970,000	1,970,000
Total	<u>\$ 61,386</u>	<u>\$ 1,970,000</u>	<u>\$ 2,031,386</u>

Amounts due to other governmental units as of December 31, 2016 were as follows:

<u>Fund Type</u>	<u>Washington County</u>	<u>State of Minnesota</u>	<u>Metropolitan Council</u>	<u>Total</u>
General	\$ 439,627	\$ 3,800	\$ 14,761	\$ 458,188
Proprietary		11,999		11,999
Total	<u>\$ 439,627</u>	<u>\$ 15,799</u>	<u>\$ 14,761</u>	<u>\$ 470,187</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 4,628,249	\$ 3,559	\$	\$ 4,631,808
Total capital assets, not being depreciated	<u>4,628,249</u>	<u>3,559</u>		<u>4,631,808</u>
Capital assets, being depreciated:				
Buildings and improvements	6,237,678	11,680		6,249,358
Land Improvements	1,566,117			1,566,117
Infrastructure	26,728,568	1,836,324	241,626	28,323,266
Machinery and equipment	6,403,562	744,233	545,618	6,602,177
Total capital assets, being depreciated	<u>40,935,925</u>	<u>2,592,237</u>	<u>787,244</u>	<u>42,740,918</u>
Less accumulated depreciation for:				
Buildings and improvements	2,473,776	205,530		2,679,306
Land Improvements	1,108,127	139,344		1,247,471
Infrastructure	8,552,920	648,540	91,631	9,109,829
Machinery and equipment	4,227,563	336,140	435,886	4,127,817
Total accumulated depreciation	<u>16,362,386</u>	<u>1,329,554</u>	<u>527,517</u>	<u>17,164,423</u>
Total capital assets, being depreciated, net	<u>24,573,539</u>	<u>1,262,683</u>	<u>259,727</u>	<u>25,576,495</u>
Governmental activities capital assets, net	<u>\$ 29,201,788</u>	<u>\$ 1,266,242</u>	<u>\$ 259,727</u>	<u>\$ 30,208,303</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

C. Capital Assets (continued)

<b>Business-type activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 259,560	\$	\$	\$ 259,560
Construction in progress	48,245			48,245
Total capital assets, not being depreciated	<u>307,805</u>			<u>307,805</u>
Capital assets, being depreciated:				
Buildings and improvements	24,154,416	569,628		24,724,044
Machinery and equipment	519,608	92,110		611,718
Total capital assets, being depreciated	<u>24,674,024</u>	<u>661,738</u>		<u>25,335,762</u>
Less accumulated depreciation for:				
Buildings and improvements	7,932,810	574,007		8,506,817
Machinery and equipment	369,113	32,571		401,684
Total accumulated depreciation	<u>8,301,923</u>	<u>606,578</u>		<u>8,908,501</u>
Total capital assets, being depreciated, net	<u>16,372,101</u>	<u>55,160</u>		<u>16,427,261</u>
Business-type activities capital assets, net	<u>\$ 16,679,906</u>	<u>\$ 55,160</u>	<u>\$</u>	<u>\$ 16,735,066</u>

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 79,351
Public safety	142,064
Highways and streets	885,861
Parks	216,779
Community development	<u>5,499</u>
Total	<u>\$ 1,329,554</u>

**Business-Type Activities:**

Sewer and Water	<u>\$ 606,578</u>
-----------------	-------------------



**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. Detailed Notes on All Funds (Continued)**

**D. Long-Term Debt**

The City issues general obligation bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Tax increment bonds are expected to be repaid from tax increments received over the life of the tax increment districts. Special assessment bonds are expected to be repaid, in part, from assessments to the benefited properties.

A summary of long-term debt outstanding at December 31, 2016 is as follows:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/16</u>
General obligation bonds:				
2007 A Improvement Bonds	10/17/2007	4.00% - 4.15%	2023	\$ 485,000
2009 A Improvement Bonds	7/21/2009	3.25% - 3.875%	2020	390,000
2009 B Tax Abatement Bonds	11/5/2009	3.00%	2020	425,000
2010 Capital Improvement Bonds	8/19/2010	2.25% - 2.50%	2018	265,000
2011 Improvement Bonds	11/9/2011	2.00% - 3.00%	2027	885,000
2013 Crossover Refunding Bonds	3/20/2013	0.65% - 1.15%	2020	4,775,000
Other Liabilities:				
Compensated Absences				349,018
Unamortized premium				20,546
Less: Unamortized (discount)				<u>(13,696)</u>
Total Long-term Debt				<u><u>\$ 7,580,868</u></u>

Liquidation of the compensated absences liability occurs within the department and fund (typically the General Fund for the governmental fund liability) for which the corresponding employees are assigned.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Long-Term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes and Contracts Payable:					
General obligation bonds:					
2007 A Improvement Bonds	\$ 565,000	\$	\$ 80,000	\$ 485,000	\$ 75,000
2009 A Improvement Bonds	485,000		95,000	390,000	95,000
2009 B Tax Abatement Bonds	520,000		95,000	425,000	100,000
2010 Capital Improvement Bonds	395,000		130,000	265,000	130,000
2011 Improvement Bonds	995,000		110,000	885,000	110,000
2013 Crossover Refunding Bonds	5,835,000		1,060,000	4,775,000	1,115,000
Other Liabilities:					
Compensated Absences	302,104	137,831	117,731	322,204	125,564
Unamortized premium	25,628		5,082	20,546	
Less: Unamortized (discount)	(18,041)		(4,345)	(13,696)	
Governmental Activities Long-term Liabilities	<u>9,104,691</u>	<u>137,831</u>	<u>1,688,468</u>	<u>7,554,054</u>	<u>1,750,564</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Other Liabilities:					
Compensated Absences	24,216	20,879	18,281	26,814	20,242
Business-Type Activities Long-term Liabilities	<u>24,216</u>	<u>20,879</u>	<u>18,281</u>	<u>26,814</u>	<u>20,242</u>
Total	<u>\$ 9,128,907</u>	<u>\$ 158,710</u>	<u>\$ 1,706,749</u>	<u>\$ 7,580,868</u>	<u>\$ 1,770,806</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

3. Detailed Notes on All Funds (Continued)

---

D. Long-Term Debt (continued)

The City has entered into a joint powers agreement with Independent School District Number 624 (ISD #624) to issue tax abatement bonds for the City's and School District's portion of the costs related to the construction of certain County Roads within the City and School District. The roads constructed are the property of Washington County. Amounts paid for the road construction from the proceeds of the tax abatement bonds represent the City of Hugo's and ISD #624's portion of the project costs. Since the roads are owned by the County, the City has not recorded capital assets related to the County Road expenditures. The bonds were issued by the City and accordingly are included in noncurrent liabilities on the City's Statement of Net Position. The School District is responsible for the repayment of 50% of the principal and interest owed on the bonds. Therefore, the City has recorded a due from the School District on the Statement of Net Position for 50% of amounts expended for the project.

Debt Service Requirements

Debt service requirements to maturity for long-term debt, excluding compensated absences, as of December 31, 2016 were as follows:

Year	General Obligation Debt	
	Principal	Interest
2017	\$ 1,625,000	\$ 106,243
2018	1,680,000	83,058
2019	1,615,000	58,403
2020	1,675,000	32,636
2021	185,000	16,341
2022-2026	400,000	27,710
2027	45,000	675
	<u>\$ 7,225,000</u>	<u>\$ 325,066</u>

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. Detailed Notes on All Funds (Continued)**

**E. Tax Increment Districts**

The City of Hugo enters into property tax abatement agreements through the use of tax increment financing districts with local businesses under various Minnesota Statutes. Under these statutes, the City annually abates taxes collected above the districts' base tax capacity which is established during adoption of the tax increment district. These agreements are established to foster economic development and redevelopment through creating jobs, removing blight and providing affordable housing. The City uses Minnesota Statutes 469.001 to 469.047 and 469.174 to 469.179 (The Tax Increment Act) to create these districts.

The City of Hugo is the administering authority for the *City of Hugo Tax Increment Financing District, No. 1-1* and for the *City of Hugo Tax Increment Financing District, No. 1-2*. The districts are redevelopment type and authorized under Minnesota law chapter 469.174 to 469.179 (The Tax Increment Act). District No. 1-1 was certified in 1997 and will continue until December 31, 2023. District No. 1-2 was certified in 2010 and will continue until 2036.

Information regarding District No. 1-1 and 1-2 is as follows:

	<u>District No. 1-1</u>	<u>District No. 1-2</u>
Original net tax capacity	\$ 429	\$ 296,578
Current net tax capacity	82,356	244,991
Captured net tax capacity:		
Retained by authority	81,927	
Total general obligation tax increment bond issued	4,030,000	
Amounts redeemed	<u>4,030,000</u>	<u>                    </u>
Outstanding bonds at December 31, 2016	<u>\$</u>	<u>\$</u>

The City did not abate any property taxes related to these tax increment districts during the year ended December 31, 2016.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

3. Detailed Notes on All Funds (Continued)

---

F. Interfund Transfers

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; 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. The amounts transferred from the water fund were used to finance various infrastructure projects in the City projects funds.

Interfund transfers during the year ended December 31, 2016 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General	\$	\$ 855,392
General Obligation Bonds	218,493	104
Property and Equipment Acquisition	499,861	
Public Improvements	2,111,086	1,784,873
Non-Major Governmental Funds:		
Compensated Absences	29,422	
Abatement Levy Offset		109,425
Total Governmental Funds	<u>2,858,862</u>	<u>2,749,794</u>
Proprietary Funds:		
Water and Sewer Utility Fund		<u>109,068</u>
Total All Funds	<u>\$ 2,858,862</u>	<u>\$ 2,858,862</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

G. Fund Equity

The City has committed and assigned portions of fund equity in the governmental funds. A summary at December 31, 2016 is as follows:

	Special Park	Abatement Levy Offset	Compensated Absences	Firefighter's Relief	Public Improvements	Property and Equipment Acquisition
<b>Committed</b>						
Park improvement	\$ 1,010,278	\$	\$	\$	\$	\$
Bond principal retirement		377,410				
Compensated absences			476,903			
<b>Total Committed</b>	<u>\$ 1,010,278</u>	<u>\$ 377,410</u>	<u>\$ 476,903</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Assigned</b>						
Municipal contributions to fire relief	\$	\$	\$	\$ 74,134	\$	\$
Public improvements					4,337,086	
Property and equipment acquisition						4,404,412
<b>Total Assigned</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>74,134</u>	<u>4,337,086</u>	<u>4,404,412</u>

The City has restricted portions of fund balance in the fund financial statements and fund equity in the government-wide financial statements. The restricted fund balance / equity represents the portion not available for expenditure or legally segregated for specific future use. A summary of the restricted portion of the fund balance / equity at December 31, 2016 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
<b>Restricted Fund Balance</b>				
Debt Service Funds:				
Debt service requirements	\$	\$	\$ 2,847,900	\$
TIF Capital Project Fund:				
Tax increment financing plan				395,899
<b>Total Restricted Fund Balance</b>	<u>\$</u>	<u>\$</u>	<u>\$ 2,847,900</u>	<u>\$ 395,899</u>
<b>Restricted Net Position</b>				
Debt service requirements	\$	\$	\$ 5,384,236	\$
Tax increment financing plan				395,899
<b>Total Restricted Net Position</b>	<u>\$</u>	<u>\$</u>	<u>\$ 5,384,236</u>	<u>\$ 395,899</u>

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**4. Other Information**

---

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota Cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal years.

