

CITY OF HALSTAD
HALSTAD, MINNESOTA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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**CITY OF HALSTAD, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
December 31, 2010**

CITY COUNCIL

Glen Brookshire	Mayor (Deceased July, 2010)	12/31/10
Ronald Gotteberg	Clerk-Treasurer	12/31/10
Tom Maroney	Trustee	12/31/12
Renae Horning	Trustee	12/31/12
Shane Carlson	Acting Mayor (Starting July, 2010)	12/31/10

UTILITIES COMMISSION

Tom Maroney	President	12/31/10
Steve Rude	Secretary	12/31/11
John Hinkley	Commission Member	12/31/12
David C. Meyer	Utilities Superintendent	Appointed



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor,
City Council and Clerk-Treasurer
City of Halstad
Halstad, Minnesota

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 Halstad, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Halstad's management. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

Management has not adopted Governmental Accounting Standards Board (GASB) statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment benefits other than Pensions," which affects the way the City accounts for and reports their postemployment healthcare and other non-pension benefits. If implemented it would increase the liabilities and expenses in the governmental activities and the business-type activities on the government-wide statements, and Public Utilities Fund. The amount by which this departure affects the liabilities and expenses of the governmental activities and the business-type activities on the government-wide statements, and the Public Utilities Fund is not determinable.

In our opinion, except for the effects of not implementing GASB statement No. 45 for the governmental activities and the business-type activities on the government-wide statements, and the Public Utilities Fund as described in the preceding paragraph, 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 Halstad, Minnesota, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2011, on our consideration of the City of Halstad, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 27 through 29 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Halstad has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Halstad's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other data, designated as statistical information is presented for purposes of additional analysis and has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

June 14, 2011

CITY OF HALSTAD
STATEMENT OF NET ASSETS
For the Year Ended December 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 409,324	\$ 258,141	\$ 667,465
Prepaid Expenses	25,000		25,000
Accounts receivable, net of accumulated provision for uncollectible accounts	41,229	152,735	193,964
Internal Balances	(92,782)	92,782	
Taxes and Special Assessments Receivable	48,088		48,088
Inventories		28,300	28,300
Total Current Assets	<u>\$ 430,859</u>	<u>\$ 531,958</u>	<u>\$ 962,817</u>
Non-Current Assets:			
Capital Assets:			
Nondepreciable:			
Land		\$ 11,168	\$ 11,168
Depreciable:			
Infrastructure	\$ 725,000		725,000
Building, improvements, and equipment	339,944	4,088,310	4,428,254
Less accumulated depreciation	<u>(426,482)</u>	<u>(1,526,325)</u>	<u>(1,952,807)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>\$ 638,462</u>	<u>\$ 2,573,153</u>	<u>\$ 3,211,615</u>
Total assets	<u>\$ 1,069,321</u>	<u>\$ 3,105,111</u>	<u>\$ 4,174,432</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 1,627	\$ 85,819	\$ 87,446
Loan Payable	53,200		53,200
Accrued employee benefits		8,966	8,966
Bonds Payable - Due within one year	55,000		55,000
Customer deposits		10,370	10,370
Unearned revenue	1,037		1,037
Total Current Liabilities	<u>\$ 110,864</u>	<u>\$ 105,155</u>	<u>\$ 216,019</u>
Non-Current Liabilities			
Bonds Payable - Due in more than one year	<u>\$ 165,000</u>		<u>\$ 165,000</u>
Total Liabilities	<u>\$ 275,864</u>	<u>\$ 105,155</u>	<u>\$ 381,019</u>
NET ASSETS			
Invested in capital assets - Net of Related Debt	\$ 418,462	\$ 2,573,153	\$ 2,991,615
Unrestricted	<u>374,995</u>	<u>426,803</u>	<u>801,798</u>
Total net assets	<u>\$ 793,457</u>	<u>\$ 2,999,956</u>	<u>\$ 3,793,413</u>
Total liabilities and net assets	<u>\$ 1,069,321</u>	<u>\$ 3,105,111</u>	<u>\$ 4,174,432</u>

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities:						
General government	\$ 32,642		\$ 20,524	\$ (12,118)		\$ (12,118)
Public Safety	159,991	\$ 11,861	5,424	(142,706)		(142,706)
Highways and street	159,858	1,170		(158,688)		(158,688)
Culture and recreation	9,345			(9,345)		(9,345)
Miscellaneous	22,342			(22,342)		(22,342)
Total governmental activities	<u>\$ 384,178</u>	<u>\$ 13,031</u>	<u>\$ 25,948</u>	<u>\$ (345,199)</u>		<u>\$ (345,199)</u>
Business-type activities:						
Public Service	\$ 1,015,889	\$ 1,035,438			\$ 19,549	\$ 19,549
Rental Property	109,956	95,950			(14,006)	(14,006)
Total business-type activities	<u>\$ 1,125,845</u>	<u>\$ 1,131,388</u>			<u>\$ 5,543</u>	<u>\$ 5,543</u>
Total primary government	<u>\$ 1,510,023</u>	<u>\$ 1,144,419</u>	<u>\$ 25,948</u>	<u>\$ (345,199)</u>	<u>\$ 5,543</u>	<u>\$ (339,656)</u>
General revenues:						
Property taxes				\$ 139,994		\$ 139,994
Licenses and permits				2,001		2,001
Intergovernmental				236,999		236,999
Interest				3,629	\$ 761	4,390
Fines and penalties				1,139		1,139
Property rent				3,600		3,600
Reimbursements and refunds				16,990		16,990
Miscellaneous				4,790		4,790
Total general revenues				<u>\$ 409,142</u>	<u>\$ 761</u>	<u>\$ 409,903</u>
Changes in net assets				<u>\$ 63,943</u>	<u>\$ 6,304</u>	<u>\$ 70,247</u>
Net assets - beginning of year				<u>\$ 729,514</u>	<u>\$ 2,993,652</u>	<u>\$ 3,723,166</u>
Net assets - end of year				<u>\$ 793,457</u>	<u>\$ 2,999,956</u>	<u>\$ 3,793,413</u>

