

**CITY OF HALSTAD
HALSTAD, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**CITY OF HALSTAD
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2011**

CITY COUNCIL

Steve Sortland	Mayor	12/31/14
Ronald Gotteberg	Clerk-Treasurer	12/31/14
Tom Maroney	Trustee	12/31/12
Renae Horning	Trustee	12/31/12
Shane Carlson	Trustee	12/31/14

UTILITIES COMMISSION

Tom Maroney	President	12/31/12
Steve Rude	Secretary	12/31/13
John Hinkley	Commission Member	12/31/14
Lucas Spaeth	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, 2011, 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.

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 Halstad, Minnesota, as of December 31, 2011, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statements No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*", and Governmental Accounting Standards Board Statements No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", as of and for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2012, on our consideration of the City'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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison 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 response 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.

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 Halstad's financial statements as a whole. The combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical section has 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 it.


BRADY, MARTZ & ASSOCIATES, P.C.

March 3, 2012

CITY OF HALSTAD
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 817,672	\$ 271,177	\$ 1,088,849
Accounts receivable, net of accumulated provision for uncollectible accounts	39,193	125,366	164,559
Internal balances	(103,343)	103,343	-
Taxes and special assessments receivable	31,966	-	31,966
Inventories	-	45,093	45,093
Total current assets	<u>785,488</u>	<u>544,979</u>	<u>1,330,467</u>
Non-current assets:			
Capital assets:			
Nondepreciable:			
Land	-	11,168	11,168
Depreciable:			
Infrastructure	725,000	-	725,000
Building, improvements, and equipment	499,283	4,164,100	4,663,383
Less accumulated depreciation	<u>(493,949)</u>	<u>(1,634,657)</u>	<u>(2,128,606)</u>
Total capital assets (net of accumulated depreciation)	<u>730,334</u>	<u>2,540,611</u>	<u>3,270,945</u>
Total assets	<u>\$ 1,515,822</u>	<u>\$ 3,085,590</u>	<u>\$ 4,601,412</u>
Liabilities and net position			
Current liabilities			
Accounts payable	\$ 1,406	\$ 94,030	\$ 95,436
Loan payable	53,200	-	53,200
Accrued employee benefits	-	13,699	13,699
Bonds payable - due within one year	55,000	-	55,000
Customer deposits	-	10,642	10,642
Total current liabilities	<u>109,606</u>	<u>118,371</u>	<u>227,977</u>
Non-current liabilities			
Bonds payable - due in more than one year	<u>110,000</u>	<u>-</u>	<u>110,000</u>
Total liabilities	<u>219,606</u>	<u>118,371</u>	<u>337,977</u>
Net position			
Invested in capital assets	565,334	2,540,611	3,105,945
Unrestricted	<u>730,882</u>	<u>426,608</u>	<u>1,157,490</u>
Total net position	<u>1,296,216</u>	<u>2,967,219</u>	<u>4,263,435</u>
Total liabilities and net position	<u>\$ 1,515,822</u>	<u>\$ 3,085,590</u>	<u>\$ 4,601,412</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities:						
General government	\$ 31,280	\$ 14,911	\$ 403,542	\$ 387,173	\$ -	\$ 387,173
Public safety	169,547	15,404	92,619	(61,524)	-	(61,524)
Highways and street	150,587	-	-	(150,587)	-	(150,587)
Culture and recreation	10,271	-	-	(10,271)	-	(10,271)
Miscellaneous	55,062	-	-	(55,062)	-	(55,062)
Total governmental activities	<u>416,747</u>	<u>30,315</u>	<u>496,161</u>	<u>109,729</u>	<u>-</u>	<u>109,729</u>
Business-type activities:						
Public service	1,250,322	1,222,532	-	-	(27,790)	(27,790)
Rental property	88,147	82,600	-	-	(5,547)	(5,547)
Total business-type activities	<u>1,338,469</u>	<u>1,305,132</u>	<u>-</u>	<u>-</u>	<u>(33,337)</u>	<u>(33,337)</u>
Total primary government	<u>\$ 1,755,216</u>	<u>\$ 1,335,447</u>	<u>\$ 496,161</u>	<u>109,729</u>	<u>(33,337)</u>	<u>76,392</u>
General revenues:						
Property taxes				153,882	-	153,882
Intergovernmental				231,163	-	231,163
Interest				3,148	600	3,748
Miscellaneous				4,837	-	4,837
Total general revenues				<u>393,030</u>	<u>600</u>	<u>393,630</u>
Changes in net position				<u>502,759</u>	<u>(32,737)</u>	<u>470,022</u>
Net position - beginning of year				<u>793,457</u>	<u>2,999,956</u>	<u>3,793,413</u>
Net position - end of year				<u>\$ 1,296,216</u>	<u>\$ 2,967,219</u>	<u>\$ 4,263,435</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2011