Worker's compensation insurance is also purchased through the League of Minnesota Cities Insurance Trust (LMCIT). The worker compensation program is a retrospectively rated contract with premiums or required contributions based primarily on the experience rates of the participating cities.

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years

**B. Commitments and Contingencies**

**Insurance:**

The City has outstanding claims subject to its insurance deductible. Although the outcome of these actions are not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**General Litigation:**

Although the City is occasionally involved in litigation, management was unaware of any pending lawsuits in which the City was involved as of December 31, 2016. It is the opinion of management that any potential claim regarding any lawsuits against the City would be covered by the liability insurance of the City and that any potential claim against the City would not materially affect the financial statements.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans

1. Public Employees Retirement Association (PERA) - Defined Benefit

A. Plan Description

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

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

Benefits Provided

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

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

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year.



CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

A. Plan Description (continued)

Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

B. Contributions

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016 were \$117,578. The City's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

At December 31, 2016, the City reported a liability of \$2,013,637 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 \$6 million to the fund in 2016. 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 \$26,274. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was .0248% which was an increase of .0003% from its proportion measured as of June 30, 2015.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

C. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

C. Pension Costs (continued)

For the year ended December 31, 2016, the City recognized pension expense of \$279,097 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$7,834 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 163,055
Changes in actuarial assumptions	394,272	
Difference between projected and actual investment earnings	381,093	
Changes in proportion		65,849
Contributions paid to PERA subsequent to the measurement date	<u>59,376</u>	
Total	<u>\$ 834,741</u>	<u>\$ 228,904</u>

\$59,377 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 ended December 31, 2017.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

C. Pension Costs (Continued)

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 137,878
2018	137,878
2019	197,970
2020	72,736

D. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

D. Actuarial Assumptions (continued)

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 geometrical real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<hr/> 100%	

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. 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 Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. 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 one percentage point lower or one percentage point higher than the current discount rate:

	<u>General Employees Fund</u>	
1% Higher	6.50%	\$ 2,859,961
Current Discount Rate	7.50%	2,013,637
1% Lower	8.50%	1,316,496

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**4. Other Information (Continued)**

---

**C. Pension Plans (Continued)**

**2. Hugo Firefighter's Relief Association**

**A. Plan Description**

The Hugo Firefighter's Relief Association administers a single-employer defined benefit pension plan (the Plan) available to volunteer firefighters. As of December 31, 2016, the plan covered 32 active firefighters and 7 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 424 A. The December 31, 2016 information is the latest reported for this Plan.

**B. Benefits Provided**

Volunteer firefighters for the City are members of the Hugo Firefighter's Relief Association. Association members are eligible to receive a lump sum benefit after 20 years of service with a minimum retirement age of 50. Currently retirees receive a benefit of \$3,300 for every year of service. These benefit provisions and all other requirements are consistent with State statutes. Volunteers of the fire department are not required to contribute to the relief association. Members with 10 years of service receive partial vesting at 60% of the 20-year rate and 4% added for every one year of service beyond ten years up to 20 years.

**C. Contributions**

The Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes, and voluntary City contributions. The State of Minnesota contributed \$83,852 in state aid to the plan on behalf of the Association for the year ended December 31, 2016, which was recorded as revenue. The City levies property taxes for the benefit of the Association and passes through state aids allocated to the plan, all in accordance with State statutes. During 2016, at the Association's direction, the City did not levy any property taxes to be paid to the Association.

**D. Pension Costs**

At December 31, 2016, the City reported a net pension asset of \$511,851 for the plan. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by applying an actuarial formula to specific census data certified by the fire department as of December 31, 2016.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

C. Pension Plans (Continued)

2. Hugo Firefighter's Relief Association

D. Pension Costs (continued)

The following table presents the changes in net pension liability (asset) during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/15	\$ 811,636	\$ 1,185,873	\$ (374,237)
Changes for the Year			
Service cost	29,273		29,273
Interest on pension liability	55,403		55,403
Assumption changes	4,702		4,702
Plan changes	13,296		13,296
Contributions (state)		83,852	(83,852)
Net investment income	(63,446)	102,440	(165,886)
Benefit payments	(40,248)	(40,248)	
Administrative expenses		(9,450)	9,450
Net Changes	(1,020)	136,594	(137,614)
Balance End of Year 12/31/16	\$ 810,616	\$ 1,322,467	\$ (511,851)

During 2016, the benefit level for participants changed from \$3,200 to \$3,300 per year. For the year ended December 31, 2016, the City recognized pension expense (benefit) of \$(194,617).

At December 31, 2016, the Association reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 48,023	\$
Total	\$ 48,023	\$

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

2. Hugo Firefighter's Relief Association

D. Pension Costs (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 11,444
2018	11,444
2019	11,446
2020	13,689

E. Actuarial Assumptions

The total pension liability at December 31, 2016 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.50%
- Inflation rate 0%

The following changes in actuarial assumptions occurred in 2016: the discount rate changed from 6.75% to 6.50% and the inflation rate changed from 4.0% to 0.0%.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions to the Plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

2. Hugo Firefighter's Relief Association

G. Pension Liability Sensitivity

The following presents the City's net pension asset for the Association's plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease in Discount Rate (5.50%)</u>	<u>Discount Rate (6.50%)</u>	<u>1% Increase in Discount Rate (7.50%)</u>
Net pension liability (asset) \$	(491,961)	\$ (511,851)	\$ (530,740)

H. Plan Investments

1. Investment Policy

All investments undertaken by the plan are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the Plan establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the ongoing management of the funds and are updated periodically.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

4. Other Information (Continued)

---

C. Pension Plans (Continued)

2. Hugo Firefighter's Relief Association

H. Plan Investments (Continued)

2. Asset Allocation

The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	2.25%
Fixed income	17.00%	3.30%
Equities	75.00%	7.50%
Other	3.00%	6.00%
Total	100%	6.50%

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

3. Description of significant investment policy changes during the year

During 2016, the Plan increased its target allocation for investments in equity securities from 66% to 75% and decreased its target allocation for investments in fixed income securities from 27% to 17%.

I. Pension Plan Fiduciary Net Position

Detailed information about the Hugo Firefighter's Relief Association plan's fiduciary net position as of December 31, 2016 is available in a separately-issued financial report that includes financial statements and required supplementary information.

**CITY OF HUGO, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**4. Other Information (Continued)**

---

D. Postemployment Benefits

As required by state statute, employees are allowed to participate in the City's group health insurance plan after retirement. However, management has determined that any liability related to postemployment benefits would be immaterial to these financial statements as of December 31, 2016

---

**5. Implementation of New Accounting Principles**

---

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value and requires disclosures to be made about fair value measurements including the level of hierarchy and the valuation techniques utilized by the City.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles of the State and Local Governments*. This statement established the order and priority of pronouncements and other sources of accounting and financial reporting guidance that governments should apply. This statement did not impact the preparation of these financial statements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. This statement requires the disclosure of information related to tax abatement agreements entered into by the City, such as the financial statement impact, amount of taxes the City has promised to forego, and commitments made under the agreements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, No. 73*. The objective of this statement is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised during implementation of the three standards listed above. One of the significant changes included in this statement clarifies the presentation of covered payroll in the required supplementary information to reflect the amount of payroll in which contributions made to the pension plan are based.

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2016**

***This Page Left Blank Intentionally***

**CITY OF HUGO**  
**Schedule of City Contributions**  
**PERA General Employees Retirement Plan**  
**December 31, 2016**

Year Ended December 31	Contributions in Relation to			Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)		
2014	\$ 103,560	\$ 103,560	\$	\$ 1,428,404	7.3%
2015	111,569	111,569		1,487,583	7.5%
2016	117,578	117,578		1,567,687	7.5%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

**CITY OF HUGO**  
**Schedule of Proportionate Share of Net Pension Liability**  
**PERA General Employees Retirement Plan**  
**December 31, 2016**

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				as a Percentage of its Covered Employee Payroll (a/b)	
2014	0.0278%	\$ 1,305,905	\$ 1,428,404	91.4%	78.7%
2015	0.0245%	1,269,717	1,487,583	85.4%	78.2%
2016	0.0248%	2,013,637	1,567,687	128.4%	68.9%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Note: These schedules are intended to provide information for ten years. The City will include that information as it becomes available.

**CITY OF HUGO, MINNESOTA**  
**Schedule of Funding Progress for the Fire Relief Association**  
**December 31, 2016**

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Valuation of Plan Assets (a)</u>	<u>Actuarial Valuation of Plan Assets (b)</u>	<u>Net Pension Liability (Asset) (a-b)</u>
12/31/2015	\$ 811,636	\$ 1,185,873	\$ (374,237)
12/31/2016	810,616	1,322,467	(511,851)

**CITY OF HUGO, MINNESOTA**  
**Schedule of Employer Contributions for the Fire Relief Association**  
**December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$	\$
Actual contributions paid	<u>                    </u>	<u>                    </u>
Contributions deficiency (excess)	<u>\$</u>	<u>\$</u>

Note: These schedules are intended to provide information for ten years. The City will include that information as it becomes available.



**CITY OF HUGO, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND**  
**STATEMENTS AND SCHEDULES**  
**December 31, 2016**

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**

**NONMAJOR FUNDS**

**December 31, 2016**

**SPECIAL REVENUE FUNDS**

**Special Park Fund:**

This fund is used to accumulate resources (property taxes, fees from developers and other miscellaneous revenues) to provide funds for constructing and improving the City's parks.

**Firefighter's Relief Fund:**

This fund was established by City Council resolution to set aside funds for municipal contributions to the Hugo Firefighter's Relief Association.

**Tax Increment Financing Collection Fund:**

This fund is an accumulation of tax increment proceeds and land sales.

**DEBT SERVICE FUNDS**

**Abatement Levy Offset Fund:**

This fund is used to offset the property tax levies required to retire certain bonds issued by the City.

**Compensated Absences Fund:**

This fund is used to accumulate resources (transfers from the General Fund) to ensure funds are available to pay compensated absences as they become payable.

