

**CITY OF HALSTAD
HALSTAD, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

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**CITY OF HALSTAD
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2012**

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad, Minnesota, as of December 31, 2012, 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.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Halstad's basic financial statements. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2013, 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* in considering the City of Halstad's internal control over financial reporting and compliance.

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

February 19, 2013

CITY OF HALSTAD
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 470,675	\$ 428,551	\$ 899,226
Accounts receivable, net of accumulated provision for uncollectible accounts	-	130,044	130,044
Internal balances	(52,315)	52,315	0
Taxes and special assessments receivable	15,200	-	15,200
Inventories	-	38,499	38,499
Total current assets	<u>433,560</u>	<u>649,409</u>	<u>1,082,969</u>
Non-current assets:			
Capital assets:			
Nondepreciable:			
Land	12,082	11,168	23,250
Construction in Progress	239,916	-	239,916
Depreciable:			
Infrastructure	725,000	-	725,000
Building, improvements, and equipment	689,138	4,227,890	4,917,028
Less accumulated depreciation	<u>(580,794)</u>	<u>(1,748,698)</u>	<u>(2,329,492)</u>
Total capital assets (net of accumulated depreciation)	<u>1,085,342</u>	<u>2,490,361</u>	<u>3,575,703</u>
Total assets	<u>\$ 1,518,902</u>	<u>\$ 3,139,770</u>	<u>\$ 4,658,671</u>
Liabilities and net position			
Current liabilities			
Accounts payable	\$ -	\$ 88,487	\$ 88,487
Loan payable	51,200	-	51,200
Accrued employee benefits	-	15,696	15,696
Bonds payable - due within one year	55,000	-	55,000
Customer deposits	-	11,525	11,525
Total current liabilities	<u>106,200</u>	<u>115,708</u>	<u>221,908</u>
Non-current liabilities			
Bonds payable - due in more than one year	55,000	-	55,000
Total liabilities	<u>161,200</u>	<u>115,708</u>	<u>276,908</u>
Net position			
Invested in capital assets	975,342	2,490,361	3,465,703
Unrestricted	<u>382,360</u>	<u>533,701</u>	<u>916,060</u>
Total net position	<u>1,357,702</u>	<u>3,024,061</u>	<u>4,381,763</u>
Total liabilities and net position	<u>\$ 1,518,902</u>	<u>\$ 3,139,770</u>	<u>\$ 4,658,671</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, 2012

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	\$ 40,481	\$ 13,993	\$ 14,000	\$ (12,488)	\$ -	\$ (12,488)
Public safety	181,606	16,396	121,684	(43,527)	-	(43,527)
Highways and street	181,737	-	-	(181,737)	-	(181,737)
Culture and recreation	33,146	-	-	(33,146)	-	(33,146)
Miscellaneous	30,916	-	-	(30,916)	-	(30,916)
Total governmental activities	<u>467,887</u>	<u>30,389</u>	<u>135,684</u>	<u>(301,814)</u>	<u>-</u>	<u>(301,814)</u>
Business-type activities:						
Public service	1,201,794	1,262,002	-	-	60,208	60,208
Rental property	77,103	64,952	-	-	(12,151)	(12,151)
Total business-type activities	<u>1,278,896</u>	<u>1,326,954</u>	<u>-</u>	<u>-</u>	<u>48,058</u>	<u>48,058</u>
Total primary government	<u>\$ 1,746,783</u>	<u>\$ 1,357,343</u>	<u>\$ 135,684</u>	<u>(301,814)</u>	<u>48,058</u>	<u>(253,757)</u>
General revenues:						
Property taxes				174,685	-	174,685
Intergovernmental				184,175	-	184,175
Interest				1,286	8,785	10,070
Miscellaneous				3,155	-	3,155
Total general revenues				<u>363,300</u>	<u>8,785</u>	<u>372,085</u>
Changes in net position				<u>61,486</u>	<u>56,842</u>	<u>118,328</u>
Net position - beginning of year				<u>1,296,216</u>	<u>2,967,219</u>	<u>4,263,435</u>
Net position - end of year				<u>\$ 1,357,702</u>	<u>\$ 3,024,061</u>	<u>\$ 4,381,763</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, 2012

