

CITY OF HUGO, MINNESOTA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015**

**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, 2015**

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CITY OF HUGO, MINNESOTA

INTRODUCTORY SECTION

December 31, 2015

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City of Hugo
14669 Fitzgerald Avenue North
Hugo, MN 55038
PHONE: (651) 762-6300 FAX: (651) 426-2859

June 9, 2016

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, 2015.

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, 2015, 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 unqualified opinion that the City of Hugo's financial statements for the fiscal year ended December 31, 2015 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, 2015 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 14,352.

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 71.

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. The city's tax base, as measured by total tax capacity, increased 16.9% from a year ago and has increased a substantial 42% 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 2015 (14,352), or a 125% increase over the 2000 census count.

CITY OF HUGO, MINNESOTA

Economic condition and outlook (continued)

Despite the 2009 housing crisis, the City has continued to see strong residential development. From 2009 to 2014, an average of 79 housing units were constructed each year. During 2015, 65 new single-family housing units and 5 new townhome units were constructed with a value of \$21,592,000. New residential development is expected to remain strong in 2016.

Commercial development is also increasing in response to the growing population and increasing demand for goods and services. Over \$25,000,000 in new commercial development has been constructed within the past five years, including a new grocery store, three health clinics, and other retail businesses located primarily along the newly improved CSAH 8 corridor. In 2015, construction was completed on a 113,000 square foot senior housing complex containing a mix of market-rate apartments, assisted living and memory care units.

The City's tax base is comprised mainly of residential homestead (68.2%) and commercial/industrial property (14.4%). The balance consists of non-homestead residential property (11.1%), agricultural and seasonal recreational property (4.4%), and personal property (1.9%).

The ten largest taxpayers make up 8.47% of the city's net tax capacity, providing the city with a very 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 2015 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:

- 2030 Comprehensive Plan. The city recently adopted its comprehensive plan, adding over 5,000 acres to the Metropolitan Urban Service Area. This expansion effectively doubles the land area for development within the city. Property within this area has been guided to develop with a variety of land uses accommodating the demand for additional residential development as well as providing substantial land areas for services and future employment centers. The plan, when implemented, will accommodate a population of 40,000 by the year 2030.
- 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 a future interchange on I-35E, 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 2030.
- Downtown Redevelopment. With funding provided by the Metropolitan Council, the City completed a downtown 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 federal funding for improvements to Trunk Highway 61. The city has also purchased several properties in the downtown area and is working with several property owners interested in redeveloping their properties through the use of tax increment financing.

CITY OF HUGO, MINNESOTA

Long-term financial planning (continued)

- Emerging Retail Market. Due to rapid residential growth, the City is experiencing a demand for additional retail space, primarily along the CSAH 8 corridor. In addition, city planning efforts include the identification of land for future retail centers along T.H. 61 in the downtown area and along CSAH 4. The city has re-guided residential land toward commercial uses along these corridors in an effort to broaden the tax base and provide a better ratio of commercial to residential development.

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, 2014. This was the fifteenth 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.

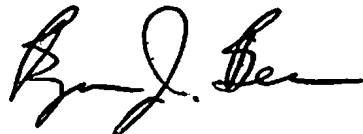
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

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, 2014

Executive Director/CEO

**CITY OF HUGO, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
December 31, 2015**

POSITION	NAME	TERM EXPIRES
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ELECTED OFFICIALS

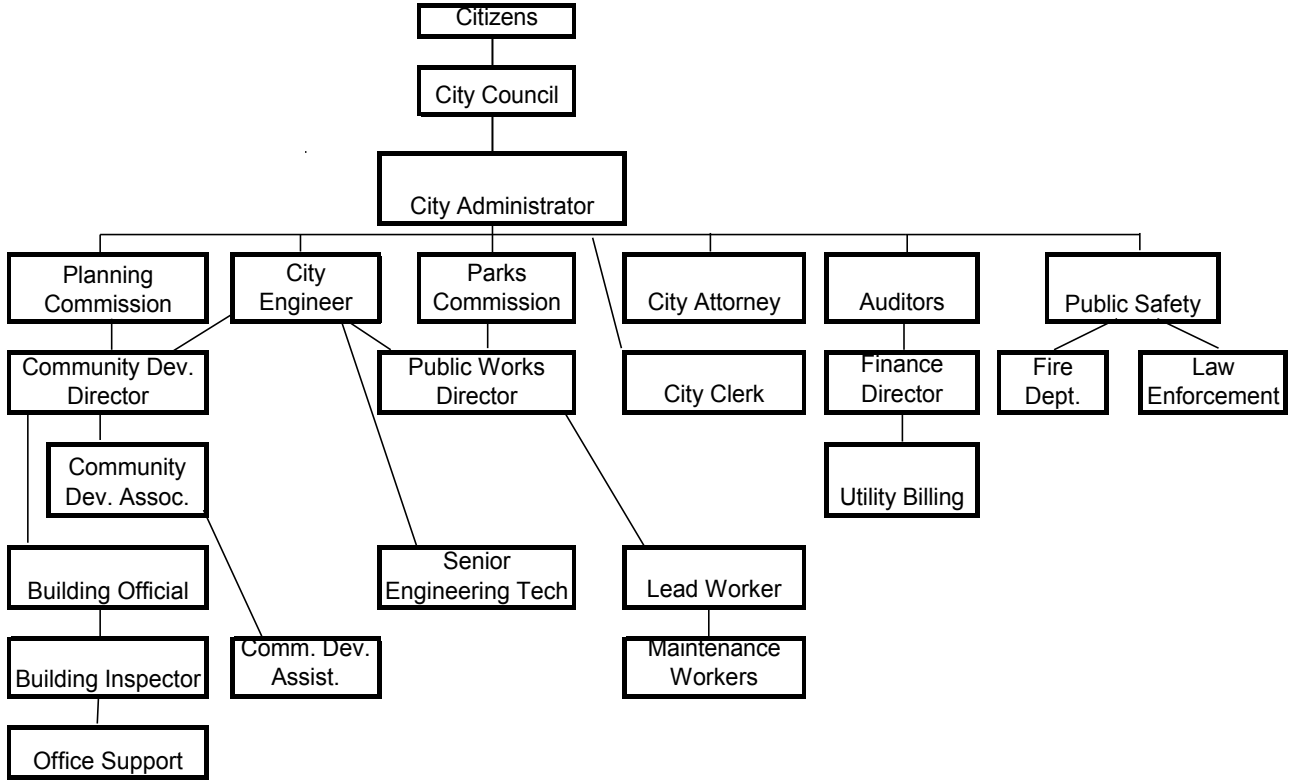
City Council:

Mayor	Tom Weidt	December 31, 2016
Council Member Ward I	Becky Petryk	December 31, 2018
Council Member Ward II	Phil Klein	December 31, 2016
Council Member Ward III	Chuck Haas	December 31, 2018
Council Member At Large	Mike Miron	December 31, 2016

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, 2015**



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CITY OF HUGO, MINNESOTA

FINANCIAL SECTION

December 31, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the City of Hugo'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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, 2015, 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 conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5 to the financial statements, in 2015 the City adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

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, Schafu and Associates, Ltd.

Maplewood, Minnesota
June 9, 2016

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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, 2015. 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.

New Accounting Pronouncements. The City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. These Statements established accounting and financial reporting standards for pensions.

FINANCIAL HIGHLIGHTS

- The assets of the City of Hugo exceeded its liabilities at the close of the most recent fiscal year by \$74,609,968 (*net position*). Of this amount, \$25,143,396 (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 \$4,622,478, 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 increased property tax revenues received by governmental activities.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,422,714 or 57 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 \$15,836,138.
- The City of Hugo decreased general long-term debt obligations by \$7,070,000 during the current fiscal year primarily as a result of the refunding of the 2004 and 2005 general obligation bonds.
- The City was again recognized in 2015 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 71), the firefighter's relief fund (page 72), the tax increment financing collection fund (page 73), the abatement levy offset fund (page 74), and the other debt service and capital project funds with a budget (pages 75-77) 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 78 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 30-66 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 69-77 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 \$74,609,968 at the close of the most recent fiscal year. A significant portion of the City of Hugo's net position (57 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 8 percent from the prior year due primarily to additional infrastructure completed by the City during the year as well as debt payments. 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 21,616,812	\$ 26,146,620	\$ 19,257,201	\$ 18,180,330	\$ 40,874,013	\$ 44,326,950
Capital assets	29,201,788	28,110,507	16,679,906	16,206,682	45,881,694	44,317,189
Total assets	<u>50,818,600</u>	<u>54,257,127</u>	<u>35,937,107</u>	<u>34,387,012</u>	<u>86,755,707</u>	<u>88,644,139</u>
Deferred outflows of resources	145,730		31,474		177,204	
Long-term liabilities outstanding	10,148,889	16,095,768	249,735	26,673	10,398,624	16,122,441
Other liabilities	1,662,474	1,592,045	72,581	53,352	1,735,055	1,645,397
Total liabilities	<u>11,811,363</u>	<u>17,687,813</u>	<u>322,316</u>	<u>80,025</u>	<u>12,133,679</u>	<u>17,767,838</u>
Deferred inflows of resources	157,245		32,019		189,264	
Net assets:						
Net investment in capital assets	26,217,435	23,454,304	16,679,906	16,206,682	42,897,341	39,660,986
Restricted	6,569,231	7,022,529			6,569,231	7,022,529
Unrestricted	6,209,056	6,092,481	18,934,340	18,100,305	25,143,396	24,192,786
Total net position	<u>\$ 38,995,722</u>	<u>\$ 36,569,314</u>	<u>\$ 35,614,246</u>	<u>\$ 34,306,987</u>	<u>\$ 74,609,968</u>	<u>\$ 70,876,301</u>

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

An additional portion of the City of Hugo's net position (9 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 6 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, 2015 (\$25,143,396) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position increased by 4 percent during the year due primarily to 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 \$3,092,479. The most significant factors accounting for this increase relate to increased property tax and service revenue as a result of increased housing development within the City and a decrease in interest expense as a result of the refunding of the 2004 and 2005 general obligation bonds.

Business-type activities. Business-type activities increased the City of Hugo's net position by \$1,529,999. The majority of this increase is attributable to noncash capital contributions and charges for services.

A condensed version of the Statement of Activities follows:

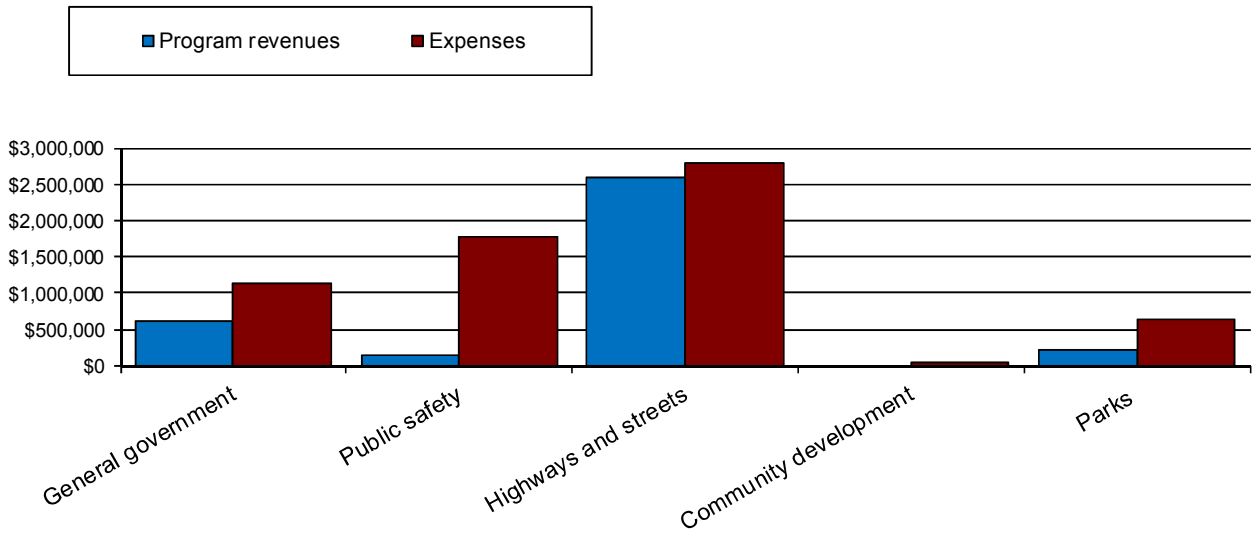
City of Hugo, Minnesota's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 599,373	\$ 600,768	\$ 2,536,840	\$ 2,388,668	\$ 3,136,213	\$ 2,989,436
Operating grants and contributions	342,514	260,534			342,514	260,534
Capital grants and contributions	2,618,455	1,964,258	1,041,058	818,017	3,659,513	2,782,275
General revenues:						
Property taxes	5,930,619	5,169,220			5,930,619	5,169,220
Grants and contributions not restricted to specific programs	12,987	8,351			12,987	8,351
Other	89,291	284,622	317,129	432,261	406,420	716,883
Total revenues	<u>9,593,239</u>	<u>8,287,753</u>	<u>3,895,027</u>	<u>3,638,946</u>	<u>13,488,266</u>	<u>11,926,699</u>
Expenses:						
General government	1,122,799	1,134,472			1,122,799	1,134,472
Public safety	1,766,538	1,605,641			1,766,538	1,605,641
Highways and streets	2,798,767	1,652,444			2,798,767	1,652,444
Community development	44,810	29,743			44,810	29,743
Parks	629,830	695,534			629,830	695,534
Interest on long-term debt	245,855	420,400			245,855	420,400
Sewer and water			2,257,189	1,980,909	2,257,189	1,980,909
Total expenses	<u>6,608,599</u>	<u>5,538,234</u>	<u>2,257,189</u>	<u>1,980,909</u>	<u>8,865,788</u>	<u>7,519,143</u>
Increase in net position before transfers	2,984,640	2,749,519	1,637,838	1,658,037	4,622,478	4,407,556
Transfers	107,839	108,279	(107,839)	(108,279)		
Increase in net position	3,092,479	2,857,798	1,529,999	1,549,758	4,622,478	4,407,556
Net position, beginning of year, as restated	35,903,243	33,711,516	34,084,247	32,757,229	69,987,490	66,468,745
Net position, end of year	<u>\$ 38,995,722</u>	<u>\$ 36,569,314</u>	<u>\$ 35,614,246</u>	<u>\$ 34,306,987</u>	<u>\$ 74,609,968</u>	<u>\$ 70,876,301</u>