	<u>General</u>	<u>Tax Increment District</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 800,581	\$ 17,091	\$ 817,672
Accounts receivable	39,193	-	39,193
Due from other funds	105,910	-	105,910
Special assessments receivable	17,912	-	17,912
Taxes receivable	14,054	-	14,054
Total assets	<u>\$ 977,650</u>	<u>\$ 17,091</u>	<u>\$ 994,741</u>
Liabilities and fund balance			
Liabilities			
Accounts payable	\$ 1,406	\$ -	\$ 1,406
Loans payable	-	53,200	53,200
Due to other funds	50,143	159,110	209,253
Deferred revenue	31,967	-	31,967
Total liabilities	<u>83,516</u>	<u>212,310</u>	<u>295,826</u>
Fund balance			
Assigned for Housing Rehab Program	14,235		14,235
Unassigned	879,899	(195,219)	684,680
Total fund balance	<u>894,134</u>	<u>(195,219)</u>	<u>698,915</u>
Total liabilities and fund balance	<u>\$ 977,650</u>	<u>\$ 17,091</u>	<u>\$ 994,741</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
AS OF DECEMBER 31, 2011

Total governmental funds balance \$ 698,915

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.

Capital assets	1,224,283	
Accumulated depreciation	<u>(493,949)</u>	730,334

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 31,967

Long-term liabilities not due and payable in the
current period and therefore are not included
in the funds:

Bonds payable (165,000)

Net position of governmental activities \$ 1,296,216

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Tax Increment District	Total Governmental Funds
Revenues			
Property taxes	\$ 144,094	\$ 8,378	\$ 152,472
Special assessments	13,181	-	13,181
Licenses and permits	1,581	-	1,581
Intergovernmental	328,132	-	328,132
Charges for services	15,404	-	15,404
Fines and penalties	2,573	-	2,573
Interest	3,112	36	3,148
Contributions and donations	403,542	-	403,542
Rents	3,600	-	3,600
Reimbursements and refunds	7,157	-	7,157
Loan repayments	36	-	36
Miscellaneous	4,801	-	4,801
	<u>927,213</u>	<u>8,414</u>	<u>935,627</u>
Total receipts			
	<u>927,213</u>	<u>8,414</u>	<u>935,627</u>
Expenditures			
Current			
General government	31,280	-	31,280
Public safety	140,547	-	140,547
Highways and streets	100,599	-	100,599
Culture and recreation	10,271	-	10,271
Miscellaneous	54,512	550	55,062
Capital outlay	159,339	-	159,339
Debt service:			
Principal	55,000		55,000
Interest and other charges	9,925	1,596	11,521
	<u>561,473</u>	<u>2,146</u>	<u>563,619</u>
Total disbursements			
	<u>561,473</u>	<u>2,146</u>	<u>563,619</u>
Excess (deficiency) of revenues over (under) expenditures	365,740	6,268	372,008
Fund balance - beginning of year	477,084	(150,177)	326,907
Prior period adjustment	51,310	(51,310)	-
Fund balance, as restated	528,394	(201,487)	326,907
Fund balance - end of year	<u>\$ 894,134</u>	<u>\$ (195,219)</u>	<u>\$ 698,915</u>

The notes to the financial statements are an integral part of this statement

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, 2011

Net change in fund balance - total governmental funds \$ 372,008

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	159,339
Current year depreciation	(67,467)

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.	55,000
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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	(17,531)	
Taxes receivable	<u>1,410</u>	<u>(16,121)</u>