See Notes to Financial Statements

CITY OF HALSTAD
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General	Tax Increment District	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 384,342	\$ 10,823	\$ 14,159	\$ 409,324
Prepaid Expenses	25,000			25,000
Accounts Receivable	41,193		36	41,229
Due from other Funds	54,600			54,600
Special Assessments Receivable	35,444			35,444
Taxes Receivable	12,644			12,644
Total Assets	<u>\$ 553,223</u>	<u>\$ 10,823</u>	<u>\$ 14,195</u>	<u>\$ 578,241</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ 1,627			\$ 1,627
Loans Payable		\$ 53,200		53,200
Due to other Funds	39,582	107,800		147,382
Deferred Revenue	49,089		\$ 36	49,125
Total Liabilities	<u>\$ 90,298</u>	<u>\$ 161,000</u>	<u>\$ 36</u>	<u>\$ 251,334</u>
FUND BALANCES				
Unreserved, reported in				
General fund	\$ 462,925			\$ 462,925
Special revenue funds		\$ (150,177)	\$ 14,159	(136,018)
Total Fund Balance	<u>\$ 462,925</u>	<u>\$ (150,177)</u>	<u>\$ 14,159</u>	<u>\$ 326,907</u>
Total Liabilities and Fund Balance	<u>\$ 553,223</u>	<u>\$ 10,823</u>	<u>\$ 14,195</u>	<u>\$ 578,241</u>

See Notes to Financial Statements

CITY OF HALSTAD
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
 For the Year Ended December 31, 2010

Total Governmental Funds Balance	\$	326,907
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund.

	\$	1,064,944	
Capital Assets			
Accumulated Depreciation		(426,482)	
			638,462

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Special assessments and property taxes		48,088
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Long-term liabilities not due and payable in the current period and therefore are not included in the funds:

Bonds Payable		(220,000)

Net Assets of Governmental Activities	\$	793,457
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See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND IN
BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General	Tax Increment District	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 137,864	\$ 2,130		\$ 139,994
Special assessments	13,966			13,966
Licenses and permits	2,001			2,001
Intergovernmental	236,999			236,999
Charges for services	13,031			13,031
Fines and penalties	1,139			1,139
Interest	3,491	53	\$ 85	3,629
Contributions and donations	20,524			20,524
Rents	3,600			3,600
Reimbursements and refunds	16,990			16,990
Loan repayments	-		908	908
Miscellaneous	3,882			3,882
Total receipts	<u>\$ 453,487</u>	<u>\$ 2,183</u>	<u>\$ 993</u>	<u>\$ 456,663</u>
EXPENDITURES				
Current				
General government	\$ 32,642			\$ 32,642
Public safety	135,995			135,995
Highways and streets	116,338			116,338
Culture and recreation	9,345			9,345
Miscellaneous	21,467	\$ 875		22,342
Capital Outlay	51,941			51,941
Debt service:				
Principal	50,000			50,000
Interest and other charges	12,525	1,995		14,520
Total disbursements	<u>\$ 430,253</u>	<u>\$ 2,870</u>		<u>\$ 433,123</u>
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	\$ 23,234	\$ (687)	\$ 993	\$ 23,540
FUND BALANCES - BEGINNING OF YEAR	<u>439,691</u>	<u>(149,490)</u>	<u>13,166</u>	<u>303,367</u>
FUND BALANCES - END OF YEAR	<u>\$ 462,925</u>	<u>\$ (150,177)</u>	<u>\$ 14,159</u>	<u>\$ 326,907</u>

See Notes to Financial Statements

CITY OF HALSTAD
 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, 2010

Net Change in Fund Balance - Total Governmental Funds	\$	23,540
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Amounts reported for governmental activities in the statement of activities are different because:

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 as depreciation expense.

Capital Outlay		51,941
Current Year Depreciation		(52,996)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment is shown as a long-term liabilities in the Statement of Net Assets.		50,000
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Special Assessments		(8,542)
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Changes in Net Assets	\$	<u>63,943</u>
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See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Business Type Activities - Enterprise Funds		
	Public Service Utilities Fund	Non-Major Enterprise Funds	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 212,244	\$ 45,897	\$ 258,141
Accounts receivable, net of accumulated provision for uncollectible accounts	128,755	23,980	152,735
Due from other funds	97,728		97,728
Inventories	28,300		28,300
Total current assets	\$ 467,027	\$ 69,877	\$ 536,904
CAPITAL ASSETS			
Land	\$ 2,646	\$ 8,522	\$ 11,168
Building, improvements, and equipment	3,833,047	255,263	4,088,310
Less accumulated depreciation	(1,361,055)	(165,270)	(1,526,325)
Total capital assets	\$ 2,474,638	\$ 98,515	\$ 2,573,153
Total assets	\$ 2,941,665	\$ 168,392	\$ 3,110,057
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 82,244	\$ 3,575	\$ 85,819
Accrued employee benefits	8,966		8,966
Due to other Funds		4,946	4,946
Customer deposits	5,420	4,950	10,370
Total current liabilities	\$ 96,630	\$ 13,471	\$ 110,101
NET ASSETS			
Invested in capital assets	\$ 2,474,638	\$ 98,515	\$ 2,573,153
Unrestricted	370,397	56,406	426,803
Total net assets	\$ 2,845,035	\$ 154,921	\$ 2,999,956
Total liabilities and net assets	\$ 2,941,665	\$ 168,392	\$ 3,110,057