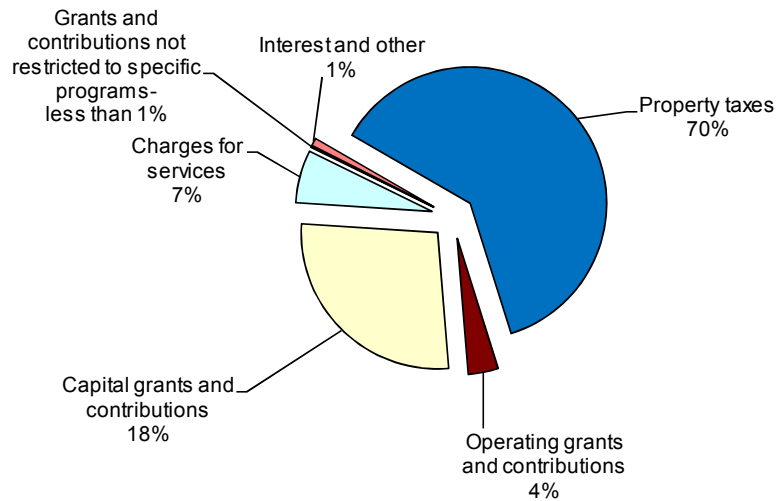
CITY OF HUGO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



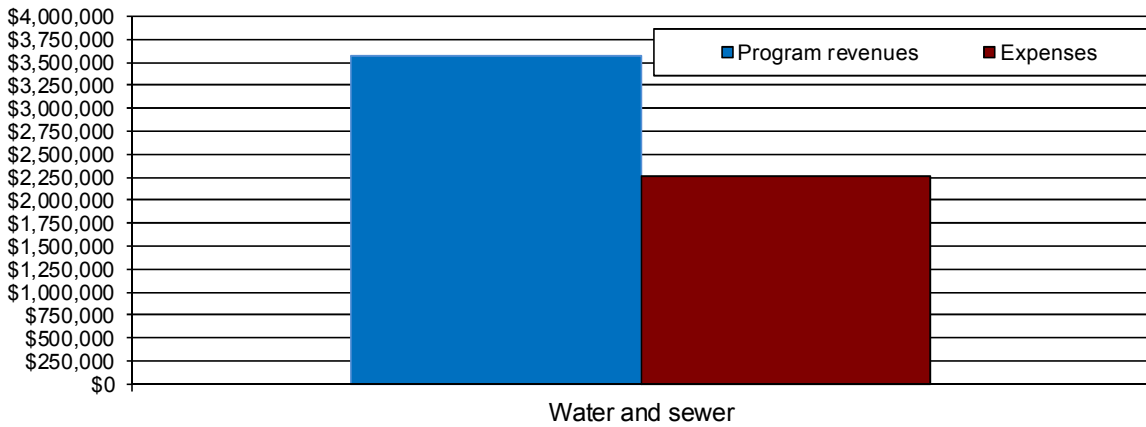
Revenues by Source - Governmental Activities



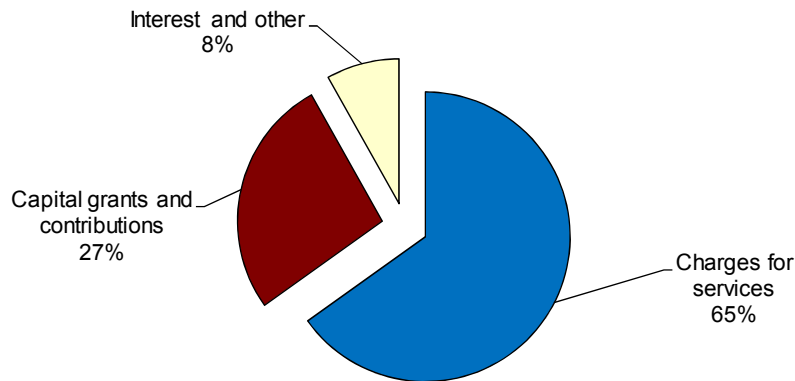
**CITY OF HUGO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$15,836,138, a decrease of \$4,426,473 from the prior year primarily as a result of the refunding of the 2004 and 2005 general obligation bonds. 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 \$2,422,714. 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 57 percent of total general fund expenditures.

The general fund's total fund balance increased by \$106,265 during the current fiscal year. This year's increase was primarily due to licenses and permit revenues in excess of expectations related to increased building activity. Revenues in the general fund met or exceeded budget projections in all cases. General fund expenditures met or were less than budgeted projections in all departments except community development and as a fund overall.

The general obligations bonds fund decreased its fund balance by \$5,730,367 for the year due primarily to debt service payments, including the refunding of the 2004 and 2005 general obligation bonds, in excess of property taxes and intergovernmental revenues allocated to this fund. The public improvements fund increased its fund balance by \$636,124 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 increased its fund balance by \$305,435 for the year due primarily to transfers from other funds.

The special revenue funds increased their fund balances by \$317,771 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 \$932,397 as of December 31, 2015. These fund balances decreased by \$61,701 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 78 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 \$18,934,340 at December 31, 2015. The proprietary fund's net position increased by \$1,529,999 due largely to one-time infrastructure fees for new development and noncash capital contributions from developers.

Water utility conservation rates were implemented in 2010. Although metered water connections increased 2.0% in 2015, revenue from the sale of water increased 6.0%. This was primarily due to an increase in residential and irrigation services. The water utility remains profitable but increasing calls for higher water conservation may lead to the need to increase rates in 2016.

Sewer utility rates were decreased in 2013 to account for decreased sewage treatment costs imposed by the Metropolitan Council. Sewer connections increased 2.0% in 2015, resulting in a 5.5% increase in revenue. The sewer utility had operating income of \$128,837 in 2015, primarily due to an increase in service charges revenue coupled with a decrease in sewer costs charged by the Metropolitan Council.

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 \$2.4 million is a substantial 57% 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 \$192,888 due primarily to higher than budgeted building permit revenue as a result of increased construction in the City.
- The City received a grant in the amount of \$56,714 from the State of Minnesota to help with disaster clean-up. This amount was not included in the 2015 budget.
- Charges for services revenue exceeded budget by \$145,330 due primarily to various fees related to increased construction in the City.
- Public safety expenditures were less than budget by \$60,719 due primarily to lower than budgeted fire protection services.
- Highways and streets expenditures were less than budget by \$181,977 due primarily to lower than expected street materials and repairs and maintenance costs.
- Parks expenditures were less than budget by \$91,917 due primarily to lower than expected seasonal labor costs and equipment maintenance costs.

**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, 2015, amounts to \$45,881,694 (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 \$1,606,972, or 3.6 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 2015.

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

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,628,249	\$ 4,578,710	\$ 259,560	\$ 259,560	\$ 4,887,809	\$ 4,838,270
Construction in progress			48,245	48,245	48,245	48,245
Buildings	3,763,902	3,892,287	16,221,606	15,747,968	19,985,508	19,640,255
Improvements other than buildings	457,990	597,334			457,990	597,334
Machinery and equipment	2,175,999	2,175,711	150,495	150,909	2,326,494	2,326,620
Infrastructure	18,175,648	16,866,465			18,175,648	16,866,465
Total	<u>\$ 29,201,788</u>	<u>\$ 28,110,507</u>	<u>\$ 16,679,906</u>	<u>\$ 16,206,682</u>	<u>\$ 45,881,694</u>	<u>\$ 44,317,189</u>

Additional information on the City of Hugo's capital assets can be found in Note 3:C. on pages 46-47 of this report.

Long-term debt. At the end of the current fiscal year, the City of Hugo had \$8,795,000 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds	<u>\$ 8,795,000</u>	<u>\$ 15,865,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 8,795,000</u>	<u>\$ 15,865,000</u>

CITY OF HUGO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hugo's total bonds, certificates and notes payable decreased by \$7,070,000 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3:D., beginning on page 48.

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 2015 at 2.8 percent, down from 2.9 percent a year ago. This compares favorably to the State of Minnesota average unemployment rate of 3.7 percent and the United States average rate of 5.0 percent.
- Hugo continues to see new construction growth, primarily in residential properties, but also in the commercial area. The city's total market valuation increased 15.6% for taxes payable year 2015, with new construction adding 1.6% to the 14.0% increase in the total market valuation of existing properties.
- Investment income has increased due to the purchase of shorter-term investment vehicles.

All of these factors were considered in preparing the City of Hugo's budget for the 2016 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.

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CITY OF HUGO, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
December 31, 2015

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

December 31, 2015

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and investments	\$ 17,185,540	\$ 18,148,180	\$ 35,333,720
Receivables (net of allowance for uncollectibles)	1,423,532	719,133	2,142,665
Deposits receivable		1,500	1,500
Due from other governmental units	2,633,503	388,388	3,021,891
Net pension asset	374,237		374,237
Capital assets:			
Nondepreciable	4,628,249	307,805	4,936,054
Depreciable, net	24,573,539	16,372,101	40,945,640
Total Assets	50,818,600	35,937,107	86,755,707
Deferred Outflows of Resources			
Deferred outflows from pension activity	145,730	31,474	177,204
Liabilities			
Accounts payable	112,479	57,884	170,363
Accrued interest payable	56,457		56,457
Accrued expenses	29,883	3,111	32,994
Due to other governmental units	454,146	10,586	464,732
Unearned revenue	1,009,509	1,000	1,010,509
Noncurrent liabilities:			
Due within one year	1,701,277	21,472	1,722,749
Due in more than one year	7,403,414	2,744	7,406,158
Net pension liability	1,044,198	225,519	1,269,717
Total Liabilities	11,811,363	322,316	12,133,679
Deferred Inflows of Resources			
Deferred inflows from pension activity	157,245	32,019	189,264
Net Position			
Net investment in capital assets	26,217,435	16,679,906	42,897,341
Restricted for:			
Creditors	6,190,050		6,190,050
Regulations	379,181		379,181
Unrestricted	6,209,056	18,934,340	25,143,396
Total Net Position	\$ 38,995,722	\$ 35,614,246	\$ 74,609,968

See Notes to Financial Statements

CITY OF HUGO, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

<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	\$ 1,122,799	\$ 533,119	\$ 88,541	\$
Public safety	1,766,538	41,554	92,167	
Highways and streets	2,798,767		161,806	2,424,175
Community development	44,810			
Parks	629,830	24,700		194,280
Interest on long-term debt	245,855			
Total governmental activities	<u>6,608,599</u>	<u>599,373</u>	<u>342,514</u>	<u>2,618,455</u>
Business-Type activities:				
Water and sewer	<u>2,257,189</u>	<u>2,536,840</u>		<u>1,041,058</u>
Total	<u>\$ 8,865,788</u>	<u>\$ 3,136,213</u>	<u>\$ 342,514</u>	<u>\$ 3,659,513</u>

General revenues:

- General property taxes
- Grants and contributions not restricted to specific programs
- Investment earnings
- Net increase (decrease) in fair value of investments
- Miscellaneous

Transfers

 Total general revenues and transfers

Change in net position

Net position - beginning, as originally stated

Restatement due to change in accounting standards (Note 5)

Net position - beginning, as restated

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (501,139)	\$	\$ (501,139)
(1,632,817)		(1,632,817)
(212,786)		(212,786)
(44,810)		(44,810)
(410,850)		(410,850)
(245,855)		(245,855)
<u>(3,048,257)</u>		<u>(3,048,257)</u>
	<u>1,320,709</u>	<u>1,320,709</u>
<u>(3,048,257)</u>	<u>1,320,709</u>	<u>(1,727,548)</u>
5,930,619		5,930,619
12,987		12,987
63,745	74,066	137,811
14,946	17,670	32,616
10,600	225,393	235,993
107,839	(107,839)	
<u>6,140,736</u>	<u>209,290</u>	<u>6,350,026</u>
<u>3,092,479</u>	<u>1,529,999</u>	<u>4,622,478</u>
36,569,314	34,306,987	70,876,301
<u>(666,071)</u>	<u>(222,740)</u>	<u>(888,811)</u>
<u>35,903,243</u>	<u>34,084,247</u>	<u>69,987,490</u>
<u>\$ 38,995,722</u>	<u>\$ 35,614,246</u>	<u>\$ 74,609,968</u>