**CITY OF HUGO, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2016**

	Special Revenue			Debt Service		Total Nonmajor Governmental Fund
	Special Park Fund	Firefighter's Relief Fund	Tax Increment Financing Collection Fund	Abatement Levy Offset	Compensated Absences	
<b>Assets</b>						
Cash and investments	\$ 1,012,017	\$ 74,062	\$ 395,505	\$ 376,984	\$ 476,412	\$ 2,334,980
Receivables (Net of Allowance for Uncollectibles)						
Accrued interest	1,034	72	394	426	491	2,417
Taxes - delinquent	1,267	173				1,440
<b>TOTAL ASSETS</b>	<u>\$ 1,014,318</u>	<u>\$ 74,307</u>	<u>\$ 395,899</u>	<u>\$ 377,410</u>	<u>\$ 476,903</u>	<u>\$ 2,338,837</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,773	\$	\$	\$	\$	\$ 2,773
<b>Deferred Inflows of Resources</b>						
Unavailable revenue:						
Property Taxes	1,267	173				1,440
<b>Fund Balance</b>						
Fund Balance						
Restricted			395,899			395,899
Committed	1,010,278			377,410	476,903	1,864,591
Assigned		74,134				74,134
Total Fund Balance	<u>1,010,278</u>	<u>74,134</u>	<u>395,899</u>	<u>377,410</u>	<u>476,903</u>	<u>2,334,624</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 1,014,318</u>	<u>\$ 74,307</u>	<u>\$ 395,899</u>	<u>\$ 377,410</u>	<u>\$ 476,903</u>	<u>\$ 2,338,837</u>

**CITY OF HUGO, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	Special Revenue			Debt Service		Total Nonmajor Governmental Funds
	Special Park Fund	Firefighter's Relief Fund	Tax Increment Financing Collection Fund	Abatement Levy Offset	Compensated Absences	
<b>REVENUES</b>						
Property taxes	\$ 99,906	\$ 12,195	\$ 80,416	\$	\$	\$ 192,517
Intergovernmental revenues	235	29				264
Other Revenue						
Investment earnings	3,252	228	1,281	1,396	1,540	7,697
Net (decrease) in the fair value of investments	(1,127)	(79)	(444)	(484)	(533)	(2,667)
Rent	8,950					8,950
Contributions	20,000					20,000
Developer fees	100,800					100,800
<b>TOTAL REVENUES</b>	<b>232,016</b>	<b>12,373</b>	<b>81,253</b>	<b>912</b>	<b>1,007</b>	<b>327,561</b>
<b>EXPENDITURES</b>						
Capital outlay	104,013		64,535			168,548
Excess (deficiency) of revenues over (under) expenditures	128,003	12,373	16,718	912	1,007	159,013
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in					29,422	29,422
Transfers out				(109,425)		(109,425)
<b>Net change in fund balances</b>	<b>128,003</b>	<b>12,373</b>	<b>16,718</b>	<b>(108,513)</b>	<b>30,429</b>	<b>79,010</b>
<b>FUND BALANCES, beginning</b>	<b>882,275</b>	<b>61,761</b>	<b>379,181</b>	<b>485,923</b>	<b>446,474</b>	<b>2,255,614</b>
<b>FUND BALANCES, ending</b>	<b>\$ 1,010,278</b>	<b>\$ 74,134</b>	<b>\$ 395,899</b>	<b>\$ 377,410</b>	<b>\$ 476,903</b>	<b>\$ 2,334,624</b>

**CITY OF HUGO, MINNESOTA**  
**SPECIAL PARK FUND**  
**Schedule of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 99,378	\$ 99,378	\$ 99,906	\$ 528
Intergovernmental revenues			235	235
Other revenues				
Investment earnings			3,252	3,252
Net (decrease) in the fair value of investments			(1,127)	(1,127)
Rent	8,950	8,950	8,950	
Contributions			20,000	20,000
Developer fees			100,800	100,800
<b>Total Revenues</b>	<b>108,328</b>	<b>108,328</b>	<b>232,016</b>	<b>123,688</b>
<b>EXPENDITURES</b>				
Capital Outlay				
McCollar Park	70,000	70,000	84,157	(14,157)
Lions Park	17,000	17,000	15,968	1,032
Bernin property	5,026	5,026	3,888	1,138
<b>Total Expenditures</b>	<b>92,026</b>	<b>92,026</b>	<b>104,013</b>	<b>(11,987)</b>
<b>Net Change in Fund Balances</b>	<b>16,302</b>	<b>16,302</b>	<b>128,003</b>	<b>111,701</b>
<b>Fund Balance, January 1</b>	<b>882,275</b>	<b>882,275</b>	<b>882,275</b>	
<b>Fund Balance, December 31</b>	<b>\$ 898,577</b>	<b>\$ 898,577</b>	<b>\$ 1,010,278</b>	<b>\$ 111,701</b>

**CITY OF HUGO, MINNESOTA  
FIREFIGHTER'S RELIEF FUND  
Schedule of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 12,107	\$ 12,107	\$ 12,195	\$ 88
Intergovernmental revenues			29	29
Other revenues				
Investment earnings			228	228
Net (decrease) in the fair value of investments			(79)	(79)
<b>Total Revenues</b>	<u>12,107</u>	<u>12,107</u>	<u>12,373</u>	<u>266</u>
<b>Net Change in Fund Balances</b>	12,107	12,107	12,373	266
<b>Fund Balance, January 1</b>	<u>61,761</u>	<u>61,761</u>	<u>61,761</u>	
<b>Fund Balance, December 31</b>	<u>\$ 73,868</u>	<u>\$ 73,868</u>	<u>\$ 74,134</u>	<u>\$ 266</u>

**CITY OF HUGO, MINNESOTA  
TAX INCREMENT FINANCING COLLECTION FUND  
Schedule of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 80,416	\$ 80,416	\$ 80,416	\$
Other revenues				
Investment earnings			1,281	1,281
Net (decrease) in the fair value of investments			(444)	(444)
<b>Total Revenues</b>	80,416	80,416	81,253	837
<b>EXPENDITURES</b>				
Capital outlay	79,779	79,779	64,535	15,244
<b>Net Change in Fund Balances</b>	637	637	16,718	16,081
<b>Fund Balance, January 1</b>	379,181	379,181	379,181	
<b>Fund Balance, December 31</b>	<u>\$ 379,818</u>	<u>\$ 379,818</u>	<u>\$ 395,899</u>	<u>\$ 16,081</u>



**CITY OF HUGO, MINNESOTA**  
**ABATEMENT LEVY OFFSET**  
**Schedule of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Other revenues				
Investment earnings	\$	\$	\$ 1,396	\$ 1,396
Net (decrease) in the fair value of investments			(484)	(484)
<b>Total Revenues</b>			912	912
<b>Other Financing Sources (Uses)</b>				
Transfers out	(109,425)	(109,425)	(109,425)	
<b>Net Change in Fund Balances</b>	(109,425)	(109,425)	(108,513)	912
<b>Fund Balance, January 1</b>	485,923	485,923	485,923	
<b>Fund Balance, December 31</b>	\$ 376,498	\$ 376,498	\$ 377,410	\$ 912

**CITY OF HUGO, MINNESOTA**  
**GENERAL OBLIGATION BONDS**  
**Schedule of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 604,981	\$ 604,981	\$ 611,599	\$ 6,618
Special assessments	97,958	97,958	119,447	21,489
Intergovernmental revenue	491,301	491,301	492,732	1,431
Other revenues				
Investment earnings			7,593	7,593
Net (decrease) in the fair value of investments			(2,631)	(2,631)
<b>Total Revenues</b>	1,194,240	1,194,240	1,228,740	34,500
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	1,570,000	1,570,000	1,570,000	
Interest on bonds	126,237	126,237	126,237	
Fiscal charges	25,275	25,275	2,675	22,600
<b>Total Expenditures</b>	1,721,512	1,721,512	1,698,912	22,600
Excess (deficiency) of revenues over (under) expenditures	(527,272)	(527,272)	(470,172)	57,100
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	218,493	218,493	218,493	
Transfers out			(104)	(104)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	218,493	218,493	218,389	(104)
<b>Net Change in Fund Balances</b>	(308,779)	(308,779)	(251,783)	56,996
<b>Fund Balance, January 1</b>	3,099,683	3,099,683	3,099,683	
<b>Fund Balance, December 31</b>	\$ 2,790,904	\$ 2,790,904	\$ 2,847,900	\$ 56,996

**CITY OF HUGO, MINNESOTA  
 COMPENSATED ABSENCES  
 Schedule of Revenues, Expenditures  
 and Changes in Fund Balance - Budget and Actual  
 For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Other revenues				
Investment earnings	\$	\$	\$ 1,540	\$ 1,540
Net (decrease) in the fair value of investments			(533)	(533)
<b>Total Revenues</b>			1,007	1,007
<b>OTHER FINANCING SOURCES</b>				
Transfers in			29,422	29,422
<b>Net Change in Fund Balances</b>			30,429	30,429
<b>Fund Balance, January 1</b>	446,474	446,474	446,474	
<b>Fund Balance, December 31</b>	\$ 446,474	\$ 446,474	\$ 476,903	\$ 30,429

Note: The City adopted a \$0 activity budget in this fund for the year ended December 31, 2016.

**CITY OF HUGO, MINNESOTA**  
**PROPERTY AND EQUIPMENT ACQUISITION**  
**Schedule of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$	\$	\$ 1,086	\$ 1,086
Intergovernmental			25,708	25,708
Other revenues				
Investment earnings			15,101	15,101
Net increase in the fair value of investments			(5,234)	(5,234)
Rent			16,150	16,150
<b>Total Revenues</b>			<u>52,811</u>	<u>52,811</u>
<b>EXPENDITURES</b>				
Capital outlay				
Property and equipment acquisition	868,523	868,523	659,299	209,224
Miscellaneous	22,002	22,002	8,806	13,196
<b>Total Expenditures</b>	<u>890,525</u>	<u>890,525</u>	<u>668,105</u>	<u>222,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(890,525)</u>	<u>(890,525)</u>	<u>(615,294)</u>	<u>275,231</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets			31,154	31,154
Transfers in	499,861	499,861	499,861	
<b>Total Other Financing Sources (Uses)</b>	<u>499,861</u>	<u>499,861</u>	<u>531,015</u>	<u>31,154</u>
<b>Net Change in Fund Balances</b>	(390,664)	(390,664)	(84,279)	306,385
<b>Fund Balance, January 1</b>	<u>4,488,691</u>	<u>4,488,691</u>	<u>4,488,691</u>	
<b>Fund Balance, December 31</b>	<u>\$ 4,098,027</u>	<u>\$ 4,098,027</u>	<u>\$ 4,404,412</u>	<u>\$ 306,385</u>

**CITY OF HUGO, MINNESOTA**  
**PROPRIETARY FUND**  
**Schedule of Revenues and Expenses - By Department**  
**For the Year Ended December 31, 2016**

	Water and Sewer Utility Fund			Totals
	Water Department	Sewer Department	Construction Department	
<b>Operating Revenue</b>				
Sale of water	\$ 858,525	\$	\$	\$ 858,525
Meter sales	32,770			32,770
Sewer charges		1,101,429		1,101,429
Total Operating Revenues	<u>891,295</u>	<u>1,101,429</u>		<u>1,992,724</u>
<b>Operating Expenses</b>				
Compensation	193,677	193,677		387,354
Engineering	7,460		54,213	61,673
Electricity	90,555	9,101		99,656
Repairs and maintenance	201,152	28,838	511,386	741,376
Sewer charges - MCES		514,502		514,502
Depreciation	377,154	229,424		606,578
Miscellaneous	59,130	52,205	2,729	114,064
Total Operating Expenses	<u>929,128</u>	<u>1,027,747</u>	<u>568,328</u>	<u>2,525,203</u>
<b>Operating Income (Loss)</b>	<u>\$ (37,833)</u>	<u>\$ 73,682</u>	<u>\$ (568,328)</u>	<u>(532,479)</u>
<b>Other Revenue (Expense)</b>				
Future infrastructure charges				371,765
Rental income				30,874
Intergovernmental revenue				445,984
Investment earnings				65,119
Net (decrease) in the fair value of investments				(22,568)
Miscellaneous				103,120
Total Other Revenue (Expense)				<u>994,294</u>
<b>Net Income Before Transfers and Contributions</b>				461,815
Capital contributions - special assessments				37,076
Noncash capital contributions				569,628
Transfers				<u>(109,068)</u>
<b>Change in Net Position</b>				<u>\$ 959,451</u>