Changes in net assets	<u>\$ 502,759</u>
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The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
	Public Service	Non-Major	
	Utilities Fund	Enterprise	Totals
		Funds	
Assets			
Current assets			
Cash and cash equivalents	\$ 203,390	\$ 67,787	\$ 271,177
Accounts receivable, net of accumulated provision for uncollectible accounts	124,823	543	125,366
Due from other funds	105,375	-	105,375
Inventories	45,093	-	45,093
Total current assets	<u>478,681</u>	<u>68,330</u>	<u>547,011</u>
Capital assets			
Land	2,646	8,522	11,168
Building, improvements, and equipment	3,908,837	255,263	4,164,100
Less accumulated depreciation	<u>(1,461,838)</u>	<u>(172,819)</u>	<u>(1,634,657)</u>
Total capital assets	<u>2,449,645</u>	<u>90,966</u>	<u>2,540,611</u>
Total assets	<u>\$ 2,928,326</u>	<u>\$ 159,296</u>	<u>\$ 3,087,622</u>
Liabilities and net position			
Current liabilities			
Accounts payable	\$ 90,795	\$ 3,235	\$ 94,030
Accrued employee benefits	13,699	-	13,699
Due to other funds	-	2,032	2,032
Customer deposits	6,042	4,600	10,642
Total current liabilities	<u>110,536</u>	<u>9,867</u>	<u>120,403</u>
Net position			
Invested in capital assets	2,449,645	90,966	2,540,611
Unrestricted	<u>368,145</u>	<u>58,463</u>	<u>426,608</u>
Total net position	<u>2,817,790</u>	<u>149,429</u>	<u>2,967,219</u>
Total liabilities and net position	<u>\$ 2,928,326</u>	<u>\$ 159,296</u>	<u>\$ 3,087,622</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
	Public Service	Non-Major	
	Utilities Fund	Enterprise Funds	Totals
Operating revenue			
Charges for services	\$ 1,077,715	\$ -	\$ 1,077,715
City departments - energy	16,247	-	16,247
City departments - administration fee	16,909	-	16,909
Penalties	8,026	-	8,026
Rentals	-	78,554	78,554
Generator Revenue	82,471	-	82,471
Other	21,164	4,046	25,210
Total operating revenue	<u>1,222,532</u>	<u>82,600</u>	<u>1,305,132</u>
Operating expenses			
Electric energy purchased	676,519	-	676,519
Sewer water disposal	9,415	-	9,415
Salaries and wages	155,387	20,392	175,779
Heat, light and power	-	23,250	23,250
Repairs, maintenance and supplies	57,418	15,709	73,127
Professional services	5,473	-	5,473
Insurance	26,019	9,206	35,225
Payroll taxes and employee benefits	51,103	-	51,103
Depreciation	100,785	7,549	108,334
Dumpster rent and pickup	47,082	-	47,082
Generator expense	38,665	-	38,665
Other	82,456	12,041	94,497
Total operating expenses	<u>1,250,322</u>	<u>88,147</u>	<u>1,338,469</u>
Operating Income (Loss)	<u>(27,790)</u>	<u>(5,547)</u>	<u>(33,337)</u>
Non-operating revenues (expenses)			
Interest income	<u>545</u>	<u>55</u>	<u>600</u>
Total non-operating revenues (expenses)	<u>545</u>	<u>55</u>	<u>600</u>
Change in net position	(27,245)	(5,492)	(32,737)
Net position, beginning	<u>2,845,035</u>	<u>154,921</u>	<u>2,999,956</u>
Net position, ending	<u>\$ 2,817,790</u>	<u>\$ 149,429</u>	<u>\$ 2,967,219</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Utility Fund	Non-Major Enterprise Funds	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,219,437	\$ 105,687	\$ 1,325,124
Payments to suppliers	(997,659)	(63,460)	(1,061,119)
Payments to employees	(155,387)	(20,392)	(175,779)
Net cash provided (used) by operating activities	<u>66,391</u>	<u>21,835</u>	<u>88,226</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(75,790)	-	(75,790)
Net cash provided (used) by capital and related financing activities	<u>(75,790)</u>	<u>-</u>	<u>(75,790)</u>
Cash flows from investing activities			
Interest income	545	55	600
Net cash provided (used) by investing activities	<u>545</u>	<u>55</u>	<u>600</u>
Net increase (decrease) in cash and cash equivalents	(8,854)	21,890	13,036
Cash and cash equivalents, January 1	212,244	45,897	258,141
Cash and cash equivalents, December 31	<u>\$ 203,390</u>	<u>\$ 67,787</u>	<u>\$ 271,177</u>
Reconciliation of net operating income to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ (27,790)	\$ (5,547)	\$ (33,337)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	100,785	7,549	108,334
Change in assets and liabilities:			
Accounts receivable	(3,715)	23,437	19,722
Inventories	(16,793)	-	(16,793)
Accounts payable	8,551	(340)	8,211
Accrued expenses	4,733	(2,914)	1,819
Customer deposits	620	(350)	270
Total adjustments	<u>94,181</u>	<u>27,382</u>	<u>121,563</u>
Net cash provided (used) by operating activities	<u>\$ 66,391</u>	<u>\$ 21,835</u>	<u>\$ 88,226</u>