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CITY OF HUGO, MINNESOTA
FUND FINANCIAL STATEMENTS
December 31, 2015

**CITY OF HUGO, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015**

	Debt Service Fund		Capital Project Fund		Other Governmental Funds	Total
	General	General Obligation Bonds	Public Improvements	Property and Equipment Acquisition		
Assets						
Cash and investments	\$ 3,944,268	\$ 3,098,443	\$ 3,401,552	\$ 4,486,723	\$ 2,254,554	\$ 17,185,540
Receivables (Net of Allowance for Uncollectibles)						
Accounts	12,536					12,536
Accrued interest	1,822	1,240	1,814	2,140	1,060	8,076
Taxes	92,258	18,418	7,440	1,935	2,319	122,370
Special assessments		674,449	606,101			1,280,550
Due from other governmental units	59,051	2,397,500	176,952			2,633,503
TOTAL ASSETS	\$ 4,109,935	\$ 6,190,050	\$ 4,193,859	\$ 4,490,798	\$ 2,257,933	\$ 21,242,575
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Liabilities						
Accounts payable	\$ 101,425	\$	\$ 10,882	\$ 172	\$	\$ 112,479
Unearned revenue	1,009,509					1,009,509
Salaries payable	29,883					29,883
Due to other governmental units	454,146					454,146
Total Liabilities	1,594,963		10,882	172		1,606,017
Deferred Inflows of Resources						
Unavailable revenue:						
Property taxes	92,258	18,418	7,440	1,935	2,319	122,370
Special assessments		674,449	606,101			1,280,550
Due from other governmental units		2,397,500				2,397,500
Total Deferred Inflows of Resources	92,258	3,090,367	613,541	1,935	2,319	3,800,420
Fund Balance						
Fund Balance						
Restricted		3,099,683			379,181	3,478,864
Committed					1,814,672	1,814,672
Assigned			3,569,436	4,488,691	61,761	8,119,888
Unassigned	2,422,714					2,422,714
Total Fund Balance	2,422,714	3,099,683	3,569,436	4,488,691	2,255,614	15,836,138
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 4,109,935	\$ 6,190,050	\$ 4,193,859	\$ 4,490,798	\$ 2,257,933	\$ 21,242,575

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, 2015**

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

Total governmental fund balances (page 18)		\$ 15,836,138
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 45,564,174	
Less: Accumulated depreciation	<u>(16,362,386)</u>	29,201,788
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 122,370	
Deferred and delinquent special assessments	1,280,550	
Due from other governmental units	<u>2,397,500</u>	3,800,420
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	\$ (8,795,000)	
Net pension liability (asset), deferred outflows and inflows from pension activity	(681,476)	
Compensated absences	(302,104)	
Accrued interest	(56,457)	
Unamortized bond premiums and discounts	<u>(7,587)</u>	<u>(9,842,624)</u>
Net position of governmental activities (page 15)		<u><u>\$ 38,995,722</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, 2015

	General	Debt Service Fund	Capital Project Fund		Other Governmental Funds	Total
		General Obligation Bonds	Public Improvements	Property and Equipment Acquisition		
Revenues						
Property taxes	\$ 4,300,660	\$ 758,503	\$ 600,641	\$ 105,555	\$ 203,956	\$ 5,969,315
Special assessments		173,382	758,790			932,172
Licenses and permits	297,071					297,071
Intergovernmental revenues	186,039	488,859	639,946	259	303	1,315,406
Charges for services	207,890					207,890
Court fines	41,554					41,554
Other Revenue						
Investment earnings	14,015	10,566	12,792	18,249	8,123	63,745
Net increase in the fair value of investments	3,343	2,261	3,051	4,353	1,938	14,946
Rent	7,490			8,100	8,950	24,540
Miscellaneous	37,523		22,980	4,800	171,300	236,603
Total Revenues	5,095,585	1,433,571	2,038,200	141,316	394,570	9,103,242
Expenditures						
Current:						
General government	979,788					979,788
Public safety	1,571,184					1,571,184
Highways and streets	1,204,844					1,204,844
Community development	43,498					43,498
Parks	337,316					337,316
Unallocated	137,210					137,210
Capital outlay			1,429,020	509,960	72,131	2,011,111
Bond principal retirement		7,070,000				7,070,000
Interest on bonds		272,283				272,283
Fiscal charges and other		11,975				11,975
Total Expenditures	4,273,840	7,354,258	1,429,020	509,960	72,131	13,639,209
Excess (deficiency) of revenues over (under) expenditures	821,745	(5,920,687)	609,180	(368,644)	322,439	(4,535,967)
Other Financing Sources (Uses)						
Sale of capital assets				1,655		1,655
Transfers in		217,264	26,944	672,424	43,056	959,688
Transfers out	(715,480)	(26,944)			(109,425)	(851,849)
Total Other Financing Sources (Uses)	(715,480)	190,320	26,944	674,079	(66,369)	109,494
Net change in fund balances	106,265	(5,730,367)	636,124	305,435	256,070	(4,426,473)
FUND BALANCES, beginning	2,316,449	8,830,050	2,933,312	4,183,256	1,999,544	20,262,611
FUND BALANCES, ending	\$ 2,422,714	\$ 3,099,683	\$ 3,569,436	\$ 4,488,691	\$ 2,255,614	\$ 15,836,138

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, 2015

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

Net change in fund balances - total governmental funds (page 20)		\$ (4,426,473)
<p>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.</p>		
Capital outlay-capitalized	\$ 1,595,836	
Depreciation expense	<u>(1,301,107)</u>	294,729
Infrastructure is contributed from developers to governmental activities. The amounts affect governmental net position but do not affect fund balance.		1,150,330
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.		(353,778)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Unavailable revenue, End of year	\$ 3,800,420	
Unavailable revenue, Beginning of year	<u>(4,462,408)</u>	(661,988)
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		(3,339)
<p>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.</p>		
Principal retirement on long-term debt	\$ 7,070,000	
Change in net pension liability	(15,405)	
Change in accrued interest	113,987	
Change in bond discounts and premium	<u>(75,584)</u>	7,092,998
Change in net position of governmental activities (pages 16 and 17)		<u><u>\$ 3,092,479</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, 2015**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
General Property Taxes				
Ad Valorem	\$ 4,129,940	\$ 4,129,940	\$ 4,151,782	\$ 21,842
Franchise	145,085	145,085	148,878	3,793
Total General Property Taxes	<u>4,275,025</u>	<u>4,275,025</u>	<u>4,300,660</u>	<u>25,635</u>
Licenses and Permits				
Business	17,340	17,340	17,925	585
Nonbusiness	86,843	86,843	279,146	192,303
Total Licenses and Permits	<u>104,183</u>	<u>104,183</u>	<u>297,071</u>	<u>192,888</u>
Intergovernmental Revenues				
Homestead and other tax credits			10,131	10,131
Fire 2% insurance aid	74,068	74,068	82,540	8,472
State disaster funds			56,714	56,714
Curbside recycling grant	30,280	30,280	30,376	96
Pera rate increase aid	1,451	1,451	1,451	
Other aid and grants	5,000	5,000	4,827	(173)
Total Intergovernmental Revenues	<u>110,799</u>	<u>110,799</u>	<u>186,039</u>	<u>75,240</u>
Charges for Services	<u>62,560</u>	<u>62,560</u>	<u>207,890</u>	<u>145,330</u>
Court Fines	<u>33,450</u>	<u>33,450</u>	<u>41,554</u>	<u>8,104</u>
Miscellaneous Revenues				
Refunds and reimbursements			675	675
Investment earnings	23,500	23,500	14,015	(9,485)
Net increase in the fair value of investments			3,343	3,343
Penalties and interest	9,000	9,000	28,318	19,318
Non-levy related taxes	8,484	8,484	8,530	46
Rental income	5,899	5,899	7,490	1,591
Total Miscellaneous Revenues	<u>46,883</u>	<u>46,883</u>	<u>62,371</u>	<u>15,488</u>
TOTAL REVENUES	<u>\$ 4,632,900</u>	<u>\$ 4,632,900</u>	<u>\$ 5,095,585</u>	<u>\$ 462,685</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, 2015**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
EXPENDITURES				
General Government				
Mayor and Council				
Personal services	\$ 31,500	\$ 31,500	\$ 28,725	\$ 2,775
Other services and charges	3,270	3,270	4,412	(1,142)
Ordinance and proceedings	3,700	3,700	2,897	803
Total Mayor and Council	<u>38,470</u>	<u>38,470</u>	<u>36,034</u>	<u>2,436</u>
Administration				
Personal services	63,930	63,930	64,542	(612)
Supplies	6,985	6,985	5,921	1,064
Other services and charges	43,767	43,767	43,261	506
Professional services	42,024	42,024	40,081	1,943
Capital outlay	2,000	2,000	1,095	905
Total Administration	<u>158,706</u>	<u>158,706</u>	<u>154,900</u>	<u>3,806</u>
Audio/Video				
Personal services	1,425	1,425	1,176	249
Capital outlay	4,000	4,000	740	3,260
Other services and charges	8,216	8,216	5,082	3,134
Total Audio/Video	<u>13,641</u>	<u>13,641</u>	<u>6,998</u>	<u>6,643</u>
Elections				
Supplies			112	(112)
Other services and charges	4,150	4,150	863	3,287
Total Elections	<u>4,150</u>	<u>4,150</u>	<u>975</u>	<u>3,175</u>
Clerk/Treasurer				
Personal services	80,021	80,021	84,300	(4,279)
Supplies	250	250	146	104
Other services and charges	28,473	28,473	26,460	2,013
Total Clerk/Treasurer	<u>\$ 108,744</u>	<u>\$ 108,744</u>	<u>\$ 110,906</u>	<u>\$ (2,162)</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, 2015**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
EXPENDITURES (CONTINUED)				
General Government (Continued)				
Finance Director				
Personal services	\$ 159,257	\$ 159,257	\$ 159,944	\$ (687)
Supplies	1,000	1,000	1,419	(419)
Other services and charges	57,873	57,873	57,179	694
Capital outlay	3,000	3,000	332	2,668
Total Finance Director	<u>221,130</u>	<u>221,130</u>	<u>218,874</u>	<u>2,256</u>
Assessing	<u>76,896</u>	<u>76,896</u>	<u>68,419</u>	<u>8,477</u>
Planning and Zoning				
Personal services	74,749	74,749	71,855	2,894
Supplies	500	500	100	400
Other services and charges	12,918	12,918	12,291	627
Professional services	7,200	7,200	4,200	3,000
Capital outlay	2,000	2,000	332	1,668
Total Planning and Zoning	<u>97,367</u>	<u>97,367</u>	<u>88,778</u>	<u>8,589</u>
Engineering				
Personal services	90,099	90,099	90,642	(543)
Supplies	4,850	4,850	2,842	2,008
Other services and charges	17,113	17,113	16,497	616
Professional services	9,307	9,307	41,046	(31,739)
Capital outlay	3,650	3,650	832	2,818
Total Engineering	<u>125,019</u>	<u>125,019</u>	<u>151,859</u>	<u>(26,840)</u>
Legal Fees	<u>91,906</u>	<u>91,906</u>	<u>71,441</u>	<u>20,465</u>
General Government Building				
Personal services	7,928	7,928	7,400	528
Supplies	6,350	6,350	4,003	2,347
Other services and charges	76,013	76,013	55,001	21,012
Capital outlay	5,000	5,000	4,200	800
Total General Government Building	<u>95,291</u>	<u>95,291</u>	<u>70,604</u>	<u>24,687</u>
Total General Government	<u>\$ 1,031,320</u>	<u>\$ 1,031,320</u>	<u>\$ 979,788</u>	<u>\$ 51,532</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, 2015

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Public Safety				
Police				
Contracted services	\$ 861,751	\$ 861,751	\$ 856,844	\$ 4,907
Fire Protection				
Personal services	221,861	221,861	171,991	49,870
Supplies	25,250	25,250	38,835	(13,585)
Other services and charges	230,488	230,488	212,366	18,122
Capital outlay	1,500	1,500	7,243	(5,743)
Total Fire Protection	479,099	479,099	430,435	48,664
Protective Inspection				
Personal services	194,409	194,409	195,256	(847)
Supplies	500	500	653	(153)
Other services and charges	84,844	84,844	79,285	5,559
Professional services	3,300	3,300	3,828	(528)
Capital outlay	2,000	2,000	664	1,336
Total Protective Inspection	285,053	285,053	279,686	5,367
Animal Control				
Professional services	6,000	6,000	4,219	1,781
Total Public Safety	1,631,903	1,631,903	1,571,184	60,719
Highways and Streets				
Administration and Engineering				
Personal services	451,907	451,907	416,029	35,878
Supplies	441,043	441,043	344,780	96,263
Other services and charges	325,384	325,384	288,025	37,359
Capital outlay	2,500	2,500	12,784	(10,284)
Total Administration and Engineering	1,220,834	1,220,834	1,061,618	159,216
Streets/Recycling	14,702	14,702	15,038	(336)
Street Lighting	151,285	151,285	128,188	23,097
Total Highways and Streets	\$ 1,386,821	\$ 1,386,821	\$ 1,204,844	\$ 181,977