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Business Type Activities - Enterprise Funds		
	Public Service Utilities Fund	Non-Major Enterprise Funds	Totals
OPERATING REVENUE			
Charges for services	\$ 903,829		\$ 903,829
City departments - energy	16,616		16,616
City departments - administration fee	16,307		16,307
Penalties	7,415		7,415
Rentals		\$ 92,285	92,285
Leaseback	85,676		85,676
Other	5,595	3,665	9,260
Total operating revenue	\$ 1,035,438	\$ 95,950	\$ 1,131,388
OPERATING EXPENSES			
Electric energy purchased	\$ 547,192		\$ 547,192
Sewer water disposal	10,670		10,670
Salaries and wages	135,928	\$ 19,603	155,531
Heat, light and power		17,954	17,954
Repairs, maintenance and supplies	34,015	41,439	75,454
Professional services	5,200		5,200
Insurance	17,617	9,342	26,959
Payroll taxes and employee benefits	47,162		47,162
Depreciation	97,179	9,376	106,555
Dumpster rent and pickup	47,428		47,428
Generator Expense	34,834		34,834
Other	38,664	12,242	50,906
Total operating expenses	\$ 1,015,889	\$ 109,956	\$ 1,125,845
Operating Income	\$ 19,549	\$ (14,006)	\$ 5,543
NONOPERATING REVENUE			
Interest income	\$ 696	\$ 65	\$ 761
TOTAL NONOPERATING REVENUE	\$ 696	\$ 65	\$ 761
CHANGE IN NET ASSETS	\$ 20,245	\$ (13,941)	\$ 6,304
NET ASSETS - BEGINNING	2,824,790	168,862	2,993,652
NET ASSETS - ENDING	\$ 2,845,035	\$ 154,921	\$ 2,999,956

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Utility Fund	Non-Major Enterprise Funds	Totals
CASH FLOWS FROM OPERATING			
ACTIVITIES			
Receipts from Customers and Users	\$ 975,744	\$ 72,322	\$ 1,048,066
Payments to Suppliers	(778,221)	(76,594)	(854,815)
Payments to Employees	(135,928)	(19,603)	(155,531)
Net Cash Provided (Used) by Operating Activities	<u>\$ 61,595</u>	<u>\$ (23,875)</u>	<u>\$ 37,720</u>
CASH FLOWS FROM CAPITAL AND			
RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	\$ (27,914)		\$ (27,914)
Net Cash Provided (Used) by Capital			
and Related Financing Activities	<u>\$ (27,914)</u>		<u>\$ (27,914)</u>
CASH FLOWS FROM INVESTING			
ACTIVITIES			
Interest Income	\$ 696	\$ 65	\$ 761
Net Cash Provided by			
Investing Activities	<u>\$ 696</u>	<u>\$ 65</u>	<u>\$ 761</u>
Net Increase in Cash and Cash Equivalents	\$ 34,377	\$ (23,810)	\$ 10,567
Cash and Cash Equivalents, January 1	<u>177,867</u>	<u>69,707</u>	<u>247,574</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 212,244</u></u>	<u><u>\$ 45,897</u></u>	<u><u>\$ 258,141</u></u>

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF CASH FLOW (CONT.)
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Utility Fund	Non-Major Enterprise Funds	Totals
Reconciliation of Operating Income to			
Net Cash Provided (Used) by Operating			
Activities:			
Operating Income (Loss)	\$ 19,549	\$ (14,006)	\$ 5,543
Adjustments to Reconcile Operating			
Income to Net Cash Provided (Used)			
by Operating Activities:			
Depreciation Expense	\$ 97,179	\$ 9,376	\$ 106,555
Change in Assets and Liabilities:			
Accounts Receivable	(59,689)	(22,775)	(82,464)
Decrease in Inventory	(1,784)		(1,784)
Accounts Payable	6,653	976	7,629
Accrued Expenses	(308)	3,404	3,096
Customer Deposits	(5)	(850)	(855)
Total Adjustments	\$ 42,046	\$ (9,869)	\$ 32,177
Net Cash Provided by Operating Activities	\$ 61,595	\$ (23,875)	\$ 37,720

See Notes to Financial Statements

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Halstad operates under a City Council form of government. The financial statements of the City of Halstad have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 government's accounting policies are described below.

A. Reporting Entity

The financial statements of the City include those of independently administered organizations of which guardianship responsibility falls on the City. Guardianship responsibility is determined on the basis of taxing powers, budget authority, appointment of governing Board members, designation of management, and fiscal accountability including a guaranteed or moral responsibility for debt. The criteria used to determine the financial reporting entity were in conformance with GASB Statement 14, The Financial Reporting Entity.

Based on the preceding criteria, there are no component units to be reported.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net assets, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance". The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety are accounted for in this fund.
- b) Tax Increment District – The Tax Increment Financing District No. 2 was established to acquire, demolish and develop two downtown lots into a dental office and parking lot. The financing cost of this project will be paid by future tax collections.

The City reports the following nonmajor governmental funds:

- c) Special Revenue Fund – This fund is used to account for proceeds of revenue sources restricted to expenditures for specific purposes. The City uses the Housing Rehabilitation Program fund for this.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City has elected to apply all applicable FASB pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

Enterprise Fund Types are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following is the City's major enterprise funds:

- a) Utilities Fund – To account for the operation and maintenance of the City's water, electric, sewage and refuse disposal departments.