The notes to the financial statements are an integral part of this statement

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011

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 position 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:

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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.

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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. Net Position

For the year ended December 31, 2011, the City implemented GASB Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, *Elements of Financial Statements*.

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

N. Fund Balance

For the year ended December 31, 2011, the City implemented GASB Statement No.54 *"Fund Balance Reporting and Governmental Fund Type Definitions"*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

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

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

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

Assigned – consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Clerk.

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

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Over Budgeted Amounts

Expenditures were more than budgeted in the general fund by \$180,178 in 2011.

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, 2011, the City's carrying amount of deposits was \$1,088,849 and the bank balance was \$1,117,799. Of the bank balances, \$294,585 was covered by Federal Depository Insurance and \$730,000 was covered by pledged collateral and \$93,214 was not covered by authorized collateral at December 31, 2011.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

NOTE 6 CAPITAL ASSETS

The following is a summary of proprietary fund type assets for the year ending December 31, 2011:

<u>Governmental Activities</u>	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
Capital assets, being depreciated				
Infrastructure	\$ 725,000	\$ -	\$ -	\$ 725,000
Building	125,011	50,000	-	175,011
Equipment	214,933	109,339	-	324,272
	1,064,944	159,339	-	1,224,283
Less accumulated depreciation	(426,482)	(67,467)	-	(493,949)
Governmental activities capital assets, being depreciated, net	<u>\$ 638,462</u>	<u>\$ 91,872</u>	<u>\$ -</u>	<u>\$ 730,334</u>

Depreciation expense was charged to government functions as follows:

Highways and Streets	\$ 29,000
Public Safety	<u>38,467</u>
	<u>\$ 67,467</u>

<u>Business Type Activities</u>	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
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	1,189,799	2,000	-	1,191,799
Sewer	904,603	-	-	904,603
Electric	1,574,257	72,618	-	1,646,875
General utilities	164,388	1,172	-	165,560
Sunrise Apartments	115,000	-	-	115,000
Wimmer Homes	140,263	-	-	140,263
	4,088,310	75,790	-	4,164,100
Less accumulated depreciation	(1,526,323)	(108,334)	-	(1,634,657)
Total capital assets, being depreciated, net	<u>2,561,987</u>	<u>(32,544)</u>	<u>-</u>	<u>2,529,443</u>
Total capital assets net	<u>\$ 2,573,155</u>	<u>\$ (32,544)</u>	<u>\$ -</u>	<u>\$ 2,540,611</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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

Water	\$ 25,637
Sewer	17,684
Electric	54,883
General utilities	2,581
Sunrise Apartments	4,600
Wimmer Homes	2,949
	<u>\$ 108,334</u>

NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2011:

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%	<u>\$ 165,000</u>
Total long-term debt				<u>\$ 165,000</u>

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

	Balance 01/01/11	New Issue	Retired	Balance 12/31/11	Due Within One Year
Long-Term Debt	<u>\$ 220,000</u>	<u>\$</u>	<u>\$ 55,000</u>	<u>\$ 165,000</u>	<u>\$ 55,000</u>

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

Years ending December 31,	Principal	Interest
2012	\$ 55,000	\$ 6,875
2013	55,000	4,125
2014	55,000	1,375
Totals	<u>\$ 165,000</u>	<u>\$ 12,375</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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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 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 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 retirement 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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members are required to contribute 9.6% of their annual covered salary in 2011. The City of Halstad, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF member, 7.25% for Coordinated Plan PERF members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$12,432, \$10,542 and \$11,514, 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 \$10,748 for 2011.