	<u>General</u>	<u>Tax Increment District</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 456,995	\$ 13,680	\$ 470,675
Due from other funds	105,910	-	105,910
Special assessments receivable	488	-	488
Taxes receivable	14,712	-	14,712
Total assets	<u>\$ 578,105</u>	<u>\$ 13,680</u>	<u>\$ 591,785</u>
Liabilities and fund balance			
Liabilities			
Loans payable	\$ -	\$ 51,200	\$ 51,200
Due to other funds	232	157,993	158,225
Deferred revenue	15,200	-	15,200
Total liabilities	<u>15,432</u>	<u>209,193</u>	<u>224,625</u>
Fund balance			
Assigned for Housing Rehab Program	14,257		14,257
Unassigned	548,416	(195,513)	352,903
Total fund balance	<u>562,673</u>	<u>(195,513)</u>	<u>367,160</u>
Total liabilities and fund balance	<u>\$ 578,105</u>	<u>\$ 13,680</u>	<u>\$ 591,785</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, 2012

Total governmental funds balance		\$ 367,160
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore not reported in the fund.</p>		
Capital assets	1,666,136	
Accumulated depreciation	<u>(580,794)</u>	1,085,342
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Special assessments and property taxes		15,200
<p>Long-term liabilities not due and payable in the current period and therefore are not included in the funds:</p>		
Bonds payable		<u>(110,000)</u>
Net position of governmental activities		<u>\$ 1,357,702</u>

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, 2012

	General	Tax Increment District	Total Governmental Funds
Revenues			
Property taxes	\$ 164,378	\$ 9,648	\$ 174,027
Special assessments	12,315	-	12,315
Licenses and permits	1,092	-	1,092
Intergovernmental	310,969	-	310,969
Charges for services	16,396	-	16,396
Fines and penalties	2,401	-	2,401
Interest	1,278	8	1,286
Contributions and donations	14,000	-	14,000
Rents	300	-	300
Reimbursements and refunds	10,200	-	10,200
Miscellaneous	3,155	-	3,155
Total receipts	<u>536,483</u>	<u>9,657</u>	<u>546,139</u>
Expenditures			
Current			
General government	38,756	-	38,756
Public safety	128,106	-	128,106
Highways and streets	135,611	-	135,611
Culture and recreation	30,526	-	30,526
Miscellaneous	30,916	-	30,916
Capital outlay	441,853	-	441,853
Debt service:			
Principal	55,000	-	55,000
Interest and other charges	7,175	9,951	17,126
Total disbursements	<u>867,944</u>	<u>9,951</u>	<u>877,895</u>
Excess (deficiency) of revenues over (under) expenditures	(331,461)	(294)	(331,755)
Fund balance - beginning of year	<u>894,134</u>	<u>(195,219)</u>	<u>698,915</u>
Fund balance - end of year	<u>\$ 562,673</u>	<u>\$ (195,513)</u>	<u>\$ 367,160</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, 2012

Net change in fund balance - total governmental funds \$ (331,755)

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	441,853
Current year depreciation	(86,845)

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	(17,425)	
Taxes receivable	658	(16,767)

Changes in net assets	\$ 61,486
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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, 2012