The City reports the following non-major Enterprises funds:

- b) John Wimmer Homes – This fund is used to account for the operations of the John Wimmer Homes Fund.
- c) Sunrise Apartments – This fund is used to account for the operations of the Sunrise Apartment Fund.

D. Measurement Focus and Basis of Accounting

The City adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the fiscal year ended

December 31, 2004. The adoption of this Statement is meant to present the information in a format more closely resembling that of the private sector and to provide the user with more managerial analysis regarding the financial results and the City's financial outlook.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary 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.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

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 and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets

The City submits a proposed budget and levy to the County Auditor's office by September 15. Truth in Taxation public hearings are held in December. The City must prepare a final budget and certify the levy to the County by December 31. A copy of the final budget and prior year revenue and expenditures must be submitted to the State Auditor's office.

F. Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund. Investments for the City are reported at fair value.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less.

G. Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Halstad as assets with an initial, individual cost of more than \$1,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the life of the asset 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.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings	20-40 Years
Building Improvements	25 Years
Plant and Equipment	7-50 Years
Office Equipment	7 Years
Infrastructure	25 Years

H. Encumbrances

Appropriations in the Governmental Funds are charged for encumbrances when commitments are made. Fund balances are reserved for outstanding encumbrances, which serve as authorizations for expenditures in the subsequent year.

I. Inventories

Inventories are stated at the lower of cost or market and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

J. Deferred Revenues

Deferred revenues in the Governmental Funds represent amounts due, which are measurable, but not available.

K. Inter-fund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances 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".

Non-current portions of long-term inter-fund loan receivables are reported as advances within the Governmental Funds, and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

L. Compensated Absences

City employee's having less than 10 years of consecutive full-time service shall earn vacation leave at the rate of 1 working day for each calendar month of full-time service. Each permanent employee with at least 10 consecutive years of full-time service shall earn vacation leave at the rate of 1 and ½ working days for each calendar month of full-time service.

An employee may accrue vacation leave to a maximum of 30 days. Any days over 30 will be paid at the employee's hourly wage providing one week's worth of vacation was taken during the calendar year. At no time shall an employee be permitted to cash out vacation time to collect money if they have less than 30 days accrued.

Any employee leaving the municipal service in good standing after giving proper notice of such termination of employment shall be compensated for vacation leave accrued and unused to the date of separation.

Every probationary and permanent employee is entitled to sick leave with pay at the rate of 1 day for each calendar month of full-time service or major fraction thereof. Sick leave may be accumulated to a maximum of 200 days. Each employee has the option of after 60 days of accrued sick leave to take \$5/day in exchange for the additional sick leave days.

For Proprietary Fund types, these accumulations are recorded as expenses and liabilities of the appropriate fund in the fiscal year earned.

M. Fund Equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Over Budgeted Amounts

Expenditures were more than budgeted in the general fund by \$54,253 in 2010.

NOTE 3: DEPOSITS

In accordance with Minnesota Statutes, the City maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Minnesota laws require all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of Minnesota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of Minnesota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking Board.

At year end December 31, 2010, the City's carrying amount of deposits was \$667,465 and the bank balance was \$676,561. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$426,561 was covered by pledged collateral.

NOTE 4: TAXES RECEIVABLE

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1. Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 28 and June 30; and Real Property - May 15 and October 15.

The County remits the collections to the City and other taxing districts three times a year, in January, July and December. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the County in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Unremitted – Amounts collected by Norman County and not remitted to the City.

Delinquent – Amounts billed to property owners but not paid.

Deferred – Assessment installments which will be billed to property owners in future years.

NOTE 5: ACCOUNTS RECEIVABLE

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billings receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Resident accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis.

Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual resident receivables and considering a resident's financial condition, credit history, and current economic conditions. Resident receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management currently considers all patient accounts receivable to be collectable, thus no allowance for doubtful accounts has been provided.

NOTE 6: CAPITAL ASSETS

The following is a summary of proprietary fund type assets for the year ending December 31, 2010:

Capital assets, being depreciated				
Infrastructure	\$ 725,000			\$ 725,000
Building	125,011			125,011
Equipment	162,992	\$ 51,941		214,933
	<u>\$ 1,013,003</u>	<u>\$ 51,941</u>	<u>\$ -</u>	<u>\$ 1,064,944</u>
Less accumulated depreciation	<u>(373,486)</u>	<u>(52,996)</u>		<u>(426,482)</u>
Governmental Activities capital assets, being depreciated, net	<u>\$ 639,517</u>	<u>\$ (1,055)</u>	<u>\$ -</u>	<u>\$ 638,462</u>

Depreciation expense was charged to government functions as follows:

Public Safety	23,996
	<u>\$ 52,996</u>

Business Type Activities	Balance 12/31/09	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land	\$ 11,168			\$ 11,168
	<u>\$ 11,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,168</u>
Capital assets, being depreciated				
Water	\$ 1,173,445	\$ 16,354		\$ 1,189,799
Sewer	896,565	8,038		904,603
Electric	1,572,535	1,722		1,574,257
General utilities	162,588	1,800		164,388
Sunrise Apartments	115,000			115,000
Wimmer homes	140,263			140,263
	<u>\$ 4,060,396</u>	<u>\$ 27,914</u>		<u>\$ 4,088,310</u>
Less accumulated depreciation	<u>(1,419,770)</u>	<u>(106,555)</u>		<u>(1,526,325)</u>
Total capital assets, being depreciated, net	<u>\$ 2,640,626</u>	<u>\$ (78,641)</u>	<u>\$ -</u>	<u>\$ 2,561,985</u>
Total Capital assets net	<u>\$ 2,651,794</u>	<u>\$ (78,641)</u>	<u>\$ -</u>	<u>\$ 2,573,153</u>