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, 2011, 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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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 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 11 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, 2011.

NOTE 12 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, 2011, 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 immaterial amount at December 31, 2011.

NOTE 13 NEW PRONOUNCEMENTS

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

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 14 FUND BALANCE DEFICIT

There was a deficit fund balance of \$195,219 in the Tax Increment District fund as of December 31, 2011. This will be funded through tax levies and general fund transfers.

NOTE 15 FUND BALANCE

Classifications

At December 31, 2011, a summary of governmental fund balance classifications are as follows:

	<u>General Fund</u>
Assigned for:	
Housing Rehab	<u>\$ 14,235</u>
Total Assigned	<u>\$ 14,235</u>

Minimum Fund Balance Policy

The City Council has not formally adopted a fund balance policy for the General Fund.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2011

NOTE 16 PRIOR PERIOD ADJUSTMENT IN THE GOVERNMENTAL FUNDS

During fiscal year end 2008, the General Fund paid \$51,310 in expenditures on behalf of the TIF Fund. These payments are intended to be paid back to the General Fund but had been expensed when paid. During 2011, an adjustment was made to set up a Due from and related Due to between the General Fund and TIF Fund for the \$51,310 previously expensed.

	General	Tax Increment District	Total Governmental Funds
Fund balance - beginning of year	\$ 462,925	\$ (150,177)	\$ 312,748
Prior period adjustment for TIF fund expenditures that were paid by the general fund	51,310	(51,310)	-
Fund balance, beginning of year as restated	514,235	(201,487)	312,748

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
General property taxes	\$ 166,600	\$ 144,094	\$ (22,506)
Special assessments	16,000	13,181	(2,819)
Other	1,200	5,287	4,087
Licenses and permits	3,200	1,581	(1,619)
	<u>187,000</u>	<u>164,143</u>	<u>(22,857)</u>
Intergovernmental revenues			
Market value credits	-	13,711	13,711
Local government aid	155,700	164,085	8,385
Fire relief association aid	9,100	10,748	1,648
Other	1,000	42,619	41,619
	<u>165,800</u>	<u>231,163</u>	<u>65,363</u>
Charges for services			
Fire protection fees	9,000	15,404	6,404
Snow removal	1,500	-	(1,500)
	<u>10,500</u>	<u>15,404</u>	<u>4,904</u>
Fines and penalties	<u>1,500</u>	<u>2,573</u>	<u>1,073</u>
Miscellaneous revenues			
Gifts and donations	-	403,542	403,542
Interest on investments	1,500	3,112	1,612
Sales and rental of property	3,600	3,600	-
Reimbursements and refunds	3,000	7,193	4,193
Other	1,000	96,483	95,483
	<u>9,100</u>	<u>513,930</u>	<u>504,830</u>
Total revenues	<u>373,900</u>	<u>927,213</u>	<u>553,313</u>
Expenditures			
General government			
Audit	4,500	4,187	313
Assessment services	2,200	3,007	(807)
Election expense	-	859	(859)
Payroll expenses	11,220	13,149	(1,929)
County assessment	1,380	1,530	(150)
Insurance	4,500	107	4,393
Supplies and other	6,500	8,441	(1,941)
Total general government	<u>30,300</u>	<u>31,280</u>	<u>(980)</u>