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**SUPPLEMENTARY INFORMATION**  
**December 31, 2016**

**CITY OF HUGO, MINNESOTA**  
**SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS**  
**December 31, 2016**

	Interest Yield	Maturity	Book Value	
CASH:				
Change funds		Open	\$ 200	
Petty cash			50	
Checking - US Bank		Open	376,823	
Total Cash			\$ 377,073	
INVESTMENTS:				
Certificates of Deposit	- Goldman Sachs Bank of New York CD	2.050%	01/11/17	100,034
	- American Express Centurion Bank CD	0.600%	01/30/17	245,012
	- Sterling Bank of Poplar Bluff MO CD	0.600%	01/30/17	245,000
	- Peoples United Bank CD	0.550%	02/03/17	245,000
	- Synchrony Bank Retail CD	0.650%	02/06/17	245,000
	- Bank Hapoalim of New York CD	0.850%	02/17/17	245,000
	- Bank of China New York Branch CD	0.750%	02/17/17	245,000
	- Santander Bank National Association CD	0.800%	02/17/17	245,080
	- TCF National Bank CD	0.700%	02/17/17	245,080
	- Old National Bank of Evansville IN CD	0.750%	02/22/17	245,107
	- Apple Bank for Savings of New York CD	0.650%	02/24/17	245,036
	- Commonwealth Business Bank of LA CD	0.650%	02/24/17	245,000
	- Katahdin Trust Co of Patten MD CD	0.700%	02/24/17	245,092
	- Berkshire Bank of Pittsfield MA CD	0.500%	03/03/17	245,000
	- Transportation Alliance Bank CD	0.700%	03/06/17	245,000
	- BMW Bank North American of Salt Lake UT C	0.700%	03/17/17	100,000
	- Gorham Savings Bank of ME CD	0.550%	03/17/17	245,000
	- Bank India of New York NY CD	0.700%	03/22/17	245,000
	- Customers Bank of Phoenixville PA CD	0.700%	03/30/17	245,000
	- Homestreet Bank of Seattle WA CD	0.600%	04/10/17	245,000
	- Bank Baroda of New York CD	0.700%	04/13/17	245,000
	- Oregon Community Bank of WI CD	0.600%	04/17/17	245,000
	- Bear State Bank of Little Rock AR CD	0.500%	05/18/17	245,000
	- Horizon Bank National of Michigan City MI CD	0.550%	05/18/17	245,000
	- Worlds Foremost Bank of Sydney NE CD	0.750%	05/26/17	200,000
	- Volunteer State Bank of Portland TN CD	0.600%	08/17/17	245,000
	- Frederick County Bank of Frederick MD CD	0.600%	08/23/17	245,000
	- Summit Community Bank of WV CD	0.700%	08/24/17	245,000
	- Bank Financial of IL CD	0.700%	09/11/17	244,835
	- Horatio State Bank of Horatio AR CD	0.700%	09/11/17	244,851
	- Everbank of Jacksonville FL CD	0.750%	11/15/17	245,000
	- Discover Bank CD	0.750%	11/16/17	245,000
	- Enterprise Bank of Allison Park PA CD	0.750%	11/16/17	245,000



**CITY OF HUGO, MINNESOTA**  
**SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS**  
**December 31, 2016**

	<b>Interest</b>	<b>Book</b>	<b>Value</b>
	<b>Yield</b>	<b>Maturity</b>	<b>Value</b>
<b>INVESTMENTS:</b>			
Certificates of Deposit - First Foundation Bank of Irvine CA CD	0.650%	11/17/17	245,000
- Partners Bank of CA CD	0.700%	11/17/17	245,000
- Washington Trust of Westerly RI CD	0.750%	11/17/17	245,000
- Univest National Bank & Trust of PA CD	0.700%	11/22/17	245,000
- Harborone Bank of Brockton MA CD	0.750%	11/28/17	245,000
Total Certificates of Deposit			<u>\$ 8,975,126</u>
Money Market Funds - RBC Wealth Management	0.01%	Open	<u>\$19,061,732</u>
Total Money Market Funds			<u>\$19,061,732</u>
<b>U.S. Government Securities:</b>			
Federal Home Loan Mortgage	0.750%	08/24/18	498,130
Federal Home Loan Mortgage	0.800%	03/29/19	499,600
Federal National Mortgage Association	0.750%	07/26/19	499,210
Federal Home Loan Banks	0.875%	08/15/19	497,925
Federal Home Loan Mortgage	0.750%	08/28/19	497,500
Federal National Mortgage Association	0.750%	11/26/19	323,909
Federal Home Loan Bank	1.000%	12/30/19	498,220
Federal National Mortgage Association	1.000%	12/30/19	494,830
Federal Home Loan Mortgage	0.850%	06/24/20	499,220
Federal Home Loan Mortgage	1.000%	08/24/20	491,580
Federal Home Loan Mortgage	1.125%	10/29/20	397,380
Federal Home Loan Mortgage	1.250%	05/28/21	493,445
Federal National Mortgage Association	1.500%	06/30/21	481,945
Federal Home Loan Banks	1.000%	07/27/21	491,320
Federal Home Loan Mortgage	1.150%	08/24/21	490,930
Federal Home Loan Bank	1.250%	11/08/21	490,060
Federal Home Loan Bank	1.000%	11/23/21	492,665
Federal Home Loan Mortgage	1.000%	11/23/21	496,750
Federal Home Loan Bank	1.000%	06/16/22	498,915
Total U.S. Government Securities			<u>\$ 9,133,534</u>
Total Investments			<u>\$37,170,392</u>
Total Cash and Investments			<u>\$37,547,465</u>

**CITY OF HUGO, MINNESOTA  
SCHEDULE OF DEBT SERVICE  
REQUIREMENTS - ALL FUNDS  
DECEMBER 31, 2016**

Year	General Obligation Bonds and Certificates	
	Principal	Interest
2017	\$ 1,625,000	\$ 106,243
2018	1,680,000	83,058
2019	1,615,000	58,403
2020	1,675,000	32,636
2021	185,000	16,341
2022	180,000	10,913
2023	85,000	6,739
2024	45,000	4,658
2025	45,000	3,375
2026	45,000	2,025
2027	45,000	675
	\$ 7,225,000	\$ 325,066

**CITY OF HUGO, MINNESOTA  
SCHEDULE OF BONDS PAYABLE  
DECEMBER 31, 2016**

	Rates	Dates	Issue Date	Final Maturity Date	Annual Amount	Payment Years	Balance - Beginning of Year	Bonds Retired	Bonds Outstanding - End of Year	Paying Agent
<b>G.O. Refunding Bonds</b>										
2013 Crossover Refunding Bonds	0.65-1.15	2-1	3/20/2013	2/1/2020	\$ 1,115,000 1,160,000 1,220,000 1,280,000	2017 2018 2019 2020	\$5,835,000	\$1,060,000	\$ 4,775,000	1
<b>G.O. Special Assessment Bonds</b>										
2011 Improvement Bonds	2.00-3.00	2-1; 8-1	11/9/2011	2/1/2027	\$ 110,000 115,000 40,000 45,000	2017-2021 2022 2023 2024-2027	\$ 995,000	\$ 110,000	\$ 885,000	1
<b>G.O. Property Tax Bonds</b>										
2010 Capital Improvement Bonds	2.25-2.50	2-1; 8-1	8/1/2010	2/1/2018	\$ 130,000 135,000	2017 2018	\$ 395,000	\$ 130,000	\$ 265,000	1
<b>G.O. Special Assessment Bonds</b>										
2009A Improvement Bonds	3.25-3.875	2-1; 8-1	7/21/2009	2/1/2020	\$ 95,000 100,000	2017-2018 2019-2020	\$ 485,000	\$ 95,000	\$ 390,000	1
<b>G.O. Tax Abatement Bonds</b>										
2009B Tax Abatement Bonds	3.00	2-1; 8-1	11/5/2009	2/1/2020	\$ 100,000 105,000 110,000	2017 2018 2019-2020	\$ 520,000	\$ 95,000	\$ 425,000	1
<b>G.O. Special Assessment Bonds</b>										
2007A Improvement Bonds	4.00-4.15	2-1; 8-1	10/17/2007	2/1/2023	\$ 75,000 65,000 45,000	2017-2021 2022 2023	\$ 565,000	\$ 80,000	\$ 485,000	1

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**STATISTICAL SECTION (UNAUDITED)**  
**December 31, 2016**

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<b><u>Content</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	84
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	94
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	101
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	109
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	113

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF HUGO, MINNESOTA**  
**NET POSITION BY COMPONENT**  
**LAST TEN FISCAL YEARS**  
(Accrual Basis of Accounting)

	<b>Fiscal Year</b>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Governmental activities			
Net investment in capital assets	\$ 26,906,049	\$ 26,217,435	\$ 23,454,304
Restricted	5,780,135	6,569,231	7,022,529
Unrestricted	<u>9,038,151</u>	<u>6,209,056</u>	<u>6,092,481</u>
Total governmental activities net position	<u>\$ 41,724,335</u>	<u>\$ 38,995,722</u>	<u>\$ 36,569,314</u>
Business-type activities			
Net investment in capital assets	\$ 16,735,066	\$ 16,679,906	\$ 16,206,682
Restricted			
Unrestricted	<u>19,838,631</u>	<u>18,934,340</u>	<u>18,100,305</u>
Total business-type activities net position	<u>\$ 36,573,697</u>	<u>\$ 35,614,246</u>	<u>\$ 34,306,987</u>
Primary government			
Net investment in capital assets	\$ 43,641,115	\$ 42,897,341	\$ 39,660,986
Restricted	5,780,135	6,569,231	7,022,529
Unrestricted	<u>28,876,782</u>	<u>25,143,396</u>	<u>24,192,786</u>
Total primary government net position	<u>\$ 78,298,032</u>	<u>\$ 74,609,968</u>	<u>\$ 70,876,301</u>

Note: The City adopted GASB Statement No 65 in 2013. Amounts in this schedule prior to 2012 have not been restated for GASB Statement No. 65.

The City adopted GASB Statements No. 68 and 71 in 2015. Amounts in this schedule prior to 2015 have not been restated for GASB Statements No. 68 and 71.