Depreciation expense was charged to functions/programs of the City as follows:

Water	\$ 24,247
Sewer	17,545
Electric	53,033
General utilities	2,354
Sunrise Apartments	4,600
Wimmer Homes	4,776
	<u>\$ 106,555</u>

NOTE 7: LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2010:

Type	Fund Debt Serviced In	Original Amount	Maturity Date & Interest Rate	Balance 12/31/10
Special assessment debt with governmental commitment 1998 G.O. Improvement	General Fund	\$ 725,000	2/1/14 5.00%	\$ 220,000
Total long-term debt				<u>\$ 220,000</u>

Long-term debt transactions during the year were as follows:

	Balance 01/01/10	New Issue	Retired	Balance 12/31/10	Due Within One Year
Long-Term Debt	<u>\$ 270,000</u>	<u>\$</u>	<u>\$ 50,000</u>	<u>\$ 220,000</u>	<u>\$ 55,000</u>

The estimated principal and interest requirements to maturity will be as follows:

Years ending December 31,	Principal	Interest
2011	\$ 55,000	\$ 9,625
2012	55,000	6,875
2013	55,000	4,125
2014	55,000	1,375
Totals	<u>\$ 220,000</u>	<u>\$ 22,000</u>

In 1998, the City issued its G.O. Improvement Bonds, Series 1998. The proceeds from this issue were used for various street, water and sewer projects within the City. The bonds are general obligations of the City for which the City will levy a direct annual ad valorem tax in addition to its pledge of special assessments levied against benefit properties to be collected over a 15 year period.

NOTE 8: DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Halstad, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after

three years of credited service. The defined retirement 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 PERF'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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent of each year of service. For all PEPFF members, and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirements age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.com, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2009. PEPFF members are required to contribute 7.8% of their annual covered salary in 2009. The City of Halstad, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF member, 6.0% for Coordinated Plan PERF members, and 10.5% for PEPFF members.

Employer contribution rates for the Coordinated Plan and PEPFF are 6.25% and 11.7%, respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$10,542, \$11,514 and \$13,033, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Funding Policy

Plan Description

The City remits a state aid payment to the Halstad Firefighters' Relief Association (association), a single-employer public retirement system that acts as an administrator for volunteer firefighters. All volunteer firefighters of the City are members of the Halstad Fire Department Relief Association. Retiring individuals receive a lump sum distribution in an amount equal to their respective account. The minimum retirement age is 50 and members are fully vested after 20 years. These benefit provisions and all other requirements are consistent with state statutes.

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$10,821 for 2010.

Ten-Year Historical Trend Information

Ten-year historical trend information is available in the association's financial reports.

Related Party Investments

As of December 31, 2010, and for the fiscal year then ended, the association held no securities issued by the City or other related parties.

NOTE 9: COMMITTED CONTRACTS

The City of Halstad is a member of the Northern Municipal Power Agency. The Power Agency was incorporated on December 14, 1976, and is a municipal corporation and political subdivision of the State of Minnesota composed of 10 Minnesota and two North Dakota cities. The Power Agency was organized for the purpose of providing its members with electrical power pursuant to Minnesota Statutes, Section 453. The Power Agency has issued Electrical System Revenue Bonds to finance the purchase of a 30% interest in the Coyote Station Unit No. 1 electrical generating plant near Beulah, North Dakota. Under the Statute, the bonds are not the obligation of the member cities, but of Northern Municipal Power Agency and are secured and payable solely from the revenues from the sale of electricity to member cities and to Minnkota Power Cooperative, Inc.

NOTE 10: NOTES RECEIVABLE

The City of Halstad had a Minnesota small city development grant for the purpose of home rehabilitation and city water projects that began in 1997. The City entered into a contract for administration services with Northwest Minnesota Multi – County Housing and Redevelopment Authority. The projects were completed in 1999 and the housing rehabilitation loan activity was transferred to the City. As of December 31, 2010, the remaining amount due on these loans totaled \$36.

NOTE 11: TAX INCREMENT REDEVELOPMENT

The City of Halstad has set up a Tax Increment District to help finance and redevelop a downtown lot. A new building has been constructed and being used for a dental office.

NOTE 12: LOAN PAYABLE

The Tax Increment Redevelopment District has a loan payable for development costs that will start to be paid back when taxes are collected. The loan has an annual interest rate of 5%, and a balance of \$53,200 at December 31, 2010.

NOTE 13: OTHER POST EMPLOYMENT BENEFITS

Under accounting principles generally accepted in the United States of America the City was required to implement Governmental Accounting Standards Board Statement No. 45 (GASB 45) "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" for its year ended December 31, 2009. In Minnesota, public entities are required to make health and dental benefits offered to employees available to retirees. Under Minn. Stat. section 471.61, subd. 2b, public entities cannot create a separate insurance group for retirees. Therefore, the City subsidizes premiums for retirees through an implicit rate subsidy. At December 31, 2010, the City has 4 employees and no retirees participating in its health and dental plans.

Management has elected not to adopt GASB 45 and obtain an actuary calculation of the liability and expenses associated with the implicit rate subsidy. As a result, the City's liabilities and expenses are understated by an undeterminable amount at December 31, 2010.

NOTE 14: NEW PRONOUNCEMENTS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* will be effective for the entity for period beginning after June 15, 2010. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. Management has not yet determined the effect this statement will have on its financial statements.