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance with Final Budget
Public safety			
Police protection			
Contracted service	\$ 26,200	\$ 27,810	\$ (1,610)
Insurance	2,300	-	2,300
Animal control	1,000	175	825
Other	2,000	4,567	(2,567)
	<u>31,500</u>	<u>32,552</u>	<u>(1,052)</u>
Fire protection			
Volunteers compensation	8,000	11,735	(3,735)
Equipment and repairs	2,500	16,170	(13,670)
Hydrant rental	1,850	1,850	-
Jaws truck	300	-	300
Telephone and utilities	3,500	5,353	(1,853)
County assessment	800	-	800
Insurance	4,500	7,067	(2,567)
Other expense	1,000	1,857	(857)
Education and training	5,400	11,350	(5,950)
Capital outlay - equipment	8,000	102,073	(94,073)
Firemen's relief association	11,100	13,492	(2,392)
	<u>46,950</u>	<u>170,947</u>	<u>(123,997)</u>
Rescue squad			
Volunteers' compensation	5,200	7,374	(2,174)
Repairs	1,500	1,191	309
Telephone and utilities	3,000	2,760	240
Capital outlay - equipment	6,800	-	6,800
Insurance	1,200	2,421	(1,221)
Other	500	221	279
	<u>18,200</u>	<u>13,967</u>	<u>4,233</u>
Flood			
Dike maintenance	<u>9,000</u>	<u>25,154</u>	<u>(16,154)</u>
Total public safety	<u>105,650</u>	<u>242,620</u>	<u>(136,970)</u>

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and		Variance
	Final Budget	Actual	with
			Final Budget
Highways and streets			
Streets and property maintenance	\$ 46,000	\$ 24,265	\$ 21,735
Equipment repair and maintenance	45,000	38,346	6,654
Capital outlay	15,000	57,266	(42,266)
Snow removal	10,000	19,650	(9,650)
Street lighting	8,200	8,336	(136)
Tree removal and replacement	1,500	870	630
Insurance	5,000	6,400	(1,400)
Street bond interest	12,650	9,925	2,725
Street bond principal	55,000	55,000	
Other	6,995	2,732	4,263
	<u>205,345</u>	<u>222,790</u>	<u>(17,445)</u>
Culture and recreation			
Recreation programs			
Park and other expense	<u>8,000</u>	<u>10,271</u>	<u>(2,271)</u>
Miscellaneous			
Consulting - engineering fees	3,000	195	2,805
City beautification - projects	10,000	3,131	6,869
Meals program	1,500	2,940	(1,440)
Economic Development Association	6,000	7,200	(1,200)
Café building expense	4,000	7,470	(3,470)
Other	7,500	33,576	(26,076)
	<u>32,000</u>	<u>54,512</u>	<u>(22,512)</u>
Total expenditures	<u>381,295</u>	<u>561,473</u>	<u>(180,178)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,395)</u>	<u>365,740</u>	<u>373,135</u>
Fund balance, beginning of year as restated	<u>528,394</u>	<u>528,394</u>	<u>-</u>
Fund balance, end of year	<u>\$ 520,999</u>	<u>\$ 894,134</u>	<u>\$ 373,135</u>

CITY OF HALSTAD
NOTE TO BUDGETARY COMPARISON SCHEDULES
AS OF DECEMBER 31, 2011

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 \$180,178 in 2011.

SUPPLEMENTARY INFORMATION

CITY OF HALSTAD
STATEMENT OF NET POSITION – NON-MAJOR – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2011

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 46,695	\$ 21,092	\$ 67,787
Accounts receivable	<u>543</u>	<u>-</u>	<u>543</u>
Total current assets	<u>47,238</u>	<u>21,092</u>	<u>68,330</u>
Noncurrent assets			
Land	3,522	5,000	8,522
Building, improvements and equipment	140,263	115,000	255,263
Less accumulated depreciation	<u>(120,302)</u>	<u>(52,517)</u>	<u>(172,819)</u>
Total noncurrent assets	<u>23,483</u>	<u>67,483</u>	<u>90,966</u>
Total assets	<u><u>\$ 70,721</u></u>	<u><u>\$ 88,575</u></u>	<u><u>\$ 159,296</u></u>
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 1,765	\$ 1,470	\$ 3,235
Due to other funds	941	1,091	2,032
Customer deposits	<u>2,600</u>	<u>2,000</u>	<u>4,600</u>
Total current liabilities	<u>5,306</u>	<u>4,561</u>	<u>9,867</u>
Net assets			
Invested in capital assets	23,483	67,483	90,966
Unrestricted	<u>41,932</u>	<u>16,531</u>	<u>58,463</u>
Total net assets	<u>65,415</u>	<u>84,014</u>	<u>149,429</u>
Total liabilities and net assets	<u><u>\$ 70,721</u></u>	<u><u>\$ 88,575</u></u>	<u><u>\$ 159,296</u></u>