Schedule 1

2013	2012	2011	2010	2009	2008	2007
\$ 21,367,621	\$ 21,481,371	\$ 21,076,493	\$ 22,085,591	\$ 19,521,661	\$ 20,958,423	\$ 19,467,781
13,519,890	8,465,178	3,380,316				
(1,175,995)	3,835,653	8,416,890	10,776,350	11,217,879	7,923,894	8,592,657
<u>\$ 33,711,516</u>	<u>\$ 33,782,202</u>	<u>\$ 32,873,699</u>	<u>\$ 32,861,941</u>	<u>\$ 30,739,540</u>	<u>\$ 28,882,317</u>	<u>\$ 28,060,438</u>
\$ 15,928,980	\$ 16,152,741	\$ 15,987,237	\$ 15,946,269	\$ 13,768,023	\$ 13,788,320	\$ 13,380,563
16,828,249	16,235,027	14,173,388	13,395,948	14,976,026	13,966,966	12,574,574
<u>\$ 32,757,229</u>	<u>\$ 32,387,768</u>	<u>\$ 30,160,625</u>	<u>\$ 29,342,217</u>	<u>\$ 28,744,049</u>	<u>\$ 27,755,286</u>	<u>\$ 25,955,137</u>
\$ 37,296,601	\$ 37,634,112	\$ 37,063,730	\$ 38,031,860	\$ 33,289,684	\$ 34,746,743	\$ 32,848,344
13,519,890	8,465,178	3,380,316				
15,652,254	20,070,680	22,590,278	24,172,298	26,193,905	21,890,860	21,167,231
<u>\$ 66,468,745</u>	<u>\$ 66,169,970</u>	<u>\$ 63,034,324</u>	<u>\$ 62,204,158</u>	<u>\$ 59,483,589</u>	<u>\$ 56,637,603</u>	<u>\$ 54,015,575</u>

**CITY OF HUGO, MINNESOTA**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
(Accrual Basis of Accounting)

	<b>Fiscal Year</b>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Expenses</b>			
Governmental activities:			
General government	\$ 1,197,701	\$ 1,122,799	\$ 1,134,472
Public safety	1,557,907	1,766,538	1,605,641
Highways and streets	1,693,873	2,798,767	1,652,444
Community development	95,450	44,810	29,743
Parks	691,817	629,830	695,534
Interest on long-term debt	120,457	245,855	420,400
Total governmental activities expenses	<u>5,357,205</u>	<u>6,608,599</u>	<u>5,538,234</u>
Business-Type activities:			
Water and sewer	2,525,203	2,257,189	1,980,909
Total primary government expenses	<u>\$ 7,882,408</u>	<u>\$ 8,865,788</u>	<u>\$ 7,519,143</u>
<b>Program Revenues</b>			
Governmental activities:			
Charges for services:			
General government	\$ 685,861	\$ 533,119	\$ 537,526
Public safety	37,793	41,554	36,835
Highways and streets			
Community development			
Parks	24,700	24,700	26,407
Operating grants and contributions	317,012	342,514	260,534
Capital grants and contributions	963,391	2,618,455	1,964,258
Total governmental activities program revenues	<u>2,028,757</u>	<u>3,560,342</u>	<u>2,825,560</u>
Business-type activities:			
Charges for services:			
Water and sewer	2,364,489	2,536,840	2,388,668
Capital grants and contributions	606,704	1,041,058	818,017
Total business-type activities program revenues	<u>2,971,193</u>	<u>3,577,898</u>	<u>3,206,685</u>
Total primary government program revenues	<u>\$ 4,999,950</u>	<u>\$ 7,138,240</u>	<u>\$ 6,032,245</u>



Schedule 2

2013	2012	2011	2010	2009	2008	2007
\$ 1,065,863	\$ 1,067,927	\$ 1,053,948	\$ 1,085,789	\$ 1,248,415	\$ 1,539,156	\$ 1,244,357
1,604,478	1,564,118	1,530,435	1,404,480	1,503,033	1,419,224	1,209,781
2,542,320	2,433,615	2,672,496	4,981,297	2,467,723	2,927,427	3,069,610
30,483	28,593	194,508	194,704	202,069	195,102	227,969
628,316	578,792	598,387	548,569	451,118	613,217	552,174
536,639	515,183	494,872	687,954	630,395	645,538	636,428
<u>6,408,099</u>	<u>6,188,228</u>	<u>6,544,646</u>	<u>8,902,793</u>	<u>6,502,753</u>	<u>7,339,664</u>	<u>6,940,319</u>
1,914,195	1,720,993	1,922,499	2,101,368	2,162,573	1,743,071	1,600,040
<u>\$ 8,322,294</u>	<u>\$ 7,909,221</u>	<u>\$ 8,467,145</u>	<u>\$ 11,004,161</u>	<u>\$ 8,665,326</u>	<u>\$ 9,082,735</u>	<u>\$ 8,540,359</u>
\$ 371,013	\$ 478,209	\$ 292,519	\$ 368,515	\$ 453,546	\$ 1,135,846	\$ 660,862
31,477	39,092	50,068	56,813	47,892	57,326	62,515
					17,696	17,097
27,020	29,113	36,514	112,433	24,516	24,258	17,568
779,206	741,340	775,350	569,054	778,401	406,259	335,573
176,212	420,143	74,332	3,691,149	841,942	68,418	1,154,456
<u>1,384,928</u>	<u>1,707,897</u>	<u>1,228,783</u>	<u>4,797,964</u>	<u>2,146,297</u>	<u>1,709,803</u>	<u>2,248,071</u>
2,339,417	2,784,960	2,276,159	2,337,983	2,544,390	2,775,372	3,296,303
97,613	149,899	8,927	66,755	18,501	65,831	22,013
<u>2,437,030</u>	<u>2,934,859</u>	<u>2,285,086</u>	<u>2,404,738</u>	<u>2,562,891</u>	<u>2,841,203</u>	<u>3,318,316</u>
<u>\$ 3,821,958</u>	<u>\$ 4,642,756</u>	<u>\$ 3,513,869</u>	<u>\$ 7,202,702</u>	<u>\$ 4,709,188</u>	<u>\$ 4,551,006</u>	<u>\$ 5,566,387</u>

**CITY OF HUGO, MINNESOTA**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
(Accrual Basis of Accounting)

	<b>Fiscal Year</b>		
	2016	2015	2014
<b>Net (Expense) Revenue</b>			
Governmental Activities	\$ (3,328,448)	\$ (3,048,257)	\$ (2,712,674)
Business-type activities	445,990	1,320,709	1,225,776
Total primary government net revenue	<u>\$ (2,882,458)</u>	<u>\$ (1,727,548)</u>	<u>\$ (1,486,898)</u>
<b>General Revenues and Other Changes In Net Position</b>			
Governmental activities:			
General property taxes	\$ 5,858,093	\$ 5,930,619	\$ 5,169,220
Grants and contributions not restricted to specific programs	12,343	12,987	8,351
Interest income	57,287	63,745	97,122
Net increase (decrease) in the fair value of investments	(19,853)	14,946	165,934
Miscellaneous	40,123	10,600	21,566
Transfers	109,068	107,839	108,279
Total governmental activities	<u>6,057,061</u>	<u>6,140,736</u>	<u>5,570,472</u>
Business-type activities:			
General property taxes			
Grants and contributions not restricted to specific programs			
Interest income	65,119	74,066	98,298
Net increase (decrease) in the fair value of investments	(22,568)	17,670	194,271
Miscellaneous	579,978	225,393	139,692
Transfers	(109,068)	(107,839)	(108,279)
Total business-type activities	<u>513,461</u>	<u>209,290</u>	<u>323,982</u>
Total primary government	<u>\$ 6,570,522</u>	<u>\$ 6,350,026</u>	<u>\$ 5,894,454</u>
<b>Change in Net Position</b>			
Governmental activities	\$ 2,728,613	\$ 3,092,479	\$ 2,857,798
Business-type activities	959,451	1,529,999	1,549,758
Total primary government	<u>\$ 3,688,064</u>	<u>\$ 4,622,478</u>	<u>\$ 4,407,556</u>

Note: The City adopted GASB Statement No 65 in 2013. Amounts in this schedule prior to 2012 have not been restated for GASB Statement No. 65.

**Schedule 2  
(continued)**

2013	2012	2011	2010	2009	2008	2007
\$ (5,023,171)	\$ (4,480,331)	\$ (5,315,863)	\$ (4,104,829)	\$ (4,356,456)	\$ (5,629,861)	\$ (4,692,248)
522,835	1,213,866	362,587	303,370	400,318	1,098,132	1,718,276
<u>\$ (4,500,336)</u>	<u>\$ (3,266,465)</u>	<u>\$ (4,953,276)</u>	<u>\$ (3,801,459)</u>	<u>\$ (3,956,138)</u>	<u>\$ (4,531,729)</u>	<u>\$ (2,973,972)</u>
\$ 4,957,502	\$ 5,164,809	\$ 5,254,269	\$ 5,770,883	\$ 5,506,486	\$ 5,330,462	\$ 4,808,497
7,692	9,278	3,753	3,770	213,564	443,941	214,033
123,271	117,355	173,136	338,671	380,820	555,189	598,016
(249,734)						
9,657	40,171	67,721	9,093	8,101	7,875	56,060
104,097	104,475	(171,258)	104,813	104,708	114,273	(332,841)
<u>4,952,485</u>	<u>5,436,088</u>	<u>5,327,621</u>	<u>6,227,230</u>	<u>6,213,679</u>	<u>6,451,740</u>	<u>5,343,765</u>
			5,033	141,153	140,422	140,036
				7,181	25,504	9,734
129,708	119,149	190,576	300,479	451,949	609,365	544,584
(286,689)						
107,704	998,603	93,987	94,099	92,870	40,999	92,440
(104,097)	(104,475)	171,258	(104,813)	(104,708)	(114,273)	332,841
(153,374)	1,013,277	455,821	294,798	588,445	702,017	1,119,635
<u>\$ 4,799,111</u>	<u>\$ 6,449,365</u>	<u>\$ 5,783,442</u>	<u>\$ 6,522,028</u>	<u>\$ 6,802,124</u>	<u>\$ 7,153,757</u>	<u>\$ 6,463,400</u>
\$ (70,686)	\$ 955,757	\$ 11,758	\$ 2,122,401	\$ 1,857,223	\$ 821,879	\$ 651,517
369,461	2,227,143	818,408	598,168	988,763	1,800,149	2,837,911
<u>\$ 298,775</u>	<u>\$ 3,182,900</u>	<u>\$ 830,166</u>	<u>\$ 2,720,569</u>	<u>\$ 2,845,986</u>	<u>\$ 2,622,028</u>	<u>\$ 3,489,428</u>

**CITY OF HUGO, MINNESOTA**  
**FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(Modified Accrual Basis of Accounting)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General fund					
Unreserved	\$	\$	\$	\$	\$
Unassigned	<u>2,603,086</u>	<u>2,422,714</u>	<u>2,316,449</u>	<u>2,186,178</u>	<u>2,109,985</u>
Total general fund	<u>2,603,086</u>	<u>2,422,714</u>	<u>2,316,449</u>	<u>2,186,178</u>	<u>2,109,985</u>
All other governmental funds					
Reserved					
Unreserved, reported in:					
Special revenue funds					
Debt service funds					
Capital projects funds					
Restricted	3,243,799	3,478,864	9,193,397	9,567,219	3,940,302
Committed	1,864,591	1,814,672	1,591,779	1,432,846	1,518,457
Assigned	<u>8,815,632</u>	<u>8,119,888</u>	<u>7,160,986</u>	<u>6,943,377</u>	<u>6,716,756</u>
Total all other governmental funds	<u>13,924,022</u>	<u>13,413,424</u>	<u>17,946,162</u>	<u>17,943,442</u>	<u>12,175,515</u>
Total governmental funds	<u>\$ 16,527,108</u>	<u>\$ 15,836,138</u>	<u>\$ 20,262,611</u>	<u>\$ 20,129,620</u>	<u>\$ 14,285,500</u>

Note: The City implemented GASB Statement No. 54 in 2011; therefore, classifications of fund balance changed in 2011 and subsequent years.