GASB Statement No. 57, *OPEB measurements by Agent Employers and Agent Multiple-Employer Plans* – the provisions related to the use and reporting of alternative measurement method was effective on issuance, December 2009. The provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in financial statements of other postemployment benefit plans is effective for periods beginning after June 15, 2011. This statement addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employer that participate in agent multiple-employer other postemployment benefit plans (agent employers). This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* will be effective for financial statement periods beginning after December 15, 2011 and generally would be required to be applied retroactively for all periods presented. This statement aims to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. A SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which a) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and b) the operator collects and is compensated by fees from third parties.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of

Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

NOTE 15: SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through June 14, 2011, which is the date these financial statements were available to be issued.

CITY OF HALSTAD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL
For the Year Ended December 31, 2010

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
General property taxes	\$ 166,600	\$ 137,864	\$ (28,736)
Special Assessments	16,000	13,966	(2,034)
Other	1,200		(1,200)
Licenses and permits	3,200	2,001	(1,199)
	<u>\$ 187,000</u>	<u>\$ 153,831</u>	<u>\$ (33,169)</u>
Intergovernmental revenues			
Market value credits		\$ 13,725	\$ 13,725
Local government aid	\$ 155,700	164,160	8,460
Fire Relief Association Aid	9,100	10,821	1,721
Other	1,000	48,293	47,293
	<u>\$ 165,800</u>	<u>\$ 236,999</u>	<u>\$ 71,199</u>
Charges for services			
Fire protection fees	\$ 9,000	\$ 13,031	\$ 4,031
Snow removal	1,500	1,170	(330)
	<u>\$ 10,500</u>	<u>\$ 14,201</u>	<u>\$ 3,701</u>
Fines and penalties			
	<u>\$ 1,500</u>	<u>\$ 1,139</u>	<u>\$ (361)</u>
Miscellaneous revenues			
Gifts and Donations		\$ 20,524	\$ 20,524
Interest on investments	\$ 1,500	3,491	1,991
Sales and rental of property	3,600	3,600	
Reimbursements and refunds	3,000	16,990	13,990
Other	1,000	2,712	1,712
	<u>\$ 9,100</u>	<u>\$ 47,317</u>	<u>\$ 38,217</u>
Total revenues	<u>\$ 373,900</u>	<u>\$ 453,487</u>	<u>\$ 79,587</u>
EXPENDITURES			
General government			
Audit	\$ 4,500	\$ 3,500	\$ 1,000
Assessment services	2,200	2,735	(535)
Election Expense		941	(941)
Payroll Expenses	11,220	11,417	(197)
County Assessment	1,380	1,572	(192)
Insurance	4,500	7,681	(3,181)
Supplies and other	6,500	4,796	1,704
Total general government	<u>\$ 30,300</u>	<u>\$ 32,642</u>	<u>\$ (2,342)</u>

CITY OF HALSTAD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL (CONT.)
For the Year Ended December 31, 2010

	Original and Final Budget	Actual	Variance with Final Budget
Public safety			
Police protection			
Contracted service	\$ 26,200	\$ 27,000	\$ (800)
Insurance	2,300		2,300
Animal Control	1,000		1,000
Other	2,000	1,713	287
	<u>\$ 31,500</u>	<u>\$ 28,713</u>	<u>\$ 2,787</u>
Fire protection			
Volunteers compensation	\$ 8,000	\$ 7,424	\$ 576
Equipment and repairs	2,500		2,500
Hydrant rental	1,850	1,850	
Jaws Truck	300		300
Telephone and utilities	3,500	4,405	(905)
County Assessment	800	772	28
Insurance	4,500	4,500	
Other expense	1,000	6,174	(5,174)
Education and Training	5,400	7,834	(2,434)
Capital outlay - equipment	8,000	16,442	(8,442)
Firemen's Relief Association	11,100	13,455	(2,355)
	<u>\$ 46,950</u>	<u>\$ 62,856</u>	<u>\$ (15,906)</u>
Rescue squad			
Volunteers' compensation	\$ 5,200	\$ 4,830	\$ 370
Repairs	1,500	448	1,052
Telephone and utilities	3,000	2,609	391
Capital outlay - equipment	6,800	3,853	2,947
Insurance	1,200	900	300
Other	500	45	455
	<u>\$ 18,200</u>	<u>\$ 12,685</u>	<u>\$ 5,515</u>
Flood			
Dike Maintenance	\$ 9,000	\$ 31,741	\$ (22,741)
Total public safety	<u>\$ 105,650</u>	<u>\$ 135,995</u>	<u>\$ (30,345)</u>

CITY OF HALSTAD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET TO ACTUAL (CONT.)
For the Year Ended December 31, 2010

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 46,000	\$ 44,995	\$ 1,005
Equipment repair and maintenance	45,000	42,119	2,881
Capital outlay	15,000	51,941	(36,941)
Snow removal	10,000	15,308	(5,308)
Street lighting	8,200	8,336	(136)
Tree Removal and replacement	1,500	225	1,275
Insurance	5,000	2,657	2,343
Street Bond Interest	14,650	12,525	2,125
Street Bond Principal	50,000	50,000	
Other	5,000	2,698	2,302
	<u>\$ 200,350</u>	<u>\$ 230,804</u>	<u>\$ (30,454)</u>
Culture and recreation			
Recreation programs			
Park and other expense	\$ 8,000	\$ 9,345	\$ (1,345)
Miscellaneous			
Consulting - Engineering Fees	\$ 3,000		\$ 3,000
City beautification - Projects	10,000	\$ 8,323	1,677
Meals program	1,500	3,000	(1,500)
Economic Development Association	6,000		6,000
Café building expense	4,000	3,544	456
Other	7,500	6,600	900
	<u>\$ 32,000</u>	<u>\$ 21,467</u>	<u>\$ 10,533</u>
Total Expenditures	<u>\$ 376,300</u>	<u>\$ 430,253</u>	<u>\$ (53,953)</u>
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (2,400)</u>	<u>\$ 23,234</u>	<u>\$ (25,633)</u>
FUND BALANCE-BEGINNING OF YEAR	<u>439,691</u>	<u>439,691</u>	
FUND BALANCE-END OF YEAR	<u><u>\$ 437,291</u></u>	<u><u>\$ 462,925</u></u>	<u><u>\$ (25,633)</u></u>

CITY OF HALSTAD
NOTES TO BUDGETARY COMPARISON SCHEDULES
For the Year Ended December 31, 2010

NOTE 1 - BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance, which exceeds 2.5% of expenditures. Expenditures were more than budgeted in the general fund by \$54,253 in 2010.