	<u>Business Type Activities - Enterprise Funds</u>		
	Public Service	Non-Major	Totals
	Utilities Fund	Enterprise Funds	
Assets			
Current assets			
Cash and cash equivalents	\$ 363,798	\$ 64,753	\$ 428,551
Accounts receivable, net of accumulated provision for uncollectible accounts	129,648	396	130,044
Due from other funds	54,089	-	54,089
Inventories	38,499	-	38,499
Total current assets	<u>586,034</u>	<u>65,149</u>	<u>651,184</u>
Capital assets			
Land	2,646	8,522	11,168
Building, improvements, and equipment	3,972,627	255,263	4,227,890
Less accumulated depreciation	<u>(1,568,394)</u>	<u>(180,304)</u>	<u>(1,748,698)</u>
Total capital assets	<u>2,406,879</u>	<u>83,481</u>	<u>2,490,361</u>
Total assets	<u>\$ 2,992,913</u>	<u>\$ 148,630</u>	<u>\$ 3,141,544</u>
Liabilities and net position			
Current liabilities			
Accounts payable	\$ 84,357	\$ 4,130	\$ 88,487
Accrued employee benefits	15,696	-	15,696
Due to other funds	-	1,774	1,774
Customer deposits	6,125	5,400	11,525
Total current liabilities	<u>106,178</u>	<u>11,304</u>	<u>117,483</u>
Net position			
Invested in capital assets	2,406,879	83,481	2,490,361
Unrestricted	479,856	53,845	533,701
Total net position	<u>2,886,735</u>	<u>137,326</u>	<u>3,024,061</u>
Total liabilities and net position	<u>\$ 2,992,913</u>	<u>\$ 148,630</u>	<u>\$ 3,141,544</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, 2012

	<u>Business Type Activities - Enterprise Funds</u>		
	Public Service Utilities Fund	Non-Major Enterprise	Totals
		Funds	
Operating revenue			
Charges for services	\$ 1,134,995	\$ -	\$ 1,134,995
City departments - energy	16,216	-	16,216
City departments - administration fee	16,497	-	16,497
Penalties	8,190	-	8,190
Rentals	-	62,051	62,051
Generator Revenue	83,496	-	83,496
Other	2,609	2,901	5,509
Total operating revenue	<u>1,262,002</u>	<u>64,952</u>	<u>1,326,954</u>
Operating expenses			
Electric energy purchased	659,948	-	659,948
Sewer water disposal	12,466	-	12,466
Salaries and wages	152,463	15,549	168,013
Heat, light and power	-	21,338	21,338
Repairs, maintenance and supplies	44,636	11,511	56,147
Professional services	4,790	-	4,790
Insurance	11,639	9,471	21,110
Payroll taxes and employee benefits	52,003	-	52,003
Depreciation	106,556	7,485	114,041
Dumpster rent and pickup	47,148	-	47,148
Generator expense	23,116	-	23,116
Other	87,029	11,748	98,777
Total operating expenses	<u>1,201,794</u>	<u>77,103</u>	<u>1,278,896</u>
Operating Income (Loss)	<u>60,208</u>	<u>(12,151)</u>	<u>48,058</u>
Non-operating revenues (expenses)			
Interest income	8,737	48	8,785
Total non-operating revenues (expenses)	<u>8,737</u>	<u>48</u>	<u>8,785</u>
Change in net position	68,945	(12,103)	56,842
Net position, beginning	<u>2,817,790</u>	<u>149,429</u>	<u>2,967,219</u>
Net position, ending	<u>\$ 2,886,735</u>	<u>\$ 137,326</u>	<u>\$ 3,024,061</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, 2012

	Utility Fund	Non-Major Enterprise Funds	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,308,545	\$ 65,899	\$ 1,374,444
Payments to suppliers	(940,621)	(53,431)	(994,052)
Payments to employees	(152,463)	(15,549)	(168,013)
Net cash provided (used) by operating activities	215,461	(3,081)	212,380
Cash flows from capital and related financing activities:			
Purchases of capital assets	(63,790)	-	(63,790)
Net cash provided (used) by capital and related financing activities	(63,790)	-	(63,790)
Cash flows from investing activities			
Interest income	8,737	48	8,785
Net cash provided (used) by investing activities	8,737	48	8,785
Net increase (decrease) in cash and cash equivalents	160,408	(3,033)	157,375
Cash and cash equivalents, January 1	203,390	67,787	271,177
Cash and cash equivalents, December 31	\$ 363,798	\$ 64,754	\$ 428,552
Reconciliation of net operating income to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 60,208	\$ (12,151)	\$ 48,058
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	106,556	7,485	114,041
Change in assets and liabilities:			
Accounts receivable	46,461	148	46,608
Inventories	6,594	-	6,594
Accounts payable	(6,438)	895	(5,543)
Accrued expenses	1,997	(258)	1,740
Customer deposits	82	800	882
Total adjustments	155,253	9,070	164,323
Net cash provided (used) by operating activities	\$ 215,461	\$ (3,081)	\$ 212,380

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, 2012

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, 2012

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.