(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, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
EXPENDITURES (CONTINUED)				
Community Development				
Personal services	\$ 20,800	\$ 20,800	\$ 36,181	\$ (15,381)
Other services and charges	5,289	5,289	6,985	(1,696)
Capital outlay			332	(332)
Total Community Development	<u>26,089</u>	<u>26,089</u>	<u>43,498</u>	<u>(17,409)</u>
Parks				
Personal services	218,411	218,411	187,504	30,907
Other services and charges	208,822	208,822	149,569	59,253
Capital outlay	2,000	2,000	243	1,757
Total Parks	<u>429,233</u>	<u>429,233</u>	<u>337,316</u>	<u>91,917</u>
Other Unallocated				
Remittance to Fire Relief Association	74,068	74,068	82,540	(8,472)
Contributions	15,750	15,750	15,345	405
Miscellaneous	37,716	37,716	39,325	(1,609)
Total Other Unallocated	<u>127,534</u>	<u>127,534</u>	<u>137,210</u>	<u>(9,676)</u>
TOTAL EXPENDITURES	<u>4,632,900</u>	<u>4,632,900</u>	<u>4,273,840</u>	<u>359,060</u>
Excess (deficiency) of revenues over (under) expenditures			821,745	821,745
OTHER FINANCING SOURCES (USES)				
Transfers Out			(715,480)	(715,480)
Net Change in Fund Balance			106,265	106,265
FUND BALANCE, beginning	<u>2,316,449</u>	<u>2,316,449</u>	<u>2,316,449</u>	
FUND BALANCE, ending	<u>\$ 2,316,449</u>	<u>\$ 2,316,449</u>	<u>\$ 2,422,714</u>	<u>\$ 106,265</u>

See Notes to Financial Statements

**CITY OF HUGO, MINNESOTA
 PROPRIETARY FUND
 Statement of Net Position
 December 31, 2015**

ASSETS

Current Assets

Cash and cash equivalents	\$ 18,148,180
Receivables	
Accounts receivable	472,242
Accrued interest	9,487
Special assessments (net of allowance for uncollectibles)	237,404
Due from other governmental units	388,388
Deposits	1,500
	<u>19,257,201</u>

Noncurrent Assets

Property and Equipment	
Nondepreciable	307,805
Depreciable	24,674,024
Total Property and Equipment	<u>24,981,829</u>
Less: Accumulated depreciation	<u>8,301,923</u>
Net Property and Equipment	<u>16,679,906</u>
Total Assets	<u>35,937,107</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows from pension activity	<u>31,474</u>
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LIABILITIES

Current Liabilities

Current portion of long-term debt (compensated absences)	21,472
Accounts payable	57,884
Due to other governmental units	10,586
Salaries payable	3,111
Unearned revenue	1,000
	<u>94,053</u>

Long-term Liabilities

Net pension liability	225,519
Compensated absences, net of current portion	2,744
	<u>228,263</u>

Total Liabilities

322,316

DEFERRED INFLOWS OF RESOURCES

Deferred inflows from pension activity	<u>32,019</u>
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NET POSITION

Net investment in capital assets	16,679,906
Unrestricted	18,934,340
	<u>35,614,246</u>
Total Net Position	<u>\$ 35,614,246</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, 2015**

Operating Revenue	
Water charges	\$ 867,847
Meter sales	24,578
Sewer charges	1,104,839
Total Operating Revenues	1,997,264
Operating Expenses	
Personal services	351,248
Engineering	99,177
Electricity	90,595
Repairs and maintenance	537,816
Sewer charges - MCES	471,903
Depreciation	587,412
Miscellaneous	119,038
Total Operating Expenses	2,257,189
Operating (Loss)	(259,925)
Nonoperating Revenue	
Future infrastructure charges	539,576
Rental income	29,404
Intergovernmental revenue	13,124
Investment earnings	74,066
Net increase in the fair value of investments	17,670
Miscellaneous	182,865
Total Nonoperating Revenue	856,705
Net Income Before Transfers and Contributions	596,780
Capital contributions - special assessments	7,161
Noncash capital contributions	1,033,897
Transfers out	(107,839)
Change in net position	1,529,999
Net Position, Beginning, as originally stated	34,306,987
Restatement (Note 5)	(222,740)
Net Position, Beginning, as restated	34,084,247
Net Position, End of Year	\$ 35,614,246

See Notes to Financial Statements

**CITY OF HUGO, MINNESOTA
 PROPRIETARY FUND
 Statement of Cash Flows
 For the Year Ended December 31, 2015**

Cash Flows From Operating Activities	
Cash received from customers	\$ 2,487,751
Cash paid to suppliers	(1,688,529)
Cash paid to employees	(349,540)
Other income	225,393
Net Cash Provided By Operating Activities	675,075
Cash Flows From Noncapital Financing Activities	
Transfers to other funds	(107,839)
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(26,739)
Special assessments and property taxes	41,773
Net Cash Provided By Capital and Related Financing Activities	15,034
Cash Flows From Investing Activities	
Investment earnings received	89,240
Net increase (decrease) in the fair value of investments	17,670
Net Cash Provided By Investing Activities	106,910
Net Increase in Cash and Cash Equivalents	689,180
Cash and Cash Equivalents, Beginning of Year	17,459,000
Cash and Cash Equivalents, End of Year	\$ 18,148,180

**RECONCILIATION OF OPERATING INCOME
 TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating (loss)	\$ (259,925)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	587,412
Change in net pension liability	3,324
Future infrastructure charges, included in nonoperating revenues	539,576
Other income	225,393
(Increase) Decrease In:	
Accounts receivable	(49,089)
Due from other governmental units	(388,388)
Increase (Decrease) In:	
Accounts payable	16,693
Due to other governmental units	1,695
Salaries payable	841
Estimated liability for compensated absences	(2,457)
Net Cash Provided By Operating Activities	\$ 675,075

Noncash Investing, Capital and Financing Activities	
Receipt of contributed property	\$ 1,033,897

See Notes to Financial Statements

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

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 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.

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.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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, 2015 was \$250,175.

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, 2015, the outstanding principal amount of these bonds was \$20,985,000.

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, 2015, the outstanding principal amount of these bonds was \$8,800,000.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.
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, 2015).

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, 2015.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2015 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

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.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (continued)

- (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.

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	\$ 104,480
Certificates of Deposit	March 2016 - March 2018	N/A	3,632,863
Money Market Funds	N/A	Unrated	23,215,724
U.S. Government Securities	January 2018 - December 2020	AAA - AA+*	8,380,653
Total			<u>\$35,333,720</u>

N/A Not applicable or not available

* Where rated

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (continued)

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

Carrying amount of deposits	\$ 104,480
Investments	<u>35,229,240</u>
Total	<u>\$35,333,720</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.

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, 2015 were as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Value</u>
RBC Wealth Management	Money Market Funds	\$ 23,215,724

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (continued)

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, 2015 all investments were insured or registered or the securities were held by the City or its agent in the City's name.

B. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2015 were as follows:

<u>Fund Type</u>	<u>Washington County</u>	<u>Ind. School District #624</u>	<u>State of Minnesota</u>	<u>Total</u>
General	\$ 59,051	\$	\$	\$ 59,051
Debt Service		2,397,500		2,397,500
Capital Project	176,952			176,952
Proprietary			388,388	388,388

Amounts due to other governmental units as of December 31, 2015 were as follows:

<u>Fund Type</u>	<u>Washington County</u>	<u>State of Minnesota</u>	<u>Metropolitan Council</u>	<u>Total</u>
General	\$ 431,282	\$ 3,183	\$ 19,681	\$ 454,146
Proprietary		10,586		10,586

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, 2015 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	\$ 4,578,710	\$ 49,539	\$	\$ 4,628,249
Total capital assets, not being depreciated	<u>4,578,710</u>	<u>49,539</u>		<u>4,628,249</u>
Capital assets, being depreciated:				
Buildings and improvements	6,163,398	74,280		6,237,678
Land Improvements	1,566,117			1,566,117
Infrastructure	25,071,401	2,196,655	539,488	26,728,568
Machinery and equipment	6,231,016	425,692	253,146	6,403,562
Total capital assets, being depreciated	<u>39,031,932</u>	<u>2,696,627</u>	<u>792,634</u>	<u>40,935,925</u>
Less accumulated depreciation for:				
Buildings and improvements	2,271,111	202,665		2,473,776
Land Improvements	968,783	139,344		1,108,127
Infrastructure	8,204,936	586,853	238,869	8,552,920
Machinery and equipment	4,055,305	372,245	199,987	4,227,563
Total accumulated depreciation	<u>15,500,135</u>	<u>1,301,107</u>	<u>438,856</u>	<u>16,362,386</u>
Total capital assets, being depreciated, net	<u>23,531,797</u>	<u>1,395,520</u>	<u>353,778</u>	<u>24,573,539</u>
Governmental activities capital assets, net	<u>\$ 28,110,507</u>	<u>\$ 1,445,059</u>	<u>\$ 353,778</u>	<u>\$ 29,201,788</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

C. Capital Assets (continued)

Business-type activities	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	23,120,520	1,033,896		24,154,416
Machinery and equipment	511,093	26,740	18,225	519,608
Total capital assets, being depreciated	<u>23,631,613</u>	<u>1,060,636</u>	<u>18,225</u>	<u>24,674,024</u>
Less accumulated depreciation for:				
Buildings and improvements	7,372,552	560,258		7,932,810
Machinery and equipment	360,184	27,154	18,225	369,113
Total accumulated depreciation	<u>7,732,736</u>	<u>587,412</u>	<u>18,225</u>	<u>8,301,923</u>
Total capital assets, being depreciated, net	<u>15,898,877</u>	<u>473,224</u>		<u>16,372,101</u>
Business-type activities capital assets, net	<u>\$ 16,206,682</u>	<u>\$ 473,224</u>	<u>\$</u>	<u>\$ 16,679,906</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 79,351
Public safety	142,675
Highways and streets	858,001
Park and recreation	218,446
Economic development/tourism	<u>2,634</u>
Total	<u>\$ 1,301,107</u>

Business-Type Activities:

Sewer and Water	<u>\$ 587,412</u>
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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, 2015 is as follows:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/15</u>
General obligation bonds:				
2007 A Improvement Bonds	10/17/2007	4.00% - 4.15%	2023	\$ 565,000
2009 A Improvement Bonds	7/21/2009	3.00% - 3.875%	2020	485,000
2009 B Tax Abatement Bonds	11/5/2009	2.50% - 3.00%	2020	520,000
2010 Capital Improvement Bonds	8/19/2010	2.00% - 2.50%	2018	395,000
2011 Improvement Bonds	11/9/2011	2.00% - 3.00%	2027	995,000
2013 Crossover Refunding Bonds	3/20/2013	0.50% - 1.15%	2020	5,835,000
Other Liabilities:				
Compensated Absences				326,320
Unamortized premium				25,628
Less: Unamortized (discount)				<u>(18,041)</u>
Total Long-term Debt				<u>\$ 9,128,907</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, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes and Contracts Payable:					
General obligation bonds:					
2004 Capital Improvement Bonds	\$ 1,190,000	\$	\$ 1,190,000	\$	\$
2005 Tax Abatement Bonds	5,375,000		5,375,000		
2007 A Improvement Bonds	645,000		80,000	565,000	80,000
2009 A Improvement Bonds	580,000		95,000	485,000	95,000
2009 B Tax Abatement Bonds	615,000		95,000	520,000	95,000
2010 Capital Improvement Bonds	520,000		125,000	395,000	130,000
2011 Improvement Bonds	1,105,000		110,000	995,000	110,000
2013 Crossover Refunding Bonds	5,835,000			5,835,000	1,060,000
Other Liabilities:					
Compensated Absences	298,765	133,165	129,826	302,104	131,277
Unamortized premium	30,602		4,974	25,628	
Less: Unamortized (discount)	(98,599)		(80,558)	(18,041)	
Governmental Activities					
Long-term Liabilities	<u>16,095,768</u>	<u>133,165</u>	<u>7,124,242</u>	<u>9,104,691</u>	<u>1,701,277</u>
BUSINESS-TYPE ACTIVITIES					
Other Liabilities:					
Compensated Absences	26,673	21,194	23,651	24,216	21,472
Business-Type Activities					
Long-term Liabilities	<u>26,673</u>	<u>21,194</u>	<u>23,651</u>	<u>24,216</u>	<u>21,472</u>
Total	<u>\$ 16,122,441</u>	<u>\$ 154,359</u>	<u>\$ 7,147,893</u>	<u>\$ 9,128,907</u>	<u>\$ 1,722,749</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.

Crossover Refunding

In 2013, the City issued \$5,835,000 General Obligation Refunding Bonds, Series 2013 with interest rates ranging from 0.50 to 1.15%. The bonds were issued to crossover refund General Obligation Bonds, Series 2004A and General Obligation Tax Abatement Bonds, Series 2005A with interest rates of 3.5% - 4.5%. The net proceeds of the refunding bonds were deposited into an irrevocable trust to provide for future debt service payments on the refunded bonds. This advance refunding was undertaken to reduce total debt service payments by \$335,023 over the next 7 years. The net present value of the reduction in debt service payments for this refunding was determined to be \$318,668. The 2004A and 2005A bonds were refunded during 2015.