SUPPLEMENTARY INFORMATION

CITY OF HALSTAD
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	Housing Rehab Program	Total Nonmajor Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 14,159	\$ 14,159
Accounts Receivable	36	36
Total Assets	<u>\$ 14,195</u>	<u>\$ 14,195</u>
LIABILITIES		
Deferred Revenue	<u>\$ 36</u>	<u>\$ 36</u>
FUND BALANCES		
Unreserved, Undesignated	<u>\$ 14,159</u>	<u>\$ 14,159</u>
Total Liabilities and Fund Balance	<u>\$ 14,195</u>	<u>\$ 14,195</u>

CITY OF HALSTAD
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS BY FUND TYPE
 For the Year Ended December 31, 2010

	Housing Rehab Program	Total Nonmajor Governmental Funds
REVENUES		
Investment earnings	\$ 69	\$ 69
Interest	16	16
Loan payments	<u>908</u>	<u>908</u>
Total Revenues	<u>\$ 993</u>	<u>\$ 993</u>
Excess (deficiency) of Revenues over (under) Expenditures	\$ 993	\$ 993
Fund Balances - Beginning	<u>13,166</u>	<u>13,166</u>
Fund Balances - Ending	<u><u>\$ 14,159</u></u>	<u><u>\$ 14,159</u></u>

CITY OF HALSTAD
STATEMENT OF NET ASSETS – NON-MAJOR
ENTERPRISE FUNDS
For the Year Ended December 31, 2010

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 38,441	\$ 7,456	\$ 45,897
Accounts Receivables	<u>554</u>	<u>23,426</u>	<u>23,980</u>
Total current assets	<u>\$ 38,995</u>	<u>\$ 30,882</u>	<u>\$ 69,877</u>
NONCURRENT ASSETS			
Land	\$ 3,522	\$ 5,000	\$ 8,522
Building, improvements and equipment	140,263	115,000	255,263
Less accumulated depreciation	<u>(117,353)</u>	<u>(47,917)</u>	<u>(165,270)</u>
Total noncurrent assets	<u>\$ 26,432</u>	<u>\$ 72,083</u>	<u>\$ 98,515</u>
Total assets	<u><u>\$ 65,427</u></u>	<u><u>\$ 102,965</u></u>	<u><u>\$ 168,392</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 1,070	\$ 2,505	\$ 3,575
Due to other funds	1,085	3,861	4,946
Customer deposits	<u>2,550</u>	<u>2,400</u>	<u>4,950</u>
Total current liabilities	<u>\$ 4,705</u>	<u>\$ 8,766</u>	<u>\$ 13,471</u>
NET ASSETS			
Invested in capital assets	\$ 26,432	\$ 72,083	\$ 98,515
Unrestricted	<u>34,290</u>	<u>22,116</u>	<u>56,406</u>
Total net assets	<u>\$ 60,722</u>	<u>\$ 94,199</u>	<u>\$ 154,921</u>
Total liabilities and net assets	<u><u>\$ 65,427</u></u>	<u><u>\$ 102,965</u></u>	<u><u>\$ 168,392</u></u>

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NON – MAJOR - ENTERPRISE FUNDS
For the Year Ended December 31, 2010

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
OPERATING REVENUE			
Tenant Rent	\$ 30,856	\$ 61,429	\$ 92,285
Other	<u>1,415</u>	<u>2,250</u>	<u>3,665</u>
Total operating revenue	<u>\$ 32,271</u>	<u>\$ 63,679</u>	<u>\$ 95,950</u>
OPERATING EXPENSES			
Salaries and wages	\$ 8,857	\$ 10,746	\$ 19,603
Heat, light and power	4,428	13,526	17,954
Repairs, maintenance and supplies	12,521	28,918	41,439
Insurance	2,711	6,631	9,342
Depreciation	4,776	4,600	9,376
Telephone	-	418	418
Property Taxes	1,232	4,950	6,182
Administration Fee	1,771	2,289	4,060
Other	<u>551</u>	<u>1,031</u>	<u>1,582</u>
Total operating expenses	<u>\$ 36,847</u>	<u>\$ 73,109</u>	<u>\$ 109,956</u>
Total operating income	<u>\$ (4,576)</u>	<u>\$ (9,430)</u>	<u>\$ (14,006)</u>
NONOPERATING REVENUE			
Interest income	<u>\$ 63</u>	<u>\$ 2</u>	<u>\$ 65</u>
CHANGE IN NET ASSETS	\$ (4,513)	\$ (9,428)	\$ (13,941)
NET ASSETS - BEGINNING	<u>65,235</u>	<u>103,627</u>	<u>168,862</u>
NET ASSETS - ENDING	<u><u>\$ 60,722</u></u>	<u><u>\$ 94,199</u></u>	<u><u>\$ 154,921</u></u>