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

D. Measurement Focus and Basis of Accounting

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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, 2012

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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, 2012

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 \$191,261 in 2012.

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, 2012, the City's carrying amount of deposits was \$899,226 and the bank balance was \$913,297. Of the bank balances, \$281,792 was covered by Federal Depository Insurance and \$631,505 was covered by pledged collateral.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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, 2012

NOTE 6 CAPITAL ASSETS

The following is a summary of proprietary fund type assets for the year ending December 31, 2012:

<u>Governmental Type Activities</u>	<u>Balance</u> <u>12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/12</u>
Capital assets, not being depreciated				
Lots	\$ -	\$ 12,082	\$ -	\$ 12,082
Construction In Progress	-	239,916	-	239,916
Capital assets, being depreciated				
Infrastructure	725,000	-	-	725,000
Building	175,011	-	-	175,011
Equipment	<u>324,272</u>	<u>189,855</u>	-	<u>514,127</u>
	1,224,283	189,855	-	1,414,138
Less accumulated depreciation	<u>(493,949)</u>	<u>(86,845)</u>	-	<u>(580,794)</u>
Governmental activities capital assets, being depreciated, net	<u>730,334</u>	<u>103,010</u>	-	<u>833,344</u>
Total capital assets, net	<u>\$ 730,334</u>	<u>\$ 355,008</u>	<u>\$ -</u>	<u>\$ 1,085,342</u>

Depreciation expense was charged to government functions as follows:

General Government	\$ 1,725
Highways and Streets	29,000
Culture and Recreation	2,620
Public Safety	<u>53,500</u>
	<u>\$ 86,845</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

<u>Business Type Activities</u>	<u>Balance 12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
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				
Construction in Progress		55,041		55,041
Water	1,191,799	8,749	-	1,200,548
Sewer	904,603	-	-	904,603
Electric	1,646,875	-	-	1,646,875
General utilities	165,560	-	-	165,560
Sunrise Apartments	115,000	-	-	115,000
Wimmer Homes	140,263	-	-	140,263
	<u>4,164,100</u>	<u>63,790</u>	<u>-</u>	<u>4,227,890</u>
Less accumulated depreciation	<u>(1,634,657)</u>	<u>(114,041)</u>	<u>-</u>	<u>(1,748,698)</u>
Total capital assets, being depreciated, net	<u>2,529,443</u>	<u>(50,251)</u>	<u>-</u>	<u>2,479,192</u>
 Total capital assets net	 <u>\$ 2,540,611</u>	 <u>\$ (50,251)</u>	 <u>\$ -</u>	 <u>\$ 2,490,360</u>

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

Water	\$ 25,917
Sewer	17,631
Electric	60,329
General utilities	2,679
Sunrise Apartments	4,600
Wimmer Homes	2,885
	<u>\$ 114,041</u>

NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2012:

<u>Type</u>	<u>Fund Debt Serviced In</u>	<u>Original Amount</u>	<u>Maturity Date & Interest Rate</u>	<u>Balance 12/31/12</u>
Special assessment debt with governmental commitment 1998 G.O. Improvement	General Fund	\$ 725,000	2/1/14 5.00%	<u>\$ 110,000</u>
Total long-term debt				<u>\$ 110,000</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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

	<u>Balance</u> <u>01/01/12</u>	<u>New</u> <u>Issue</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due Within</u> <u>One Year</u>
Long-Term Debt	<u>\$ 165,000</u>	<u>\$</u>	<u>\$ 55,000</u>	<u>\$ 110,000</u>	<u>\$ 55,000</u>

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

Years ending December 31,	<u>Principal</u>	<u>Interest</u>
2013	\$ 55,000	\$ 4,125
2014	<u>55,000</u>	<u>1,375</u>
Totals	<u>\$ 110,000</u>	<u>\$ 5,500</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 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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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 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 2012. PEPFF members are required to contribute 9.6% of their annual covered salary in 2012. 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, 2012, 2011 and 2010 were \$12,748, \$12,432 and \$10,542, 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$9,165 for 2012.