Debt Service Requirements

Debt service requirements to maturity for long-term debt, excluding compensated absences, as of December 31, 2015 were as follows:

Year	General Obligation Debt	
	Principal	Interest
2016	\$ 1,570,000	\$ 126,235
2017	1,625,000	106,243
2018	1,680,000	83,058
2019	1,615,000	58,403
2020	1,675,000	32,636
2021-2025	540,000	42,026
2026-2027	90,000	2,700
	<u>\$ 8,795,000</u>	<u>\$ 451,301</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Long-Term Debt (continued)

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. 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	\$ 295,992
Current net tax capacity	82,356	245,451
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>	
Outstanding bonds at December 31, 2015	<u>\$</u>	<u>\$</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. 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, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General	\$	\$ 715,480
General Obligation Bonds	217,264	26,944
Property and Equipment Acquisition	672,424	
Public Improvements	26,944	
Non-Major Governmental Funds:		
Compensated Absences	43,056	
Abatement Levy Offset		109,425
Total Governmental Funds	<u>959,688</u>	<u>851,849</u>
Proprietary Funds:		
Water and Sewer Utility Fund		<u>107,839</u>
Total All Funds	<u>\$ 959,688</u>	<u>\$ 959,688</u>

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Fund Equity

The City has committed and assigned portions of fund equity in the governmental funds. A summary at December 31, 2015 is as follows:

	Special Park	Abatement Levy Offset	Compensated Absences	Firefighter's Relief	Public Improvements	Property and Equipment Acquisition
Committed						
Park improvement	\$ 882,275	\$	\$	\$	\$	\$
Bond principal retirement		485,923				
Compensated absences			446,474			
Total Committed	<u>\$ 882,275</u>	<u>\$ 485,923</u>	<u>\$ 446,474</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Assigned						
Municipal contributions to fire relief	\$	\$	\$	\$ 61,761	\$	\$
Public improvements					3,569,436	
Property and equipment acquisition						4,488,691
Total Assigned	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>61,761</u>	<u>3,569,436</u>	<u>4,488,691</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, 2015 is as follows:

<u>Specific Purpose</u>	<u>Restriction Imposed By</u>			
	<u>Contributors</u>	<u>Grantors</u>	<u>Creditors</u>	<u>Regulations</u>
Restricted Fund Balance				
Debt Service Funds:				
Debt service requirements	\$	\$	\$ 3,099,683	\$
TIF Capital Project Fund:				
Tax increment financing plan				379,181
Total Restricted Fund Balance	<u>\$</u>	<u>\$</u>	<u>\$ 3,099,683</u>	<u>\$ 379,181</u>
Restricted Net Position				
Debt service requirements	\$	\$	\$ 6,190,050	\$
Tax increment financing plan				379,181
Total Restricted Net Position	<u>\$</u>	<u>\$</u>	<u>\$ 6,190,050</u>	<u>\$ 379,181</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, 2015. 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 Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. 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.

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)

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. 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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

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 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERS for the year ended December 31, 2015 were \$111,569. The City's contributions were equal to the required contributions as set by state statute.

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

At December 31, 2015, the City reported a liability of \$1,269,717 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was .0245% at the end of the measurement period and .0278% for the beginning of the period.

For the year ended December 31, 2015, the City recognized pension expense of \$169,250 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERF'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	\$	\$ 64,015
Difference between projected and actual investment earnings	120,198	
Changes in proportion		116,263
Contributions paid to PERA subsequent to the measurement date	<u>57,006</u>	
Total	<u>\$ 177,204</u>	<u>\$ 180,278</u>

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)

\$57,006 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, 2016. Other 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>
2016	\$ (30,042)
2017	(30,042)
2018	(30,044)
2019	30,049

D. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period from July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. There were no changes in actuarial assumptions 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 long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

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

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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

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, 2015, the plan covered 27 active firefighters and 10 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, 2015 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 \$3,200 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 \$81,540 in state aid to the plan on behalf of the Association for the year ended December 31, 2015, 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 2015, 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, 2015, the City reported a net pension asset of \$374,237 for the plan. The net pension asset was measured as of December 31, 2015. 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, 2015.

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 12/31/14	\$ 721,352	\$ 1,111,300	\$ (389,948)
Changes for the Year			
Service cost	29,535		29,535
Interest on pension liability	48,691		48,691
Plan changes	12,058		12,058
Net investment income		3,233	(3,233)
Contributions (state)		81,540	(81,540)
Administrative expenses		(10,200)	10,200
Net Changes	90,284	74,573	15,711
Balance End of Year 12/31/15	\$ 811,636	\$ 1,185,873	\$ (374,237)

For the year ended December 31, 2015, the City recognized pension expense (benefit) of \$(63,069).

At December 31, 2015, 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	\$	\$ 8,986
Total	\$	\$ 8,986

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>
2016	\$ (2,247)
2017	(2,247)
2018	(2,247)
2019	(2,245)

E. Actuarial Assumptions

The total pension liability at December 31, 2015 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 6.75%
- Inflation rate 4.0%

There were no changes in actuarial assumptions in 2015.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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 (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
Net pension liability (asset) \$	(352,125)	\$ (374,237)	\$ (393,945)

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	7.00%	2.00%
Fixed income	27.00%	4.75%
Equities	<u>66.00%</u>	<u>8.00%</u>
Total	100%	6.75%

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

The Plan made no significant changes to their investment policy during the year.

I. Pension Plan Fiduciary Net Position

Detailed information about the Hugo Firefighter's Relief Association plan's fiduciary net position as of December 31, 2015 is available in a separately-issued financial report that includes financial statements and required supplementary information.

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, 2015.

CITY OF HUGO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Change in Accounting Standards

During the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The cumulative effect of applying these statements is reported as a restatement of beginning net position.

Following is a reconciliation of the previously reported December 31, 2014 balances with the amounts reported on the December 31, 2015 financial statements:

Activities/Fund	Net Position December 31, 2014 as Previously Reported	Restatement for Net Pension Liability	Net Position December 31, 2014 as Restated
Governmental Activities	<u>\$ 36,569,314</u>	<u>\$ (666,071)</u>	<u>\$ 35,903,243</u>
Business-Type Activities	<u>\$ 34,306,987</u>	<u>\$ (222,740)</u>	<u>\$ 34,084,247</u>
Proprietary Fund Water and Sewer Utility Fund	<u>\$ 34,306,987</u>	<u>\$ (222,740)</u>	<u>\$ 34,084,247</u>

CITY OF HUGO, MINNESOTA
REQUIRED SUPPLMENETARY INFORMATION
December 31, 2015

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CITY OF HUGO
Schedule of City Contributions
PERA General Employees Retirement Fund
December 31, 2015

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

CITY OF HUGO
Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund
December 31, 2015

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) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF HUGO, MINNESOTA
Schedule of Funding Progress for the Fire Relief Association
December 31, 2015

<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>
12/31/15	\$ 811,636	\$ 1,185,873	\$ (374,237)

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

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$	\$
Actual contributions paid	<u> </u>	<u> </u>
Contributions deficiency (excess)	<u><u>\$</u></u>	<u><u>\$</u></u>

CITY OF HUGO, MINNESOTA
COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES
December 31, 2015

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CITY OF HUGO, MINNESOTA

NONMAJOR FUNDS

December 31, 2015

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, 2015**

	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	
Assets						
Cash and investments	\$ 881,899	\$ 61,735	\$ 379,000	\$ 485,660	\$ 446,260	\$ 2,254,554
Receivables (Net of Allowance for Uncollectibles)						
Accrued interest	376	26	181	263	214	1,060
Taxes - delinquent	2,030	289				2,319
TOTAL ASSETS	<u>\$ 884,305</u>	<u>\$ 62,050</u>	<u>\$ 379,181</u>	<u>\$ 485,923</u>	<u>\$ 446,474</u>	<u>\$ 2,257,933</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Deferred Inflows of Resources						
Unavailable revenue:						
Property Taxes	\$ 2,030	\$ 289				\$ 2,319
Fund Balance						
Fund Balance						
Restricted			379,181			379,181
Committed	882,275			485,923	446,474	1,814,672
Assigned		61,761				61,761
Total Fund Balance	<u>882,275</u>	<u>61,761</u>	<u>379,181</u>	<u>485,923</u>	<u>446,474</u>	<u>2,255,614</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 884,305</u>	<u>\$ 62,050</u>	<u>\$ 379,181</u>	<u>\$ 485,923</u>	<u>\$ 446,474</u>	<u>\$ 2,257,933</u>

CITY OF HUGO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	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	
REVENUES						
Property taxes	\$ 106,683	\$ 17,132	\$ 80,141	\$	\$	\$ 203,956
Intergovernmental revenues	262	41				303
Other Revenue						
Investment earnings	2,759	137	1,458	2,084	1,685	8,123
Net increase in the fair value of investments	658	33	348	497	402	1,938
Rent	8,950					8,950
Miscellaneous	171,300					171,300
TOTAL REVENUES	290,612	17,343	81,947	2,581	2,087	394,570
EXPENDITURES						
Capital Outlay	6,018		66,113			72,131
Excess (deficiency) of revenues over (under) expenditures	284,594	17,343	15,834	2,581	2,087	322,439
OTHER FINANCING SOURCES (USES)						
Transfers in					43,056	43,056
Transfers out				(109,425)		(109,425)
Net change in fund balances	284,594	17,343	15,834	(106,844)	45,143	256,070
FUND BALANCES, beginning	597,681	44,418	363,347	592,767	401,331	1,999,544
FUND BALANCES, ending	\$ 882,275	\$ 61,761	\$ 379,181	\$ 485,923	\$ 446,474	\$ 2,255,614

**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, 2015**

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 106,578	\$ 106,578	\$ 106,683	\$ 105
Intergovernmental revenues			262	262
Other revenues				
Investment earnings			2,759	2,759
Net increase in the fair value of investments			658	658
Rent	8,950	8,950	8,950	
Developer fees			171,300	171,300
Total Revenues	<u>115,528</u>	<u>115,528</u>	<u>290,612</u>	<u>175,084</u>
EXPENDITURES				
Unallocated				
Capital Outlay				
Bernin Property	4,908	4,908	4,035	873
Lions Park	100,000	100,000	1,381	98,619
Property taxes	602	602	602	
Total Expenditures	<u>105,510</u>	<u>105,510</u>	<u>6,018</u>	<u>99,492</u>
Net Change in Fund Balances	10,018	10,018	284,594	274,576
Fund Balance, January 1	<u>597,681</u>	<u>597,681</u>	<u>597,681</u>	
Fund Balance, December 31	<u><u>\$ 607,699</u></u>	<u><u>\$ 607,699</u></u>	<u><u>\$ 882,275</u></u>	<u><u>\$ 274,576</u></u>

**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, 2015**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 17,157	\$ 17,157	\$ 17,132	\$ (25)
Intergovernmental revenues			41	41
Other revenues				
Investment earnings			137	137
Net increase in the fair value of investments			33	33
Total Revenues	<u>17,157</u>	<u>17,157</u>	<u>17,343</u>	<u>186</u>
Net Change in Fund Balances	17,157	17,157	17,343	186
Fund Balance, January 1	<u>44,418</u>	<u>44,418</u>	<u>44,418</u>	
Fund Balance, December 31	<u>\$ 61,575</u>	<u>\$ 61,575</u>	<u>\$ 61,761</u>	<u>\$ 186</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, 2015

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 84,329	\$ 84,329	\$ 80,141	\$ (4,188)
Other revenues				
Investment earnings			1,458	1,458
Net increase in the fair value of investments			348	348
Total Revenues	84,329	84,329	81,947	(2,382)
EXPENDITURES				
Capital Outlay				
TIF note payments	67,463	67,463	65,788	1,675
Miscellaneous	370	370	325	45
Total Expenditures	67,833	67,833	66,113	1,720
Net Change in Fund Balances	16,496	16,496	15,834	(662)
Fund Balance, January 1	363,347	363,347	363,347	
Fund Balance, December 31	\$ 379,843	\$ 379,843	\$ 379,181	\$ (662)

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, 2015

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Other revenues				
Investment earnings	\$	\$	\$ 2,084	\$ 2,084
Net increase in the fair value of investments			497	497
Total Revenues			<u>2,581</u>	<u>2,581</u>
Other Financing Sources (Uses)				
Transfers out	(109,425)	(109,425)	(109,425)	
Net Change in Fund Balances	(109,425)	(109,425)	(106,844)	2,581
Fund Balance, January 1	592,767	592,767	592,767	
Fund Balance, December 31	<u>\$ 483,342</u>	<u>\$ 483,342</u>	<u>\$ 485,923</u>	<u>\$ 2,581</u>

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 753,245	\$ 753,245	\$ 758,503	\$ 5,258
Special assessments	130,925	130,925	173,382	42,457
Intergovernmental revenue	487,013	487,013	488,859	1,846
Other revenues				
Investment earnings	6,547	6,547	10,566	4,019
Net increase in the fair value of investments			2,261	2,261
Total Revenues	1,377,730	1,377,730	1,433,571	55,841
EXPENDITURES				
Debt service				
Principal retirement	7,070,000	7,070,000	7,070,000	
Interest on bonds	272,283	272,283	272,283	
Fiscal charges	25,350	25,350	11,975	13,375
Total Expenditures	7,367,633	7,367,633	7,354,258	13,375
Excess (deficiency) of revenues over (under) expenditures	(5,989,903)	(5,989,903)	(5,920,687)	69,216
OTHER FINANCING SOURCES (USES)				
Transfers in	217,264	217,264	217,264	
Transfers out	(26,700)	(26,700)	(26,944)	(244)
TOTAL OTHER FINANCING SOURCES (USES)	190,564	190,564	190,320	(244)
Net Change in Fund Balances	(5,799,339)	(5,799,339)	(5,730,367)	68,972
Fund Balance, January 1	8,830,050	8,830,050	8,830,050	
Fund Balance, December 31	\$ 3,030,711	\$ 3,030,711	\$ 3,099,683	\$ 68,972

**CITY OF HUGO, MINNESOTA
COMPENSATED ABSENCES
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Other revenues				
Investment earnings	\$	\$	\$ 1,685	\$ 1,685
Net increase in the fair value of investments			402	402
Total Revenues			2,087	2,087
OTHER FINANCING SOURCES				
Transfers in			43,056	43,056
Net Change in Fund Balances			45,143	45,143
Fund Balance, January 1	401,331	401,331	401,331	
Fund Balance, December 31	\$ 401,331	\$ 401,331	\$ 446,474	\$ 45,143

Note: The City adopted a \$0 activity budget in this fund for the year ended December 31, 2015.