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – NON-MAJOR
– PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
Operating revenue			
Tenant rent	\$ 28,877	\$ 49,677	\$ 78,554
Other	<u>1,399</u>	<u>2,647</u>	<u>4,046</u>
Total operating revenue	<u>30,276</u>	<u>52,324</u>	<u>82,600</u>
Operating expenses			
Salaries and wages	6,907	13,485	20,392
Heat, light and power	7,960	15,290	23,250
Repairs, maintenance and supplies	2,310	13,399	15,709
Insurance	2,671	6,535	9,206
Depreciation	2,949	4,600	7,549
Telephone	-	419	419
Property taxes	1,232	5,022	6,254
Administration fee	1,381	2,645	4,026
Other	<u>226</u>	<u>1,116</u>	<u>1,342</u>
Total operating expenses	<u>25,636</u>	<u>62,511</u>	<u>88,147</u>
Total operating income	<u>4,640</u>	<u>(10,187)</u>	<u>(5,547)</u>
Non-operating revenues (expenses)			
Interest income	<u>53</u>	<u>2</u>	<u>55</u>
Change in net position	4,693	(10,185)	(5,492)
Net position beginning	<u>60,722</u>	<u>94,199</u>	<u>154,921</u>
Net position ending	<u>\$ 65,415</u>	<u>\$ 84,014</u>	<u>\$ 149,429</u>

CITY OF HALSTAD
COMBINING STATEMENT OF CASH FLOWS – NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	John Wimmer Homes	Sunrise Apartments	Totals
Cash flows from operating activities			
Receipts from customers and users	\$ 30,337	\$ 75,350	\$ 105,687
Payments to suppliers	(15,229)	(48,231)	(63,460)
Payments to employees	(6,907)	(13,485)	(20,392)
Net cash provided (used) by operating activities	<u>8,201</u>	<u>13,634</u>	<u>21,835</u>
Cash flows from investing activities			
Interest income	<u>53</u>	<u>2</u>	<u>55</u>
Net cash provided (used) by investing activities	<u>53</u>	<u>2</u>	<u>55</u>
Net increase in cash and cash equivalents	8,254	13,636	21,890
Cash and cash equivalents, January 1	<u>38,441</u>	<u>7,456</u>	<u>45,897</u>
Cash and cash equivalents, December 31	<u><u>\$ 46,695</u></u>	<u><u>\$ 21,092</u></u>	<u><u>\$ 67,787</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 4,640</u>	<u>\$ (10,187)</u>	<u>\$ (5,547)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	2,949	4,600	7,549
Accounts receivable	11	23,426	23,437
Accounts payable	695	(1,035)	(340)
Accrued expenses	(144)	(2,770)	(2,914)
Customer deposits	<u>50</u>	<u>(400)</u>	<u>(350)</u>
Total adjustments	<u>3,561</u>	<u>23,821</u>	<u>27,382</u>
Net cash provided (used) by operating activities	<u><u>\$ 8,201</u></u>	<u><u>\$ 13,634</u></u>	<u><u>\$ 21,835</u></u>