CITY OF HALSTAD
COMBINING STATEMENT OF CASH FLOW
NON-MAJOR PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	John Wimmer Homes	Sunrise Apartments	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 31,640	\$ 40,682	\$ 72,322
Payments to Suppliers	(21,834)	(54,760)	(76,594)
Payments to Employees	(8,857)	(10,746)	(19,603)
Net Cash Provided by Operating Activities	<u>\$ 949</u>	<u>\$ (24,824)</u>	<u>\$ (23,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	\$ 63	\$ 2	\$ 65
Net Cash Provided by Investing Activities	<u>\$ 63</u>	<u>\$ 2</u>	<u>\$ 65</u>
Net Increase in Cash and Cash Equivalents	\$ 1,012	\$ (24,822)	\$ (23,810)
Cash and Cash Equivalents, January 1	<u>37,429</u>	<u>32,278</u>	<u>69,707</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 38,441</u></u>	<u><u>\$ 7,456</u></u>	<u><u>\$ 45,897</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (4,576)	\$ (9,430)	\$ (14,006)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	\$ 4,776	\$ 4,600	\$ 9,376
(Increase) Decrease in Accounts Receivable	(380)	(22,395)	(22,775)
Increase (Decrease) in Accounts Payable	561	415	976
Increase (Decrease) in Accrued Expenses	818	2,586	3,404
Increase (Decrease) in Customer Deposits	(250)	(600)	(850)
Total Adjustments	<u>\$ 5,525</u>	<u>\$ (15,394)</u>	<u>\$ (9,869)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 949</u></u>	<u><u>\$ (24,824)</u></u>	<u><u>\$ (23,875)</u></u>

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUE AND EXPENSES
PUBLIC UTILITY DEPARTMENTS
For the Year Ended December 31, 2010

	Electric Department	Water Department	Sewage Disposal	Refuse Disposal Department	Total
Operating revenues					
Halstad consumers	\$ 711,211	\$ 70,489	\$ 69,556	\$ 52,573	\$ 903,829
City departments - energy					
City departments - administration fee	16,307				16,307
Penalties	7,415				7,415
Leaseback	85,676				85,676
Other	5,595				5,595
Total operating revenues	\$ 826,204	\$ 70,489	\$ 69,556	\$ 52,573	\$ 1,018,822
Operating expenses					
Production and distribution					
Salaries	\$ 48,238	\$ 12,472	\$ 20,568		\$ 81,278
Repair, maintenance and supplies		4,556	7,458		12,014
Electric energy purchased	547,192				547,192
Sewer waste disposal			10,670		10,670
Depreciation	53,033	24,247	17,545		94,825
Generator Expenses	34,834				34,834
Dumpster rent and pickup				\$ 47,428	47,428
Truck expense	6,216	1,607	2,651		10,474
Miscellaneous and training	22,084	4,822	2,745		29,651
Total production and distribution	\$ 711,597	\$ 47,704	\$ 61,637	\$ 47,428	\$ 868,366
General and administrative					
Salaries - administrative and office	\$ 18,218	\$ 18,217	\$ 18,217		\$ 54,652
General supplies and maintenance		1,454	2,381		3,835
Office supplies and postage	2,564	2,563	2,563		7,690
Telephone	1,391	1,391	1,391		4,173
Depreciation	1,317	602	436		2,355
Professional fees and services	3,872	846	481		5,199
Insurance	10,455	2,703	4,459		17,617
PERA and Social Security	16,093	4,161	6,862		27,116
Less: Benefits Charged out	(9,862)	(2,550)	(4,205)		(16,617)
Miscellaneous	3,603	787	448		4,838
Employee insurance and other	11,897	3,076	5,074		20,047
Total general and administrative	\$ 59,548	\$ 33,250	\$ 38,107	\$	\$ 130,905
Total operating expenses	\$ 771,145	\$ 80,954	\$ 99,744	\$ 47,428	\$ 999,271
Net operating income (loss)	\$ 55,059	\$ (10,465)	\$ (30,188)	\$ 5,145	\$ 19,551

CITY OF HALSTAD, MINNESOTA
UTILITY STATISTICS (UNAUDITED)
ELECTRICAL UTILITIES STATISTICS

	2010	2009	2008	2007	2006	2005	2004	2003
Kilowatt hours sold								
Residential	2,954,375	2,983,705	3,088,384	3,046,520	2,918,829	2,910,448	2,866,310	2,979,749
Off peak heating	2,788,170	2,908,079	2,965,714	2,533,853	2,522,682	2,399,759	2,517,857	2,452,869
Commerical lighting	1,126,791	1,194,609	1,082,091	1,217,837	1,139,306	1,277,661	1,078,941	1,182,238
Power	1,725,051	1,799,756	1,879,987	1,942,600	1,894,184	2,021,845	2,071,686	2,165,173
City usage	197,194	234,619	206,516	94,958	92,345	182,326	182,346	209,528
Water and sewer								
Department usage	164,015	166,956	165,412	165,040	129,783	136,890	140,902	128,767
Total KWH sold	8,955,596	9,287,724	9,388,104	9,000,808	8,697,129	8,928,929	8,858,042	9,118,324
Add								
Electric plant usage	300,130	299,826	306,005	241,798	110,957	112,802	150,768	198,952
	9,255,726	9,587,550	9,694,109	9,242,606	8,808,086	9,041,731	9,008,810	9,317,276
Total KWH purchased	9,601,056	10,060,367	10,165,594	9,644,753	9,168,915	9,366,627	9,421,391	9,589,437
Total KWH generated			-	-	-		-	-
	9,601,056	10,060,367	10,165,594	9,644,753	9,168,915	9,366,627	9,421,391	9,589,437
Line loss	(345,330)	(472,817)	(471,485)	(402,147)	(360,829)	(324,896)	(412,581)	(272,161)
Loss percentage of KWH purchased	3.60%	4.70%	4.64%	4.17%	3.94%	3.47%	4.38%	2.84%