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, 2012, 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 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 \$51,200 at December 31, 2012.

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, 2012, the City has 4 employees and no retirees participating in its health and dental plans.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

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, 2012.

NOTE 13 NEW PRONOUNCEMENTS

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. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*-an amendment of GASB Statement No. 53 is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of the swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012* – an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, **Statements No. 54**, *Fund Balance Reporting and Governmental Fund Type Definitions*, and **No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statements 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2012

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statements establishes a definition of a pension plan that Reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

NOTE 14 FUND BALANCE DEFICIT

There was a deficit fund balance of \$195,513 in the Tax Increment District fund as of December 31, 2012. This will be funded through tax levies and general fund transfers.

NOTE 15 FUND BALANCE

Classifications

At December 31, 2012, a summary of governmental fund balance classifications are as follows:

	<u>General Fund</u>
Assigned for:	
Housing Rehab	<u>\$ 14,257</u>
Total Assigned	<u>\$ 14,257</u>

Minimum Fund Balance Policy

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

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
General property taxes	\$ 166,600	\$ 164,378	\$ (2,222)
Special assessments	16,000	12,315	(3,685)
Other	1,200	1,551	351
Licenses and permits	2,100	1,092	(1,008)
	<u>185,900</u>	<u>179,336</u>	<u>(6,564)</u>
Intergovernmental revenues			
Market value credits	8,000	-	(8,000)
Local government aid	147,700	164,085	16,385
Fire relief association aid	9,100	9,165	65
Homeland Security Grant	-	126,794	126,794
Other	1,000	10,925	9,925
	<u>165,800</u>	<u>310,969</u>	<u>145,169</u>
Charges for services			
Fire protection fees	12,000	16,396	4,396
Snow removal	1,500	-	(1,500)
	<u>13,500</u>	<u>16,396</u>	<u>2,896</u>
Fines and penalties			
	<u>2,000</u>	<u>2,401</u>	<u>401</u>
Miscellaneous revenues			
Gifts and donations	290,000	14,000	(276,000)
Interest on investments	1,500	1,278	(222)
Reimbursements and refunds	6,000	10,200	4,200
Café Rent	3,600	300	(3,300)
Other	1,000	1,603	603
	<u>302,100</u>	<u>27,381</u>	<u>(274,719)</u>
Total revenues	<u>669,300</u>	<u>536,482</u>	<u>(132,818)</u>
Expenditures			
General government			
Audit	4,500	7,550	(3,050)
Assessment services	2,700	3,459	(759)
Election expense	1,000	836	164
Payroll expenses	12,500	13,074	(574)
County assessment	1,500	2,457	(957)
Insurance	4,650	5,000	(350)
Supplies and other	6,500	6,381	119
Total general government	<u>33,350</u>	<u>38,756</u>	<u>(5,406)</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, 2012

	<u>Original and</u>		<u>Variance</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>with</u>
			<u>Final Budget</u>
Public safety			
Police protection			
Contracted service	\$ 26,200	\$ 27,810	\$ (1,610)
Insurance	2,375	-	2,375
Animal control	1,000	78	922
Other	<u>2,600</u>	<u>5,085</u>	<u>(2,485)</u>
	<u>32,175</u>	<u>32,972</u>	<u>(797)</u>
Fire protection			
Volunteers compensation	9,500	7,448	2,052
Equipment and repairs	8,000	4,087	3,913
Building Expense	2,500	2,782	(282)
Hydrant rental	1,850	1,850	-
Jaws truck	300	-	300
Telephone and utilities	4,500	5,305	(805)
County assessment	800	772	28
Insurance	6,000	4,500	1,500
Other expense	1,000	918	82
Education and training	6,000	6,561	(561)
Capital Outlay - Homeland Security	-	118,115	(118,115)
Firemen's relief association	<u>12,000</u>	<u>12,351</u>	<u>(351)</u>
	<u>52,450</u>	<u>164,689</u>	<u>(112,239)</u>
Rescue squad			
Volunteers' compensation	5,200	6,520	(1,320)
Repairs	1,500	106	1,394
Telephone and utilities	3,000	2,802	198
Capital outlay - equipment	1,800	-	1,800
Equipment Savings	5,000	6,869	(1,869)
Insurance	1,250	2,500	(1,250)
Other	<u>500</u>	<u>307</u>	<u>193</u>
	<u>18,250</u>	<u>19,105</u>	<u>(855)</u>
Flood			
Dike maintenance	<u>9,000</u>	<u>29,456</u>	<u>(20,456)</u>
Total public safety	<u>111,875</u>	<u>246,221</u>	<u>(134,346)</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, 2012