**Schedule 3**

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	\$	\$	\$	\$
2,160,273	2,181,107	2,111,128	2,067,361	1,947,046
<u>2,160,273</u>	<u>2,181,107</u>	<u>2,111,128</u>	<u>2,067,361</u>	<u>1,947,046</u>
		100,000	251,142	837,142
	436,572	1,806,400	610,038	1,566,606
	3,168,547	2,895,071	2,164,718	1,636,187
	6,820,406	6,930,513	5,586,276	5,063,294
3,380,316				
714,894				
<u>7,679,292</u>				
<u>11,774,502</u>	<u>10,425,525</u>	<u>11,731,984</u>	<u>8,612,174</u>	<u>9,103,229</u>
<u>\$ 13,934,775</u>	<u>\$ 12,606,632</u>	<u>\$ 13,843,112</u>	<u>\$ 10,679,535</u>	<u>\$ 11,050,275</u>

**CITY OF HUGO, MINNESOTA**  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST FISCAL TEN YEARS**  
(Modified Accrual Basis of Accounting)

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>					
Property taxes	\$ 5,902,992	\$ 5,969,315	\$ 5,180,422	\$ 5,005,479	\$ 5,318,041
Special assessments	370,756	932,172	345,508	290,505	406,071
Licenses and permits	388,743	297,071	248,642	213,255	302,752
Intergovernmental revenues	1,345,844	1,315,406	1,206,757	1,003,735	769,373
Charges for services	266,392	207,890	248,497	145,558	159,122
Court fines	37,793	41,554	36,835	31,477	39,092
Other Revenue					
Investment earnings	57,287	63,745	97,122	123,271	117,355
Net change in the fair value of investments	(19,853)	14,946	165,934	(249,734)	
Developer fees	106,780		404,041		
Land sales					
Rent	32,695	24,540	31,976	19,525	16,765
Insurance settlement					
Miscellaneous	59,900	236,603	326,104	240,127	202,573
<b>Total Revenues</b>	<b>8,549,329</b>	<b>9,103,242</b>	<b>8,291,838</b>	<b>6,823,198</b>	<b>7,331,144</b>
<b>EXPENDITURES</b>					
General government	1,014,614	979,788	986,220	973,069	958,965
Public safety	1,549,208	1,571,184	1,420,115	1,375,303	1,355,607
Highways and streets	1,182,129	1,204,844	1,204,207	1,199,078	1,157,640
Community development	76,355	43,498	20,345	17,515	22,797
Parks	375,433	337,316	349,113	321,655	317,301
Unallocated	137,007	137,210	124,799	134,590	104,377
Debt service					
Bond principal retirement	1,570,000	7,070,000	1,570,000	1,515,000	1,260,000
Interest on bonds	126,237	272,283	450,981	430,069	463,374
Miscellaneous					
Fiscal charges	2,675	11,975	5,776	9,102	48,967
Issuance costs				59,468	
Advance refunding escrow					
Capital outlay	1,964,923	2,011,111	2,135,570	855,610	1,403,591
<b>Total Expenditures</b>	<b>7,998,581</b>	<b>13,639,209</b>	<b>8,267,126</b>	<b>6,890,459</b>	<b>7,092,619</b>
Excess (deficiency) of revenues over (under) expenditures	550,748	(4,535,967)	24,712	(67,261)	238,525
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt				5,835,000	
Premium (Discount) on issuance of debt				(27,716)	
Payment to bond escrow agent					
Sale of property	31,154	1,655			7,725
Transfers in	2,858,862	959,688	1,029,021	518,621	2,076,262
Transfers out	(2,749,794)	(851,849)	(920,742)	(414,524)	(1,971,787)
<b>Total other financing sources (uses)</b>	<b>140,222</b>	<b>109,494</b>	<b>108,279</b>	<b>5,911,381</b>	<b>112,200</b>
<b>Net change in fund balances</b>	<b>\$ 690,970</b>	<b>\$ (4,426,473)</b>	<b>\$ 132,991</b>	<b>\$ 5,844,120</b>	<b>\$ 350,725</b>
Debt service as a percentage of noncapital expenditures	31.40%	60.97%	34.93%	29.42%	29.40%

Schedule 4

	2011	2010	2009	2008	2007
\$	5,223,887	\$ 5,563,298	\$ 5,474,995	\$ 5,278,287	\$ 4,722,736
	624,953	316,848	536,069	330,382	634,279
	167,373	210,829	348,343	1,022,525	470,342
	792,938	3,372,522	1,345,592	840,100	834,501
	120,308	146,107	86,072	153,692	169,830
	50,068	56,813	47,762	57,026	61,505
	173,782	338,671	380,820	555,189	598,016
			7,752	44,343	37,093
	24,364	29,310	30,697	31,238	34,887
	204,763	361,557	33,136	35,694	71,270
	7,382,436	10,395,955	8,291,238	8,348,476	7,634,459
	900,935	911,625	964,806	1,336,479	1,017,392
	1,333,944	1,195,244	1,300,168	1,236,755	1,021,815
	1,166,248	1,307,156	1,073,741	1,264,979	1,045,845
	181,021	183,342	175,409	157,234	167,518
	297,422	252,874	182,051	161,881	167,084
	119,753	109,741	100,323	94,055	90,862
	1,120,000	2,425,000	785,000	700,000	950,000
	476,157	676,857	608,321	631,185	625,731
	52,333	48,463	29,403	5,643	6,064
		225,080			
	1,575,007	4,832,777	2,600,215	3,245,278	3,771,751
	7,222,820	12,168,159	7,819,437	8,833,489	8,864,062
	159,616	(1,772,204)	471,801	(485,013)	(1,229,603)
	1,325,000	1,340,000	2,570,000		1,270,000
	5,185	20,772	17,068		7,690
		(929,861)			
	9,600				
	705,068	2,333,972	1,478,522	2,429,789	1,018,776
	(876,326)	(2,229,159)	(1,373,814)	(2,315,516)	(1,351,617)
	1,168,527	535,724	2,691,776	114,273	944,849
\$	1,328,143	\$ (1,236,480)	\$ 3,163,577	\$ (370,740)	\$ (284,754)
	25.82%	30.31%	23.00%	19.40%	21.22%

**CITY OF HUGO, MINNESOTA  
TAX CAPACITY AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS**

Payable Year	Estimated Market Value	Tax Capacity		Total Tax Capacity	Total Adjusted Tax Capacity (1)	City Urban Tax Rate	% of Tax Capacity to Total Estimated Market Value
		Real Property	Personal Property				
2007	\$ 1,470,556,400	\$ 13,553,070	\$ 245,668	\$ 13,798,738	\$ 12,674,707	35.144	% 0.01
2008	1,568,574,700	15,232,828	238,245	15,471,073	14,161,910	34.941	0.01
2009	1,567,781,100	15,492,415	239,741	15,732,156	14,350,560	34.443	0.01
2010	1,485,921,700	15,126,688	262,716	15,389,404	13,891,937	34.274	0.01
2011	1,360,991,900	14,025,951	248,164	14,274,115	12,630,639	34.236	0.01
2012	1,341,568,000	13,065,273	255,652	13,320,925	12,247,068	36.498	0.01
2013	1,295,537,600	12,545,414	276,956	12,822,370	11,774,742	36.511	0.01
2014	1,344,215,300	13,111,735	284,514	13,396,249	12,355,637	36.417	0.01
2015	1,554,927,700	15,374,167	283,928	15,658,095	14,603,836	36.318	0.01
2016	1,532,535,200	15,086,691	293,209	15,379,900	14,294,114	36.323	0.01

(1) Tax Capacity adjusted for captured tax increment, fiscal disparities, and transmission lines.

NOTE - Valuations are determined as of January 1 of year preceding tax collection year.

The County determines a property's tax capacity by multiplying a property's estimated market value times the property's class rate which is determined by its use. The total City tax levy divided by the total City tax capacity determines a percentage, the City tax rate, that is applied to each parcel's tax capacity to determine the tax amount.



**CITY OF HUGO, MINNESOTA  
PROPERTY TAX RATES AND TAX LEVIES  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
LAST TEN FISCAL YEARS  
(Percent of Tax Capacity)**

Fiscal Year	City of Hugo						Overlapping Rates				
	Operating Tax Rate Rural	Debt Service Tax Rate Rural	Total City Tax Rate Rural	Operating Tax Rate Urban	Debt Service Tax Rate Urban	Total City Tax Rate Urban	Range of Tax Rates for Independent School Districts 624, 831, 832 & 834	Washington County	Range of Tax Rates for Watershed Districts	Special Taxing Districts	Range of Total Direct and Overlapping Tax Rates
2007	26.912 %	5.242 %	32.154 %	29.902 %	5.242 %	35.144 %	12.299 - 22.628	% 25.673 %	1.315 - 4.580	% 2.331 %	73.772 - 90.356 %
2008	27.875	3.968	31.843	30.973	3.968	34.941	15.137 - 22.691	25.936	1.608 - 4.532	2.367	76.891 - 90.467
2009	28.660	2.598	31.258	31.845	2.598	34.443	13.455 - 24.480	26.371	1.545 - 4.002	2.351	74.980 - 91.647
2010	27.975	3.191	31.166	31.083	3.191	34.274	12.895 - 26.389	27.775	1.511 - 4.153	2.558	75.905 - 95.149
2011	27.874	3.265	31.139	30.971	3.265	34.236	15.411 - 34.330	29.772	1.725 - 4.275	2.664	80.711 - 105.277
2012	29.403	3.828	33.231	32.669	3.828	36.497	17.331 - 38.360	31.939	2.340 - 4.906	2.909	87.750 - 114.611
2013	29.326	3.927	33.253	32.585	3.927	36.512	22.018 - 37.105	34.225	2.517 - 5.307	3.163	95.176 - 116.312
2014	30.152	2.915	33.067	33.502	2.915	36.417	23.150 - 39.770	32.811	2.387 - 5.066	3.127	94.542 - 117.191
2015	30.612	2.304	32.916	34.013	2.305	36.318	21.124 - 34.496	30.186	2.185 - 4.769	2.826	89.237 - 108.595
2016	30.972	1.910	32.882	34.413	1.910	36.323	19.849 - 34.107	30.564	2.192 - 5.111	3.195	88.682 - 109.300

Source: Washington County Taxation Division

**Note:** The City's direct property tax rate is determined by dividing the amount of tax levied by the City Council by the City's total tax capacity.

\*Overlapping rates are those of local and county governments that apply to property owners within the City of Hugo. Not all overlapping rates apply to all City of Hugo property owners. Although the property tax rates apply to all city property owners, some city properties lie within the geographical boundaries of different school and watershed districts.