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, 2015

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 105,535	\$ 105,535	\$ 105,555	\$ 20
Intergovernmental			259	259
Other revenues				
Investment earnings			18,249	18,249
Net increase in the fair value of investments			4,353	4,353
Rent	10,800	10,800	8,100	(2,700)
Miscellaneous			4,800	4,800
Total Revenues	116,335	116,335	141,316	24,981
EXPENDITURES				
Capital outlay				
Property and equipment acquisition	379,500	379,500	502,735	(123,235)
Miscellaneous	9,086	9,086	7,225	1,861
Total Expenditures	388,586	388,586	509,960	(121,374)
Excess (deficiency) of revenues over (under) expenditures	(272,251)	(272,251)	(368,644)	(96,393)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets			1,655	1,655
Transfers in			672,424	672,424
Total Other Financing Sources (Uses)			674,079	674,079
Excess (Deficit) Financing Sources Over Uses	(272,251)	(272,251)	305,435	577,686
Fund Balance, January 1	4,183,256	4,183,256	4,183,256	
Fund Balance, December 31	\$ 3,911,005	\$ 3,911,005	\$ 4,488,691	\$ 577,686

**CITY OF HUGO, MINNESOTA
 PROPRIETARY FUND
 Schedule of Revenues and Expenses - By Department
 For the Year Ended December 31, 2015**

	Water and Sewer Utility Fund			Totals
	Water Department	Sewer Department	Construction Department	
Operating Revenue				
Sale of water	\$ 867,847	\$	\$	\$ 867,847
Meter sales	24,578			24,578
Sewer charges		1,104,839		1,104,839
Total Operating Revenues	<u>892,425</u>	<u>1,104,839</u>		<u>1,997,264</u>
Operating Expenses				
Personal services	175,626	175,622		351,248
Engineering	5,274		93,903	99,177
Electricity	82,429	8,166		90,595
Repairs and maintenance	174,464	48,775	314,577	537,816
Sewer charges - MCES		471,903		471,903
Depreciation	361,074	226,338		587,412
Miscellaneous	63,325	54,931	782	119,038
Total Operating Expenses	<u>862,192</u>	<u>985,735</u>	<u>409,262</u>	<u>2,257,189</u>
Operating Income (Loss)	<u>\$ 30,233</u>	<u>\$ 119,104</u>	<u>\$ (409,262)</u>	<u>(259,925)</u>
Other Revenue (Expense)				
Future infrastructure charges				539,576
Rental income				29,404
Intergovernmental revenue				13,124
Investment earnings				74,066
Net increase in the fair value of investments				17,670
Miscellaneous				182,865
Total Other Revenue (Expense)				<u>856,705</u>
Net Income Before Transfers and Contributions				596,780
Capital contributions - special assessments				7,161
Noncash capital contributions				1,033,897
Transfers				<u>(107,839)</u>
Change in Net Position				<u>\$ 1,529,999</u>

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CITY OF HUGO, MINNESOTA
SUPPLEMENTARY INFORMATION
December 31, 2015

CITY OF HUGO, MINNESOTA
SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS
December 31, 2015

	<u>Interest</u>	<u>Maturity</u>	<u>Book</u>
	Yield		Value
CASH:			
Change funds		Open	\$ 200
Petty cash			50
Checking - US Bank		Open	<u>104,230</u>
 Total Cash			 <u>\$ 104,480</u>
 INVESTMENTS:			
Certificates of Deposit - BMW Bank North America of UT CD	0.700%	03/08/16	200,058
- Synovus Bank of Columbus GA CD	0.500%	03/14/16	199,988
- Capital One Bank USA CD	0.400%	04/28/16	245,000
- Sallie Mae Bank of Murray UT CD	0.400%	04/28/16	245,000
- Cadence Bank of Starkville MS CD	0.400%	07/22/16	245,000
- Ally Bank of Midvale UT CD	0.500%	07/29/16	245,000
- Everbank of Jacksonville FL CD	0.900%	10/17/16	200,128
- Beal Bank of Las Vegas NV CD	0.550%	10/26/16	245,000
- BMO Harris Bank National Association CD	0.550%	10/28/16	244,600
- Goldman Sachs Bank of New York CD	0.550%	10/28/16	144,775
- Merrick Bank South of Jordan UT CD	0.600%	10/28/16	245,000
- Mizuho Bank USA CD	0.500%	10/28/16	243,539
- Comenity Capital Bank of Utah CD	0.600%	11/02/16	244,602
- Goldman Sachs Bank of NY CD	2.050%	01/11/17	101,135
- American Express Centurion Bank CD	0.600%	01/03/17	244,481
- Wells Fargo Bank of North America CD	0.850%	01/31/18	139,484
- JP Morgan Chase Bank of Columbus OH CD	0.750%	03/15/18	200,074
 Total Certificates of Deposit			 <u>\$ 3,632,864</u>
 Money Market Funds - RBC Wealth Management	 0.01%	 Open	 <u>\$23,215,723</u>
Total Money Market Funds			<u>\$23,215,723</u>
 U.S. Government Securities:			
Federal National Mortgage Association	0.875%	01/23/18	609,177
Federal Home Loan Banks	0.750%	05/21/18	497,875
Federal Home Loan Mortgage	0.625%	10/26/18	498,955
Federal National Mortgage Association	1.000%	12/27/18	999,230
Federal Home Loan Mortgage	0.500%	07/30/19	499,970
Federal National Mortgage Association	1.250%	07/30/19	496,920
Federal National Mortgage Association	1.000%	10/29/19	489,720
Federal National Mortgage Association	1.250%	11/21/19	275,204
Federal Home Loan Mortgage	1.125%	12/30/19	498,910
Federal Home Loan Bank	1.500%	02/21/20	137,728
Federal National Mortgage Association	1.250%	06/17/20	499,390
Federal Home Loan Mortgage	1.250%	09/30/20	494,035

CITY OF HUGO, MINNESOTA
SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS
December 31, 2015

	Interest Yield	Maturity	Book Value
U.S. Government Securities (continued):			
Federal Home Loan Mortgage	1.000%	10/29/20	496,605
Federal Home Loan Mortgage	1.125%	10/29/20	395,364
Federal Home Loan Mortgage	1.000%	10/29/20	494,940
Federal Home Loan Mortgage	1.000%	12/28/20	498,745
Federal Home Loan Mortgage	1.500%	12/30/20	<u>497,885</u>
 Total U.S. Government Securities			 <u>\$ 8,380,653</u>
 Total Investments			 <u>\$ 35,229,240</u>
 Total Cash and Investments			 <u><u>\$ 35,333,720</u></u>

**CITY OF HUGO, MINNESOTA
SCHEDULE OF DEBT SERVICE
REQUIREMENTS - ALL FUNDS
DECEMBER 31, 2015**

Year	General Obligation Bonds and Certificates	
	Principal	Interest
2016	\$ 1,570,000	\$ 126,235
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
	\$ 8,795,000	\$ 451,301

**CITY OF HUGO, MINNESOTA
SCHEDULE OF BONDS PAYABLE
DECEMBER 31, 2015**

	<u>Rates</u>	<u>Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Annual Amount</u>	<u>Payment Years</u>	<u>Balance - Beginning of Year</u>	<u>Bonds Retired</u>	<u>Bonds Outstanding - End of Year</u>	<u>Paying Agent</u>
G.O. Refunding Bonds										
2013 Crossover Refunding Bonds	0.50-1.15	2-1	3/20/2013	2/1/2020	\$ 1,060,000 1,115,000 1,160,000 1,220,000 1,280,000	2016 2017 2018 2019 2020	\$5,835,000	\$	\$ 5,835,000	1
G.O. Special Assessment Bonds										
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	2016-2021 2022 2023 2024-2027	\$1,105,000	\$110,000	\$ 995,000	1
G.O. Property Tax Bonds										
2010 Capital Improvement Bonds	2.00-2.50	2-1; 8-1	8/1/2010	2/1/2018	\$ 130,000 135,000	2016-2017 2018	\$ 520,000	\$125,000	\$ 395,000	1
G.O. Special Assessment Bonds										
2009A Improvement Bonds	3.00-3.875	2-1; 8-1	7/21/2009	2/1/2020	\$ 95,000 100,000	2016-2018 2019-2020	\$ 580,000	\$ 95,000	\$ 485,000	1
G.O. Tax Abatement Bonds										
2009B Tax Abatement Bonds	2.50 - 3.00	2-1; 8-1	11/5/2009	2/1/2020	\$ 95,000 100,000 105,000 110,000	2016 2017 2018 2019-2020	\$ 615,000	\$ 95,000	\$ 520,000	1
G.O. Special Assessment Bonds										
2007A Improvement Bonds	4.00-4.15	2-1; 8-1	10/17/2007	2/1/2023	\$ 80,000 75,000 65,000 45,000	2016 2017-2021 2022 2023	\$ 645,000	\$ 80,000	\$ 565,000	1
Paying Agents: 1 - U.S. Bank Trust							Total Bonds Payable		<u>\$ 8,795,000</u>	

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CITY OF HUGO, MINNESOTA
STATISTICAL SECTION (UNAUDITED)
December 31, 2015

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.

<u>Content</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	83
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	93
Debt Capacity 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.	100
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	108
Operating Information 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.	112

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)

	Fiscal Year		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental activities			
Net investment in capital assets	\$ 26,217,435	\$ 23,454,304	\$ 21,367,621
Restricted	6,569,231	7,022,529	13,519,890
Unrestricted	<u>6,209,056</u>	<u>6,092,481</u>	<u>(1,175,995)</u>
Total governmental activities net position	<u>\$ 38,995,722</u>	<u>\$ 36,569,314</u>	<u>\$ 33,711,516</u>
Business-type activities			
Net investment in capital assets	\$ 16,679,906	\$ 16,206,682	\$ 15,928,980
Restricted			
Unrestricted	<u>18,934,340</u>	<u>18,100,305</u>	<u>16,828,249</u>
Total business-type activities net position	<u>\$ 35,614,246</u>	<u>\$ 34,306,987</u>	<u>\$ 32,757,229</u>
Primary government			
Net investment in capital assets	\$ 42,897,341	\$ 39,660,986	\$ 37,296,601
Restricted	6,569,231	7,022,529	13,519,890
Unrestricted	<u>25,143,396</u>	<u>24,192,786</u>	<u>15,652,254</u>
Total primary government net position	<u>\$ 74,609,968</u>	<u>\$ 70,876,301</u>	<u>\$ 66,468,745</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

2012	2011	2010	2009	2008	2007	2006
\$ 21,481,371	\$ 21,076,493	\$ 22,085,591	\$ 19,521,661	\$ 20,958,423	\$ 19,467,781	\$ 19,252,179
8,465,178	3,380,316					
3,835,653	8,416,890	10,776,350	11,217,879	7,923,894	8,592,657	8,156,742
<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>	<u>\$ 27,408,921</u>
\$ 16,152,741	\$ 15,987,237	\$ 15,946,269	\$ 13,768,023	\$ 13,788,320	\$ 13,380,563	\$ 12,469,727
16,235,027	14,173,388	13,395,948	14,976,026	13,966,966	12,574,574	10,647,500
<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>	<u>\$ 23,117,227</u>
\$ 37,634,112	\$ 37,063,730	\$ 38,031,860	\$ 33,289,684	\$ 34,746,743	\$ 32,848,344	\$ 31,721,906
8,465,178	3,380,316					
20,070,680	22,590,278	24,172,298	26,193,905	21,890,860	21,167,231	18,804,242
<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>	<u>\$ 50,526,148</u>

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

	Fiscal Year		
	2015	2014	2013
Expenses			
Governmental activities:			
General government	\$ 1,122,799	\$ 1,134,472	\$ 1,065,863
Public safety	1,766,538	1,605,641	1,604,478
Highways and streets	2,798,767	1,652,444	2,542,320
Community development	44,810	29,743	30,483
Parks	629,830	695,534	628,316
Interest on long-term debt	245,855	420,400	536,639
Total governmental activities expenses	<u>6,608,599</u>	<u>5,538,234</u>	<u>6,408,099</u>
Business-Type activities:			
Water and sewer	2,257,189	1,980,909	1,914,195
Total primary government expenses	<u>\$ 8,865,788</u>	<u>\$ 7,519,143</u>	<u>\$ 8,322,294</u>
Program Revenues			
Governmental activities:			
Charges for services:			
General government	\$ 533,119	\$ 537,526	\$ 371,013
Public safety	41,554	36,835	31,477
Highways and streets			
Community development			
Parks	24,700	26,407	27,020
Operating grants and contributions	342,514	260,534	779,206
Capital grants and contributions	2,618,455	1,964,258	176,212
Total governmental activities program revenues	<u>3,560,342</u>	<u>2,825,560</u>	<u>1,384,928</u>
Business-type activities:			
Charges for services:			
Water and sewer	2,536,840	2,388,668	2,339,417
Capital grants and contributions	1,041,058	818,017	97,613
Total business-type activities program revenues	<u>3,577,898</u>	<u>3,206,685</u>	<u>2,437,030</u>
Total primary government program revenues	<u>\$ 7,138,240</u>	<u>\$ 6,032,245</u>	<u>\$ 3,821,958</u>