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewage Disposal Department</u>	<u>Refuse Disposal Department</u>	<u>Total</u>
Operating revenues					
Halstad consumers	\$ 834,345	\$ 83,966	\$ 106,778	\$ 52,626	\$ 1,077,715
City departments - energy	-	-	-	-	-
City departments - administration fee	16,909	-	-	-	16,909
Penalties	8,026	-	-	-	8,026
Generator Revenue	82,471	-	-	-	82,471
Other	21,164	-	-	-	21,164
Total operating revenues	<u>962,915</u>	<u>83,966</u>	<u>106,778</u>	<u>52,626</u>	<u>1,206,285</u>
Operating expenses					
Production and distribution					
Salaries	56,710	12,447	25,068	-	94,225
Repair, maintenance and supplies	-	3,888	22,046	-	25,934
Electric energy purchased	676,519	-	-	-	676,519
Sewer waste disposal	-	-	9,415	-	9,415
Depreciation	54,883	25,637	17,684	-	98,204
Generator expenses	38,665	-	-	-	38,665
Dumpster rent and pickup	-	-	-	47,082	47,082
Truck expense	9,244	2,029	4,087	-	15,360
Miscellaneous and training	55,996	12,643	4,619	-	73,258
Total production and distribution	<u>892,017</u>	<u>56,644</u>	<u>82,919</u>	<u>47,082</u>	<u>1,078,662</u>
General and administrative					
Salaries - administrative and office	20,388	20,387	20,387	-	61,162
General supplies and maintenance	-	1,283	7,277	-	8,560
Office supplies and postage	2,522	2,521	2,521	-	7,564
Telephone	1,608	1,608	1,608	-	4,824
Depreciation	1,442	674	465	-	2,581
Professional fees and services	4,183	945	345	-	5,473
Insurance	15,659	3,437	6,923	-	26,019
PERA and social security	18,483	4,057	8,170	-	30,710
Less: benefits charged out	(9,779)	(2,146)	(4,322)	-	(16,247)
Miscellaneous	3,343	755	276	-	4,374
Employee insurance and other	12,273	2,694	5,426	-	20,393
Total general and administrative	<u>70,122</u>	<u>36,215</u>	<u>49,076</u>	<u>-</u>	<u>155,413</u>
Total operating expenses	<u>962,139</u>	<u>92,859</u>	<u>131,995</u>	<u>47,082</u>	<u>1,234,075</u>
Net operating income (loss)	<u>\$ 776</u>	<u>\$ (8,893)</u>	<u>\$ (25,217)</u>	<u>\$ 5,544</u>	<u>\$ (27,790)</u>

CITY OF HALSTAD
UTILITY STATISTICS – ELECTRICAL UTILITIES STATISTICS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Kilowatt hours sold								
Residential	2,864,992	2,954,375	2,983,705	3,088,384	3,046,520	2,918,829	2,910,448	2,866,310
Off peak heating	2,901,579	2,788,170	2,908,079	2,965,714	2,533,853	2,522,682	2,399,759	2,517,857
Commerical lighting	1,170,293	1,126,791	1,194,609	1,082,091	1,217,837	1,139,306	1,277,661	1,078,941
Power	1,658,657	1,725,051	1,799,756	1,879,987	1,942,600	1,894,184	2,021,845	2,071,686
City usage	178,274	197,194	234,619	206,516	94,958	92,345	182,326	182,346
Water and sewer department usage	<u>161,304</u>	<u>164,015</u>	<u>166,956</u>	<u>165,412</u>	<u>165,040</u>	<u>129,783</u>	<u>136,890</u>	<u>140,902</u>
Total KWH sold	8,935,099	8,955,596	9,287,724	9,388,104	9,000,808	8,697,129	8,928,929	8,858,042
Add								
Electric plant usage	<u>300,836</u>	<u>300,130</u>	<u>299,826</u>	<u>306,005</u>	<u>241,798</u>	<u>110,957</u>	<u>112,802</u>	<u>150,768</u>
	<u>9,235,935</u>	<u>9,255,726</u>	<u>9,587,550</u>	<u>9,694,109</u>	<u>9,242,606</u>	<u>8,808,086</u>	<u>9,041,731</u>	<u>9,008,810</u>
Total KWH purchased	9,691,092	9,601,056	10,060,367	10,165,594	9,644,753	9,168,915	9,366,627	9,421,391
Total KWH generated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>9,691,092</u>	<u>9,601,056</u>	<u>10,060,367</u>	<u>10,165,594</u>	<u>9,644,753</u>	<u>9,168,915</u>	<u>9,366,627</u>	<u>9,421,391</u>
Line loss	<u>(455,157)</u>	<u>(345,330)</u>	<u>(472,817)</u>	<u>(471,485)</u>	<u>(402,147)</u>	<u>(360,829)</u>	<u>(324,896)</u>	<u>(412,581)</u>
Loss percentage of KWH purchased	<u>4.70%</u>	<u>3.60%</u>	<u>4.70%</u>	<u>4.64%</u>	<u>4.17%</u>	<u>3.94%</u>	<u>3.47%</u>	<u>4.38%</u>