SCHEDULE 7

**CITY OF HUGO, MINNESOTA  
PRINCIPAL PROPERTY TAXPAYERS  
CURRENT YEAR AND NINE YEARS AGO**

Taxpayers (1)	2016			2007		
	Taxable Tax Capacity	Rank	Percentage of Total City Tax Capacity Value	Taxable Tax Capacity	Rank	Percentage of Total City Tax Capacity Value
NSP/Xcel Energy	\$ 359,056	1	2.51 %	\$ 254,296	1	2.01 %
Wilson Tool International	211,040	2	1.48	203,340	2	1.60
Victor Hugo Blvd LLC	164,366	3	1.15			
Schwieters Properties	129,316	4	0.90	139,492	3	1.10
Martin Prop LLC	82,356	5	0.58			
Lake Area Bank	69,182	6	0.48			
14688 Everton LLC	63,728	7	0.45			
Team Two Investments LLC	60,328	8	0.42			
JWF Victor LLC Etal	58,816	9	0.41			
4L LLC	57,238	10	0.40			
Victor Marketplace Holding				91,404	4	0.72
POA-Scherer LLC				85,379	5	0.67
Pulte Homes of MN Corp				82,382	6	0.65
Woodlands Toy Store LP				82,156	7	0.65
E & G Development LLC				75,525	8	0.60
Nor-Lakes Holding Co LLC				56,328	9	0.44
POAC Investments LLC				52,310	10	0.41
<b>TOTAL</b>	<b>\$ 1,255,426</b>		<b>8.78 %</b>	<b>\$ 1,122,612</b>		<b>8.85 %</b>

(1) Source: Washington County Taxation Division

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA**  
**SCHEDULE OF PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year	Net Tax Levy for the Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years
			Amount	Percentage of Net Levy	
2007	\$ 4,652,080	\$ 4,424,824	\$ 4,282,780	96.79	\$ 141,455
2008	5,190,509	4,947,318	4,790,304	96.83	153,239
2009	5,330,059	4,985,828	4,842,016	97.12	139,352
2010	5,218,217	4,932,445	4,742,253	96.14	185,110
2011	4,839,717	4,528,339	4,363,947	96.37	157,498
2012	4,960,596	4,950,356	4,860,849	98.19	88,124
2013	4,750,286	4,740,403	4,659,447	98.29	77,108
2014	4,940,809	4,931,497	4,862,330	98.60	64,552
2015	5,717,021	5,703,010	5,654,146	99.14	35,535
2016	5,634,071	5,620,517	5,588,004	99.42	

- (1) Tax Levy adjusted for powerlines and market value credit in all years, and disaster credit in 2009.  
(2) On records of Washington County Auditor before allowance for uncollectible and excludes Tax Increment Districts.

### Schedule 8

<u>Total Collections to Date</u>		<u>Percentage of Net Levy</u>	<u>Total Delinquent Taxes (2)</u>	<u>Delinquent Taxes As A % Of Total Net Tax Levy</u>
<u>Amount</u>				
\$	4,424,235	99.99	\$ 589	0.01
	4,943,543	99.92	3,775	0.08
	4,981,368	99.91	4,460	0.09
	4,927,363	99.90	5,082	0.10
	4,521,445	99.85	6,894	0.15
	4,948,973	99.97	1,383	0.03
	4,736,555	99.92	3,848	0.08
	4,926,882	99.91	4,615	0.09
	5,689,681	99.77	13,329	0.23
	5,588,004	99.42	32,513	0.58

**CITY OF HUGO, MINNESOTA  
WATER AND SANITARY SEWER CHARGES BY CUSTOMER  
LAST TEN FISCAL YEARS**

**Water (in millions of gallons)**

<u>Type of Customer</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential	275.255	249.290	248.144	282.765	299.950	243.366
Commercial Service	15.121	12.334	11.318	11.251	11.616	11.090
Industrial Service	10.466	9.534	7.599	7.166	7.211	7.159
Irrigation Service	56.511	72.262	54.870	83.198	104.747	73.703
Institutional Service	1.624	1.701	1.375	1.720	1.926	1.465
Total gallons	<u>358.977</u>	<u>345.121</u>	<u>323.306</u>	<u>386.100</u>	<u>425.450</u>	<u>336.783</u>
Total direct rate per 1,000 gallons	\$ 2.525	\$ 2.515	\$ 2.519	\$ 2.553	\$ 2.468	\$ 2.553

**Sanitary Sewer ( in millions of gallons)**

<u>Type of Customer</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential	275.255	249.290	248.144	282.765	299.950	243.366
Commercial	15.121	12.334	11.318	11.251	11.616	11.090
Industrial	10.466	9.534	7.599	7.166	7.211	7.159
Institutional	1.624	1.701	1.375	1.720	1.926	1.465
Total gallons	<u>302.466</u>	<u>272.859</u>	<u>268.436</u>	<u>302.902</u>	<u>320.703</u>	<u>263.080</u>
Total direct rate per 1,000 gallons	\$ 3.641	\$ 4.049	\$ 3.901	\$ 3.447	\$ 3.435	\$ 4.279

**Schedule 9**

<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
252.179	271.084	243.067	245.376
11.861	11.462	11.715	7.989
6.487	6.644	8.291	7.539
89.290	106.387	72.778	93.495
2.025	1.488	1.757	2.391
<u>361.842</u>	<u>397.065</u>	<u>337.608</u>	<u>356.790</u>
\$ 2.477	\$ 2.541	\$ 2.593	\$ 2.542

<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
252.179	271.084	243.067	245.376
11.861	11.462	11.715	7.989
6.487	6.644	8.291	7.539
2.025	1.488	1.757	2.391
<u>272.552</u>	<u>290.678</u>	<u>264.830</u>	<u>263.295</u>
\$ 3.647	\$ 3.019	\$ 3.282	\$ 2.932

**CITY OF HUGO, MINNESOTA  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS**

**Other Governmental Activities Debt**

Fiscal Year	Special Assessment Bonds	Tax Increment Bonds	Lease Revenue Bonds	Land Use Planning Loan	Certificates of Indebtedness	Capital Improvement Bonds	Tax Abatement Bonds	Total Governmental Activities Debt
2007	\$ 1,237,690	\$ 1,560,000	\$ 2,090,000	\$ 40,000	\$ 180,000	\$ 2,226,745	\$ 7,825,356	\$ 15,159,791
2008	1,187,339	1,465,000	1,910,000	40,000		2,084,974	7,763,790	14,451,103
2009	2,044,406	1,360,000	1,720,000			1,943,326	9,212,261	16,279,993
2010	1,954,226					3,156,190	8,982,063	14,092,479
2011	3,094,222					2,817,550	8,397,025	14,308,797
2012	2,913,745					2,449,004	7,692,153	13,054,902
2013	2,623,253					3,106,102	11,626,924	17,356,279
2014	2,337,744					2,728,486	10,730,773	15,797,003
2015	2,052,219					1,439,671	5,310,697	8,802,587
2016	1,766,676					1,102,916	4,362,258	7,231,850

**Note:** Details of the city's outstanding debt can be found in the notes to the financial statements.

Note: The City adopted GASB Statement No. 65 in 2013. Amounts in this schedule prior to 2012 have not been restated for GASB Statement No. 65.



**Schedule 10**

**Business-Type Activities**

Utility Revenue Bonds	Total Business Activities Debt	Total Primary Government Debt	Percentage of Personal Income	Per Capita
\$ 2,305,000	\$ 2,305,000	\$ 17,464,791	0.03	\$ 1,453
2,120,000	2,120,000	16,571,103	0.03	1,318
1,925,000	1,925,000	18,204,993	0.03	1,385
		14,092,479	0.02	1,057
		14,308,797	0.02	1,057
		13,054,902	0.02	950
		17,356,279	0.02	1,251
		15,797,003	0.02	1,112
		8,802,587	0.01	613
		7,231,850	N/A	496

**CITY OF HUGO, MINNESOTA  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS**

**General Bonded Debt Outstanding**

Fiscal Year	Special Assessment Bonds	Tax Increment Bonds	Lease Revenue Bonds	Certificates of Indebtedness	Capital Improvement Bonds	Tax Abatement Bonds	Utility Revenue Bonds	Total
2007	\$ 1,237,690	\$ 1,560,000	\$ 2,090,000	\$ 180,000	\$ 2,226,745	\$ 7,825,356	\$ 2,305,000	\$ 17,424,791
2008	1,187,339	1,465,000	1,910,000		2,084,974	7,763,790	2,120,000	16,531,103
2009	2,044,406	1,360,000	1,720,000		1,943,326	9,212,261	1,925,000	18,204,993
2010	1,954,226				3,156,190	8,982,063		14,092,479
2011	3,094,222				2,817,550	8,397,025		14,308,797
2012	2,913,745				2,449,004	7,692,153		13,054,902
2013	2,623,253				3,106,102	11,626,924		17,356,279
2014	2,337,744				2,728,486	10,730,773		15,797,003
2015	2,052,219				1,439,671	5,310,697		8,802,587
2016	1,766,676				1,102,916	4,362,258		7,231,850

**Note:** Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
See Schedule 15 for personal income and population data  
See Schedule 5 for estimated market value information

Note: The City adopted GASB statement No. 65 in 2013. Amounts in this schedule prior to 2012 have not been restated for GASB Statement No. 65.

Source: City of Hugo Finance Department

(1) Includes funds of \$5,693,117 (2014) and \$5,742,264 (2013) in an escrow account to cover two years of interest payments on the Series 2013A Bonds and the 2015-2020 maturities of the Series 2004A and Series 2005A Bonds.

**Schedule 11**

Less: Available in Debt Service	Net General Bonded Debt Outstanding	Percentage of Actual Market Value of Property	Per Capita
\$ (1,452,523)	\$ 15,972,268	1.09%	\$ 1,329
(1,941,654)	14,589,449	0.93%	1,160
(2,451,764)	15,753,229	1.00%	1,199
(2,720,919)	11,371,560	0.77%	853
(3,135,598)	11,173,199	0.82%	825
(3,656,596)	9,398,306	0.70%	684
(9,225,641) (1)	8,130,638	0.63%	586
(8,830,050) (1)	6,966,953	0.52%	491
(3,099,683)	5,702,904	0.37%	397
(2,847,900)	4,383,950	0.29%	301

**CITY OF HUGO, MINNESOTA**  
**COMPUTATION OF DIRECT AND INDIRECT GENERAL OBLIGATION BONDED DEBT**  
**AND LEGAL DEBT MARGIN**  
December 31, 2016

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>(a)</sup></u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Independent School District #624	\$ 86,195,000	14.28%	\$ 12,308,646
Independent School District #831	162,965,000	3.28%	5,345,252
Independent School District #832	53,720,033	4.37%	2,347,565
Independent School District #834	113,990,000	0.88%	1,003,112
<b>Other debt</b>			
Washington County	177,010,000	5.12%	9,062,912
Regional Transit	189,226,614	0.48%	908,288
Subtotal, overlapping debt			30,975,775
<b>City direct debt</b>	7,231,850		7,231,850
<b>Total direct and overlapping debt</b>			<u>\$ 38,207,625</u>

**Sources:** Tax capacity data to estimate applicable percentages provided by Washington County.  
Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Hugo. This process recognizes that, when considering the city's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

<sup>(a)</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using tax capacity values. Applicable percentages were estimated by determining the portion of another governmental unit's tax capacity value that is within the city's boundaries and dividing it by each unit's total tax capacity value.