Schedule 2

2012	2011	2010	2009	2008	2007	2006
\$ 1,067,927	\$ 1,053,948	\$ 1,085,789	\$ 1,248,415	\$ 1,539,156	\$ 1,244,357	\$ 1,191,292
1,564,118	1,530,435	1,404,480	1,503,033	1,419,224	1,209,781	1,148,337
2,433,615	2,672,496	4,981,297	2,467,723	2,927,427	3,069,610	2,812,305
28,593	194,508	194,704	202,069	195,102	227,969	235,597
578,792	598,387	548,569	451,118	613,217	552,174	474,421
515,183	494,872	687,954	630,395	645,538	636,428	666,189
<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>	<u>6,528,141</u>
1,720,993	1,922,499	2,101,368	2,162,573	1,743,071	1,600,040	1,840,958
<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>	<u>\$ 8,369,099</u>
\$ 478,209	\$ 292,519	\$ 368,515	\$ 453,546	\$ 1,135,846	\$ 660,862	\$ 997,023
39,092	50,068	56,813	47,892	57,326	62,515	69,679
29,113	36,514	112,433	24,516	17,696	17,097	21,428
741,340	775,350	569,054	778,401	24,258	17,568	273,114
420,143	74,332	3,691,149	841,942	406,259	335,573	3,268,554
<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>	<u>4,629,798</u>
2,784,960	2,276,159	2,337,983	2,544,390	2,775,372	3,296,303	3,424,186
149,899	8,927	66,755	18,501	65,831	22,013	818,052
<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>4,242,238</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>	<u>\$ 8,872,036</u>

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

	Fiscal Year		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net (Expense) Revenue			
Governmental Activities	\$ (3,048,257)	\$ (2,712,674)	\$ (5,023,171)
Business-type activities	1,320,709	1,225,776	522,835
Total primary government net revenue	<u>\$ (1,727,548)</u>	<u>\$ (1,486,898)</u>	<u>\$ (4,500,336)</u>
General Revenues and Other Changes In Net Position			
Governmental activities:			
General property taxes	\$ 5,930,619	\$ 5,169,220	\$ 4,957,502
Grants and contributions not restricted to specific programs	12,987	8,351	7,692
Interest income	63,745	97,122	123,271
Net increase (decrease) in the fair value of investments	14,946	165,934	(249,734)
Miscellaneous	10,600	21,566	9,657
Transfers	107,839	108,279	104,097
Total governmental activities	<u>6,140,736</u>	<u>5,570,472</u>	<u>4,952,485</u>
Business-type activities:			
General property taxes			
Grants and contributions not restricted to specific programs			
Interest income	74,066	98,298	129,708
Net increase (decrease) in the fair value of investments	17,670	194,271	(286,689)
Miscellaneous	225,393	139,692	107,704
Transfers	(107,839)	(108,279)	(104,097)
Total business-type activities	<u>209,290</u>	<u>323,982</u>	<u>(153,374)</u>
Total primary government	<u>\$ 6,350,026</u>	<u>\$ 5,894,454</u>	<u>\$ 4,799,111</u>
Change in Net Position			
Governmental activities	\$ 3,092,479	\$ 2,857,798	\$ (70,686)
Business-type activities	1,529,999	1,549,758	369,461
Total primary government	<u>\$ 4,622,478</u>	<u>\$ 4,407,556</u>	<u>\$ 298,775</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)**

2012	2011	2010	2009	2008	2007	2006
\$ (4,480,331)	\$ (5,315,863)	\$ (4,104,829)	\$ (4,356,456)	\$ (5,629,861)	\$ (4,692,248)	\$ (1,898,343)
1,213,866	362,587	303,370	400,318	1,098,132	1,718,276	2,401,280
<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>	<u>\$ 502,937</u>
\$ 5,164,809	\$ 5,254,269	\$ 5,770,883	\$ 5,506,486	\$ 5,330,462	\$ 4,808,497	\$ 3,792,821
9,278	3,753	3,770	213,564	443,941	214,033	59,883
117,355	173,136	338,671	380,820	555,189	598,016	584,561
40,171	67,721	9,093	8,101	7,875	56,060	8,181
104,475	(171,258)	104,813	104,708	114,273	(332,841)	(516,498)
<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>	<u>3,928,948</u>
		5,033	141,153	140,422	140,036	210,764
 			7,181	25,504	9,734	3,602
119,149	190,576	300,479	451,949	609,365	544,584	387,667
998,603	93,987	94,099	92,870	40,999	92,440	73,357
(104,475)	171,258	(104,813)	(104,708)	(114,273)	332,841	516,498
<u>1,013,277</u>	<u>455,821</u>	<u>294,798</u>	<u>588,445</u>	<u>702,017</u>	<u>1,119,635</u>	<u>1,191,888</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>	<u>\$ 5,120,836</u>
\$ 955,757	\$ 11,758	\$ 2,122,401	\$ 1,857,223	\$ 821,879	\$ 651,517	\$ 2,030,605
2,227,143	818,408	598,168	988,763	1,800,149	2,837,911	3,593,168
<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>	<u>\$ 5,623,773</u>

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
General fund					
Unreserved	\$	\$	\$	\$	\$
Unassigned	<u>2,422,714</u>	<u>2,316,449</u>	<u>2,186,178</u>	<u>2,109,985</u>	<u>2,160,273</u>
Total general fund	<u>2,422,714</u>	<u>2,316,449</u>	<u>2,186,178</u>	<u>2,109,985</u>	<u>2,160,273</u>
All other governmental funds					
Reserved					
Unreserved, reported in:					
Special revenue funds					
Debt service funds					
Capital projects funds					
Restricted	3,478,864	9,193,397	9,567,219	3,940,302	3,380,316
Committed	1,814,672	1,591,779	1,432,846	1,518,457	714,894
Assigned	<u>8,119,888</u>	<u>7,160,986</u>	<u>6,943,377</u>	<u>6,716,756</u>	<u>7,679,292</u>
Total all other governmental funds	<u>13,413,424</u>	<u>17,946,162</u>	<u>17,943,442</u>	<u>12,175,515</u>	<u>11,774,502</u>
Total governmental funds	<u>\$ 15,836,138</u>	<u>\$ 20,262,611</u>	<u>\$ 20,129,620</u>	<u>\$ 14,285,500</u>	<u>\$ 13,934,775</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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 2,181,107	\$ 2,111,128	\$ 2,067,361	\$ 1,947,046	\$ 1,812,789
<u>2,181,107</u>	<u>2,111,128</u>	<u>2,067,361</u>	<u>1,947,046</u>	<u>1,812,789</u>
	100,000	251,142	837,142	
436,572	1,806,400	610,038	1,566,606	1,525,221
3,168,547	2,895,071	2,164,718	1,636,187	1,386,953
6,820,406	6,930,513	5,586,276	5,063,294	6,610,066
<hr/>				
<u>10,425,525</u>	<u>11,731,984</u>	<u>8,612,174</u>	<u>9,103,229</u>	<u>9,522,240</u>
<u>\$ 12,606,632</u>	<u>\$ 13,843,112</u>	<u>\$ 10,679,535</u>	<u>\$ 11,050,275</u>	<u>\$ 11,335,029</u>

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues					
Property taxes	\$ 5,969,315	\$ 5,180,422	\$ 5,005,479	\$ 5,318,041	\$ 5,223,887
Special assessments	932,172	345,508	290,505	406,071	624,953
Licenses and permits	297,071	248,642	213,255	302,752	167,373
Intergovernmental revenues	1,315,406	1,206,757	1,003,735	769,373	792,938
Charges for services	207,890	248,497	145,558	159,122	120,308
Court fines	41,554	36,835	31,477	39,092	50,068
Other Revenue					
Investment earnings	63,745	97,122	123,271	117,355	173,782
Net change in the fair value of investments	14,946	165,934	(249,734)		
Developer fees		404,041			
Land sales					
Rent	24,540	31,976	19,525	16,765	24,364
Insurance settlement					
Miscellaneous	236,603	326,104	240,127	202,573	204,763
Total Revenues	<u>9,103,242</u>	<u>8,291,838</u>	<u>6,823,198</u>	<u>7,331,144</u>	<u>7,382,436</u>
EXPENDITURES					
General government	979,788	986,220	973,069	958,965	900,935
Public safety	1,571,184	1,420,115	1,375,303	1,355,607	1,333,944
Highways and streets	1,204,844	1,204,207	1,199,078	1,157,640	1,166,248
Community development	43,498	20,345	17,515	22,797	181,021
Parks	337,316	349,113	321,655	317,301	297,422
Unallocated	137,210	124,799	134,590	104,377	119,753
Debt service					
Bond principal retirement	7,070,000	1,570,000	1,515,000	1,260,000	1,120,000
Interest on bonds	272,283	450,981	430,069	463,374	476,157
Miscellaneous					
Fiscal charges	11,975	5,776	9,102	48,967	52,333
Issuance costs			59,468		
Advance refunding escrow					
Capital outlay	<u>2,011,111</u>	<u>2,135,570</u>	<u>855,610</u>	<u>1,403,591</u>	<u>1,575,007</u>
Total Expenditures	<u>13,639,209</u>	<u>8,267,126</u>	<u>6,890,459</u>	<u>7,092,619</u>	<u>7,222,820</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,535,967)</u>	<u>24,712</u>	<u>(67,261)</u>	<u>238,525</u>	<u>159,616</u>
OTHER FINANCING SOURCES (USES)					
Issuance of debt			5,835,000		1,325,000
Premium (Discount) on issuance of debt			(27,716)		5,185
Payment to bond escrow agent				7,725	9,600
Sale of property	1,655			7,725	9,600
Transfers in	959,688	1,029,021	518,621	2,076,262	705,068
Transfers out	(851,849)	(920,742)	(414,524)	(1,971,787)	(876,326)
Total other financing sources (uses)	<u>109,494</u>	<u>108,279</u>	<u>5,911,381</u>	<u>112,200</u>	<u>1,168,527</u>
Net change in fund balances	<u>\$ (4,426,473)</u>	<u>\$ 132,991</u>	<u>\$ 5,844,120</u>	<u>\$ 350,725</u>	<u>\$ 1,328,143</u>
Debt service as a percentage of noncapital expenditures	60.97%	34.93%	29.42%	29.40%	25.82%

Schedule 4

	2010	2009	2008	2007	2006
\$	5,563,298	\$ 5,474,995	\$ 5,278,287	\$ 4,722,736	\$ 3,789,592
	316,848	536,069	330,382	634,279	104,306
	210,829	348,343	1,022,525	470,342	644,846
	3,372,522	1,345,592	840,100	834,501	1,544,215
	146,107	86,072	153,692	169,830	244,965
	56,813	47,762	57,026	61,505	68,469
	338,671	380,820	555,189	598,016	584,561
		7,752	44,343	37,093	519,176
	29,310	30,697	31,238	34,887	54,798
	361,557	33,136	35,694	71,270	72,020
	10,395,955	8,291,238	8,348,476	7,634,459	67,651
					7,694,599
	911,625	964,806	1,336,479	1,017,392	888,432
	1,195,244	1,300,168	1,236,755	1,021,815	1,010,965
	1,307,156	1,073,741	1,264,979	1,045,845	892,129
	183,342	175,409	157,234	167,518	156,208
	252,874	182,051	161,881	167,084	56,566
	109,741	100,323	94,055	90,862	142,926
					806,865
	2,425,000	785,000	700,000	950,000	734,359
	676,857	608,321	631,185	625,731	54,805
					6,364
	48,463	29,403	5,643	6,064	
	225,080				
	4,832,777	2,600,215	3,245,278	3,771,751	4,276,786
	12,168,159	7,819,437	8,833,489	8,864,062	9,026,405
	(1,772,204)	471,801	(485,013)	(1,229,603)	(1,331,806)
	1,340,000	2,570,000		1,270,000	156,000
	20,772	17,068		7,690	
	(929,861)				
	2,333,972	1,478,522	2,429,789	1,018,776	661,519
	(2,229,159)	(1,373,814)	(2,315,516)	(1,351,617)	(1,178,017)
	535,724	2,691,776	114,273	944,849	(360,498)
\$	(1,236,480)	\$ 3,163,577	\$ (370,740)	\$ (284,754)	\$ (1,692,304)
	30.31%	23.00%	19.40%	21.22%	32.45%

**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				
2006	\$ 1,133,074,000	\$ 10,826,524	\$ 229,117	\$ 11,055,641	\$ 10,048,262	35.826	% 0.01
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

(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
2006	26.012 %	6.924 %	32.936 %	28.902 %	6.924 %	35.826 %	14.060 - 23.075	% 26.968 %	1.794 - 4.408 %	2.427 %	78.185 - 92.704 %
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