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(Dollars in Thousands)**

	<b>Fiscal Year</b>				
	2016	2015	2014	2013	2012
Debt limit	\$ 42,502	\$ 43,322	\$ 36,634	\$ 34,940	\$ 36,356
Total net debt applicable to limit	<u>558</u>	<u>809</u>	<u>1,094</u>	<u>1,391</u>	<u>1,767</u>
Legal debt margin	\$ 41,944	\$ 42,513	\$ 35,540	\$ 33,549	\$ 34,589
Total net debt applicable to the limit as a percentage of debt limit	1.31%	1.87%	2.99%	3.98%	4.86%

The legal debt limit for municipalities in Minnesota was increased in 2008 from 2% to 3% of the market value of taxable property. This limit applies only to the City's general obligation tax levy bonds and excludes special assessment, tax increment and tax abatement bonds.

**Schedule 13**

**Legal Debt Margin Calculation for the Fiscal Year 2016**

Taxable Market Value	\$ 1,416,731,700
Debt Limit (3% of market value)	42,501,951
Debt applicable to limit:	
General obligation bonds	1,100,000
Less: Amount set aside for repayment of general obligation debt	<u>(542,268)</u>
Total net debt applicable to limit	557,732
Legal debt margin	<u><u>\$ 41,944,219</u></u>

2011	2010	2009	2008	2007
\$ 39,099	\$ 42,332	\$ 43,873	\$ 43,092	\$ 29,411
<u>2,179</u>	<u>2,537</u>	<u>2,891</u>	<u>3,263</u>	<u>3,740</u>
\$ 36,920	\$ 39,795	\$ 40,982	\$ 39,829	\$ 25,671
5.57%	5.99%	6.59%	7.57%	12.72%

**CITY OF HUGO, MINNESOTA  
PLEGDED REVENUE COVERAGE  
LAST TEN FISCAL YEARS**

Utility Revenue Bonds						
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Available Revenue	Debt Service (3)		Coverage
				Principal	Interest	
2007	\$ 4,095,374	\$ 1,043,879	\$ 3,051,495	\$ 175,000	\$ 102,351	11.00
2008	3,578,618	1,165,722	2,412,896	185,000	95,382	8.61
2009	3,248,863	1,570,104	1,678,759	195,000	87,736	5.94
2010	2,760,541	1,564,187	1,196,354	1,925,000	25,958	0.61
2011	2,569,649	1,405,593	1,164,056			
2012	3,920,983	1,196,586	2,724,397			
2013	2,301,642	1,385,995	915,647			
2014	2,848,133	1,429,577	1,418,556			
2015	2,861,130	1,669,777	1,191,353			
2016	3,024,094	1,918,625	1,105,469			

**Notes: (1)** Gross revenue includes investment earnings, hook-up charges and special assessments.

**(2)** Operating expenses do not include interest, depreciation, or amortization expense.

**(3)** Details regarding the City's outstanding debt can be found in the notes to the financial statements.



**CITY OF HUGO, MINNESOTA  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>YEAR</b>	<b>POPULATION (1)</b>	<b>PERSONAL INCOME</b> (thousands of dollars)	<b>PER CAPITA PERSONAL INCOME (2)</b>	<b>STATE UNEMPLOYMENT RATE (3)</b>	<b>CITY UNEMPLOYMENT RATE (3)</b>
2007	12,022	571,033	47,499	4.8	4.1
2008	12,573	615,235	48,933	6.6	6.0
2009	13,140	603,888	45,958	7.5	7.0
2010	13,332	628,644	47,153	7.0	6.1
2011	13,536	683,609	50,503	5.7	5.2
2012	13,739	715,761	52,097	5.3	4.7
2013	13,878	736,214	53,049	4.5	3.9
2014	14,201	795,554	56,021	3.8	3.1
2015	14,352	834,755	58,163	3.7	3.0
2016	14,576	N/A	N/A	4.1	3.4

Sources: (1) Metropolitan Council/2010-Census Bureau  
 (2) Bureau of Economic Analysis - Washington County, Minnesota  
 (3) Estimate based on County unemployment rate provided by Minnesota Department of Employment and Economic Development

**CITY OF HUGO, MINNESOTA  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>2016</u>			<u>2007</u>		
	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total City Employment (3)</u>	<u>Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total City Employment (3)</u>
Wilson Tool	405	1	14.4%	700	1	32.8%
JL Schwieters	195	2	6.9%			
Schwieters Companies Inc	119	3	4.2%	228	2	10.7%
Lametti & Sons, Inc.	130	4	4.6%			
Festival Foods	80	5	2.8%	115	3	5.4%
Independent School District No. 624	66	8	2.4%	80	4	3.7%
Blue Heron Grille	65	7	2.3%			
Northland Pallet	61	6	2.2%			
Glamos Wire/Donner Industries	45	9	1.6%	40	6	1.9%
Wild Wings Game Farm	35	10	1.2%			
Pearson Mechanical				45	5	2.1%
Granger's Inc.				30	7	1.4%
Imperial Tool, Inc.				25	8	1.2%
Nor-Lakes Services				23	9	1.1%
Industrial Painting Specialists				20	10	0.9%

(1) Telephone survey of individual employers, May 2017

(2) Telephone survey of individual employers, April 2007

(3) City staff estimate based on Metropolitan Council estimate of employment

***This Page Left Blank Intentionally***

**CITY OF HUGO, MINNESOTA  
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION  
LAST TEN FISCAL YEARS**

<u>Function</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
City Administrator	1.00	1.00	1.00	1.00	1.00	1.00
City Clerk	1.00	1.00	1.00	1.00	1.00	1.00
Finance	2.00	2.00	2.00	2.00	2.00	2.00
Planning and Zoning	1.00	1.00	1.00	1.00	1.00	1.00
General Government Buildings	0.00	0.00	0.00	0.00	0.00	0.36
Engineering	1.00	1.00	1.00	1.00	1.00	1.00
<b>General Government</b>	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>	<u>6.36</u>
Fire	2.50	2.50	2.50	2.50	2.50	2.50
Building Inspections	3.00	3.00	3.00	3.00	3.00	3.69
<b>Public Safety</b>	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>	<u>6.19</u>
Streets and Roadways	6.34	6.34	6.34	6.34	6.34	6.34
<b>Public Works</b>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>
Parks	4.52	4.52	4.52	4.52	4.52	4.52
<b>Parks and Recreation</b>	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>	<u>3.09</u>
Community Development	1.50	1.50	0.50	0.50	0.50	2.00
	<u>1.50</u>	<u>1.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>2.00</u>
<b>Total Governmental Activities</b>	<u>23.86</u>	<u>23.86</u>	<u>22.86</u>	<u>22.86</u>	<u>22.86</u>	<u>25.41</u>
Water Utility	1.33	1.33	1.33	1.33	1.33	1.33
Sewer Utility	1.33	1.33	1.33	1.33	1.33	1.33
<b>Total Business Activities</b>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>
<b>Totals for Organization</b>	<u>26.52</u>	<u>26.52</u>	<u>25.52</u>	<u>25.52</u>	<u>25.52</u>	<u>28.07</u>

Source: City's Adopted Budgets

**Schedule 17**

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
2.00	1.95	1.91	1.00
1.00	1.00	1.00	1.00
2.00	2.00	1.00	1.00
1.00	1.00	2.00	1.75
0.50	0.50	0.50	0.50
1.00	1.00	1.00	1.00
<u>7.50</u>	<u>7.45</u>	<u>7.41</u>	<u>6.25</u>
2.50	2.50	2.50	2.50
4.00	4.00	4.00	5.75
<u>6.50</u>	<u>6.50</u>	<u>6.50</u>	<u>8.25</u>
<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>
6.34	6.34	6.34	6.34
<u>3.09</u>	<u>3.09</u>	<u>2.29</u>	<u>1.25</u>
3.09	3.09	2.29	1.25
<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
2.00	2.00	2.00	2.00
<u>25.43</u>	<u>25.38</u>	<u>24.54</u>	<u>24.09</u>
1.33	1.33	1.33	1.33
1.33	1.33	1.33	1.33
<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>
<u>28.09</u>	<u>28.04</u>	<u>27.20</u>	<u>26.75</u>

**CITY OF HUGO, MINNESOTA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

<b>Function/Program</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Planning and Zoning						
Conditional use permits	3	5	2	5	1	6
Minor subdivisions	2	0	1	1	0	4
Plats/Planned unit developments	12	9	4	9	1	2
Rezoning	0	0	0	0	0	1
Site plans	2	3	4	2	5	3
Variances	5	5	10	4	3	2
Fire						
Total emergency responses	238	467	607	601	573	537
EMS responses	120	317	478	440	356	371
Fire responses	118	150	129	161	217	166
Building Inspections						
Residential permit valuations (thousands of dollars)	30,359	20,664	27,140	12,398	18,083	11,160
Commercial permit valuations (thousands of dollars)	4,074	928	13,759	5,246	10,482	783
New dwelling units	108	69	49	52	89	50
Water Utility						
Number of customers	3,352	3,259	3,195	3,163	3,109	3,077
Average daily consumption (thousands of gallons)	983	946	886	1,058	1,166	923
Sanitary Sewer Utility						
Number of customers	3,490	3,397	3,331	3,298	3,248	3,119
Average daily flow (thousands of gallons)	829	748	735	830	879	721

Sources: Various City Department's annual budget workload measurements

**Schedule 18**

<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
6	4	2	10
1	1	1	1
3	3	8	5
1	0	1	1
3	0	5	4
6	4	11	12
609	550	496	433
437	402	362	315
172	148	134	118
16,254	26,625	59,953	34,132
1,042	2,739	6,925	5,244
86	147	184	250
2,973	2,880	2,774	2,611
991	1,088	925	978
3,098	3,005	2,894	2,732
747	796	726	721

**CITY OF HUGO, MINNESOTA**  
**CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

<b>Function/Program</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Fire</b>										
Stations	1	1	1	1	1	1	1	1	1	1
<b>Public Works</b>										
Bituminous streets (miles)	74	72	71	70	70	69	68	68	68	68
Gravel streets (miles)	20	20	20	20	20	21	21	21	21	21
Street lights	932	926	918	910	910	910	899	881	869	845
Storm sewer (miles)	37	36	35	33	33	33	33	33	33	32
<b>Park &amp; Recreation</b>										
Acres of parkland	390.7	389.5	385.0	385.0	385.0	385.0	385.0	385.0	260.0	260.0
Number of parks	16	15	14	14	14	14	14	14	13	13
<b>Water Utility</b>										
Miles of watermain	59	58	57	56	55	55	54	54	54	54
Number of fire hydrants	699	688	680	668	666	661	653	640	631	625
<b>Sanitary Sewer Utility</b>										
Miles of sanitary sewer	53	53	52	51	51	51	50	50	50	50

Sources: Various City Department's annual financial report statistics and budget workload measurements



**CITY OF HUGO, MINNESOTA**

**OTHER REPORT SECTION**

**December 31, 2016**

***This Page Left Blank Intentionally***

## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

To the Honorable Mayor and Members of the City Council  
**City of Hugo**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Hugo, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the City of Hugo, Minnesota's basic financial statements, and have issued our report thereon dated June 14, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota State Statutes Sec. 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Hugo, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Hugo, Minnesota's noncompliance with the above referenced provisions.

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

*Smith, Schaffer and Associates, Ltd.*

Minneapolis, Minnesota  
June 14, 2017

***This Page Left Blank Intentionally***