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)	2015			2006		
	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	\$ 349,912	1	2.40 %	\$ 238,800	1	2.38 %
Wilson Tool International	211,040	2	1.45	184,794	2	1.84
Victor Hugo Blvd LLC	169,072	3	1.16			
Schwieters Properties	129,316	4	0.89	102,918	3	1.03
Martin Prop LLC	82,356	5	0.56			
14688 Everton LLC	63,728	6	0.43			
Team Two Investments LLC	60,328	7	0.41			
JWF Victor LLC et al	58,816	8	0.40			
4L LLC	57,238	9	0.39			
Velasco Hugo LLC	56,092	10	0.38			
Pulte Homes of MN Corp				79,067	4	0.79
POA-Scherer LLC				76,285	5	0.76
Woodlands Toy Store LP				74,620	6	0.74
Nor-Lakes Holding Co LLC				51,140	7	0.51
Pratt Investment Company				50,992	8	0.51
MN Pipeline Co				39,583	9	0.40
Oneka Ridge LLC				38,093	10	0.38
TOTAL	<u>\$ 1,237,898</u>		<u>8.47 %</u>	<u>\$ 936,292</u>		<u>9.34 %</u>

(1) Source: Washington County Taxation Division

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**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	
2006	\$ 3,771,811	\$ 3,565,418	\$ 3,495,075	98.03	\$ 70,343
2007	4,652,080	4,424,824	4,282,842	96.79	141,982
2008	5,190,509	4,947,318	4,790,304	96.83	157,014
2009	5,330,059	4,985,828	4,842,016	97.12	139,125
2010	5,218,217	4,932,445	4,742,254	96.14	182,828
2011	4,839,717	4,528,339	4,361,893	96.32	159,106
2012	4,960,596	4,950,356	4,860,849	98.19	73,935
2013	4,750,286	4,740,403	4,659,447	98.29	66,889
2014	4,940,809	4,931,497	4,862,330	98.60	44,869
2015	5,717,021	5,703,010	5,654,146	99.14	

- (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>				
\$	3,565,418	100.00	\$	0.00
	4,424,824	100.00		0.00
	4,947,318	100.00		0.00
	4,981,141	99.91	4,687	0.09
	4,925,082	99.85	7,363	0.15
	4,520,999	99.84	7,340	0.16
	4,934,784	99.69	15,752	0.32
	4,726,336	99.70	14,067	0.30
	4,907,199	99.51	24,298	0.49
	5,654,146	99.14	48,864	0.86

**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>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential	249.290	248.144	282.765	299.950	243.366
Commercial Service	12.334	11.318	11.251	11.616	11.090
Industrial Service	9.534	7.599	7.166	7.211	7.159
Irrigation Service	72.262	54.870	83.198	104.747	73.703
Institutional Service	1.701	1.375	1.720	1.926	1.465
Total gallons	<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	\$ 2.515	\$ 2.519	\$ 2.553	\$ 2.468	\$ 2.553

Sanitary Sewer (in millions of gallons)

<u>Type of Customer</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential	249.290	248.144	282.765	299.950	243.366
Commercial	12.334	11.318	11.251	11.616	11.090
Industrial	9.534	7.599	7.166	7.211	7.159
Institutional	1.701	1.375	1.720	1.926	1.465
Total gallons	<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	\$ 4.049	\$ 3.901	\$ 3.447	\$ 3.435	\$ 4.279

Schedule 9

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
252.179	271.084	243.067	245.376	212.100
11.861	11.462	11.715	7.989	8.956
6.487	6.644	8.291	7.539	6.581
89.290	106.387	72.778	93.495	73.192
2.025	1.488	1.757	2.391	2.520
<u>361.842</u>	<u>397.065</u>	<u>337.608</u>	<u>356.790</u>	<u>303.349</u>
\$ 2.477	\$ 2.541	\$ 2.593	\$ 2.542	\$ 2.559

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
252.179	271.084	243.067	245.376	212.100
11.861	11.462	11.715	7.989	8.956
6.487	6.644	8.291	7.539	6.581
2.025	1.488	1.757	2.391	2.520
<u>272.552</u>	<u>290.678</u>	<u>264.830</u>	<u>263.295</u>	<u>230.157</u>
\$ 3.647	\$ 3.019	\$ 3.282	\$ 2.932	\$ 2.918

**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
2006	\$ 90,000	\$ 1,835,000	\$ 2,260,000		\$ 455,000	\$ 2,363,634	\$ 7,819,488	\$ 14,823,122
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

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

<u>Utility Revenue Bonds</u>	<u>Total Business Activities Debt</u>	<u>Total Primary Government Debt</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 2,480,000	\$ 2,480,000	\$ 17,303,122	0.04	\$ 1,670
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	N/A	613

**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
2006	\$ 90,000	\$ 1,835,000	\$ 2,260,000	\$ 455,000	\$ 2,363,634	\$ 7,819,488	\$ 2,480,000	\$ 17,303,122
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

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
\$ (1,241,609)	\$ 16,061,513	1.42	1,550
(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

CITY OF HUGO, MINNESOTA
COMPUTATION OF DIRECT AND INDIRECT GENERAL OBLIGATION BONDED DEBT
AND LEGAL DEBT MARGIN
December 31, 2015

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ^(a)</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Independent School District #624	\$ 93,420,000	15.07%	\$ 14,078,394
Independent School District #831	30,325,000	3.44%	1,043,180
Independent School District #832	50,740,000	4.62%	2,344,188
Independent School District #834	136,865,000	0.90%	1,231,785
Other debt			
Washington County	164,020,000	5.40%	8,857,080
Regional Transit	206,020,000	0.52%	<u>1,071,304</u>
Subtotal, overlapping debt			28,625,931
City direct debt	8,802,587		<u>8,802,587</u>
Total direct and overlapping debt			<u><u>\$ 37,428,518</u></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.

^(a) 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.

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

	Fiscal Year				
	2015	2014	2013	2012	2011
Debt limit	\$ 43,322	\$ 36,634	\$ 34,940	\$ 36,356	\$ 39,099
Total net debt applicable to limit	<u>809</u>	<u>1,094</u>	<u>1,391</u>	<u>1,767</u>	<u>2,179</u>
Legal debt margin	\$ 42,513	\$ 35,540	\$ 33,549	\$ 34,589	\$ 36,920
Total net debt applicable to the limit as a percentage of debt limit	1.87%	2.99%	3.98%	4.86%	5.57%

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 2015

Taxable Market Value	\$1,444,058,600
Debt Limit (3% of market value)	43,321,758
Debt applicable to limit:	
General obligation bonds	1,435,000
Less: Amount set aside for repayment of general obligation debt	<u>(626,189)</u>
Total net debt applicable to limit	808,811
Legal debt margin	<u>\$ 42,512,947</u>

2010	2009	2008	2007	2006
\$ 42,332	\$ 43,873	\$ 43,092	\$29,411	\$ 22,661
<u>2,537</u>	<u>2,891</u>	<u>3,263</u>	<u>3,740</u>	<u>4,604</u>
\$ 39,795	\$ 40,982	\$ 39,829	\$25,671	\$ 18,057
5.99%	6.59%	7.57%	12.72%	20.32%

**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	
2006	\$ 4,125,009	\$ 1,313,253	\$ 2,811,756	\$ 170,000	\$ 108,615	10.09
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			

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**

YEAR	POPULATION (1)	PERSONAL INCOME (thousands of dollars)	PER CAPITA PERSONAL INCOME (2)	STATE UNEMPLOYMENT RATE (3)	CITY UNEMPLOYMENT RATE (3)
2006	10,361	\$ 474,223	\$ 45,770	4.4	3.6
2007	12,022	565,046	47,001	5.0	4.2
2008	12,573	608,483	48,396	6.3	5.8
2009	13,140	599,184	45,600	7.6	7.1
2010	13,332	624,124	46,814	7.0	6.4
2011	13,536	677,017	50,016	5.8	5.2
2012	13,739	700,923	51,017	5.4	4.9
2013	13,878	719,144	51,819	4.6	4.0
2014	14,201	764,482	53,833	3.6	2.9
2015	14,352	N/A	N/A	3.7	2.8

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>2015</u>			<u>2006</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	402	1	14.3%	520	1	26.7%
JL Schwieters	227	2	8.1%			
Schwieters Companies Inc	109	3	3.9%	105	2	5.4%
Lametti & Sons, Inc.	100	4	3.6%	21	7	1.1%
Festival Foods	99	5	3.5%			
Oneka Elementary School	76	6	2.7%			
Blue Heron Grille	75	7	2.7%			
Northland Pallet	67	8	2.4%			
Glamos Wire/Donner Industries	60	9	2.1%	50	3	2.6%
Wild Wings Game Farm	35	10	1.2%			
Pearson Mechanical				45	4	2.3%
Imperial Tool, Inc.				30	5	1.5%
Nor-Lakes Services				23	6	1.2%
Industrial Painting Specialists				20	8	1.0%
Como Lube				18	9	0.9%
Nor-Lakes Services				15	10	0.8%

(1) Telephone survey of individual employers, June 2016

(2) Telephone survey of individual employers, April 2006

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

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

Function	2015	2014	2013	2012	2011
City Administrator	1.00	1.00	1.00	1.00	1.00
City Clerk	1.00	1.00	1.00	1.00	1.00
Finance	2.00	2.00	2.00	2.00	2.00
Planning and Zoning	1.00	1.00	1.00	1.00	1.00
General Government Buildings	0.00	0.00	0.00	0.00	0.36
Engineering	1.00	1.00	1.00	1.00	1.00
General Government	<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
Building Inspections	3.00	3.00	3.00	3.00	3.00
Public Safety	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>	<u>5.50</u>
Streets and Roadways	6.34	6.34	6.34	6.34	6.34
Public Works	<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
Parks and Recreation	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>	<u>4.52</u>
Community Development	1.50	0.50	0.50	0.50	2.00
	<u>1.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>2.00</u>
Total Governmental Activities	<u>23.86</u>	<u>22.86</u>	<u>22.86</u>	<u>22.86</u>	<u>24.72</u>
Water Utility	1.33	1.33	1.33	1.33	1.33
Sewer Utility	1.33	1.33	1.33	1.33	1.33
Total Business Activities	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>
Totals for Organization	<u><u>26.52</u></u>	<u><u>25.52</u></u>	<u><u>25.52</u></u>	<u><u>25.52</u></u>	<u><u>27.38</u></u>

Source: City's Adopted Budgets

Schedule 17

2010	2009	2008	2007	2006
1.00	2.00	1.95	1.91	1.00
1.00	1.00	1.00	1.00	1.00
2.00	2.00	2.00	1.00	1.00
1.00	1.00	1.00	2.00	1.75
0.36	0.50	0.50	0.50	0.50
1.00	1.00	1.00	1.00	1.00
<u>6.36</u>	<u>7.50</u>	<u>7.45</u>	<u>7.41</u>	<u>6.25</u>
2.50	2.50	2.50	2.50	2.50
3.69	4.00	4.00	4.00	5.75
<u>6.19</u>	<u>6.50</u>	<u>6.50</u>	<u>6.50</u>	<u>8.25</u>
6.34	6.34	6.34	6.34	6.34
<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>	<u>6.34</u>
4.52	3.09	3.09	2.29	1.25
<u>4.52</u>	<u>3.09</u>	<u>3.09</u>	<u>2.29</u>	<u>1.25</u>
2.00	2.00	2.00	2.00	2.00
<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
<u>25.41</u>	<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	1.33	1.33
<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>	<u>2.66</u>
<u><u>28.07</u></u>	<u><u>28.09</u></u>	<u><u>28.04</u></u>	<u><u>27.20</u></u>	<u><u>26.75</u></u>

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

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

Sources: Various City Department's annual budget workload measurements

Schedule 18

2010	2009	2008	2007	2006
6	4	2	10	10
1	1	1	1	1
3	3	8	5	9
1	0	1	1	1
3	0	5	4	5
6	4	11	12	10
609	550	496	433	417
437	402	362	315	321
172	148	134	118	96
16,254	26,625	59,953	34,132	47,599
1,042	2,739	6,925	5,244	7,646
86	147	184	250	341
2,973	2,880	2,774	2,611	2,376
991	1,088	925	978	831
3,098	3,005	2,894	2,732	2,499
747	796	726	721	631

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

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Public Works										
Bituminous streets (miles)	72	71	70	70	69	68	68	68	68	67
Gravel streets (miles)	20	20	20	20	21	21	21	21	21	21
Street lights	926	918	910	910	910	899	881	869	845	742
Storm sewer (miles)	36	35	33	33	33	33	33	33	32	32
Park & Recreation										
Acres of parkland	389.5	385.0	385.0	385.0	385.0	385.0	385.0	260.0	260.0	221.4
Number of parks	15	14	14	14	14	14	14	13	13	11
Water Utility										
Miles of watermain	58	57	56	55	55	54	54	54	54	51
Number of fire hydrants	688	680	668	666	661	653	640	631	625	625
Sanitary Sewer Utility										
Miles of sanitary sewer	53	52	51	51	51	50	50	50	50	47

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

CITY OF HUGO, MINNESOTA

OTHER REPORT SECTION

December 31, 2015

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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, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2016.

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*, other than the issue noted below. 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.

As of December 31, 2015, the City's records showed uncashed checks held for more than three years. These checks were not reported and paid to the state Commissions of Commerce pursuant to Minn. Stat. Sections 345.41 and 345.43.

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.

Maplewood, Minnesota
June 9, 2016

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