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 46,000	\$ 69,527	\$ (23,527)
Equipment repair and maintenance	45,000	41,424	3,576
Capital outlay	15,000	-	15,000
Snow removal	12,000	6,672	5,328
Street lighting	8,200	10,260	(2,060)
Tree removal and replacement	1,500	340	1,160
Insurance	6,000	4,990	1,010
Tif Bond - HTC	10,783	-	10,783
Street bond interest	6,975	7,175	(200)
Street bond principal	55,000	55,000	-
Other	5,000	2,398	2,602
	<u>211,458</u>	<u>197,786</u>	<u>13,672</u>
Culture and recreation			
Recreation programs			
Park and other expense	90,000	30,526	59,474
Capital Outlay	-	58,945	(58,945)
	<u>90,000</u>	<u>89,471</u>	<u>529</u>
Miscellaneous			
Consulting - engineering fees	3,000	-	3,000
Community Building (LRC)	-	15,917	(15,917)
Capital Outlay	203,000	264,793	(61,793)
City beautification - projects	10,000	3,063	6,937
Meals program	1,500	2,300	(800)
Economic Development Association	6,000	6,000	-
Café building expense	4,000	3,636	364
Other	2,500	-	2,500
	<u>230,000</u>	<u>295,709</u>	<u>(65,709)</u>
Total expenditures	<u>676,683</u>	<u>867,944</u>	<u>(191,261)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,383)</u>	<u>(331,461)</u>	<u>(324,078)</u>
Fund balance, beginning of year	<u>894,134</u>	<u>894,134</u>	<u>-</u>
Fund balance, end of year	<u>\$ 886,751</u>	<u>\$ 562,673</u>	<u>\$ (324,078)</u>

CITY OF HALSTAD
NOTE TO BUDGETARY COMPARISON SCHEDULES
AS OF DECEMBER 31, 2012

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 \$191,261 in 2012.

SUPPLEMENTARY INFORMATION

CITY OF HALSTAD
STATEMENT OF NET POSITION – NON-MAJOR – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2012

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 50,852	\$ 13,901	\$ 64,753
Accounts receivable	396	-	396
Total current assets	<u>51,248</u>	<u>13,901</u>	<u>65,149</u>
Noncurrent assets			
Land	3,522	5,000	8,522
Building, improvements and equipment	140,263	115,000	255,263
Less accumulated depreciation	<u>(123,187)</u>	<u>(57,117)</u>	<u>(180,304)</u>
Total noncurrent assets	<u>20,598</u>	<u>62,883</u>	<u>83,481</u>
Total assets	<u>\$ 71,846</u>	<u>\$ 76,784</u>	<u>\$ 148,630</u>
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 1,333	\$ 2,797	\$ 4,130
Due to other funds	499	1,276	1,774
Customer deposits	<u>3,000</u>	<u>2,400</u>	<u>5,400</u>
Total current liabilities	<u>4,832</u>	<u>6,472</u>	<u>11,304</u>
Net position			
Invested in capital assets	20,598	62,883	83,481
Unrestricted	<u>46,416</u>	<u>7,429</u>	<u>53,845</u>
Total net position	<u>67,014</u>	<u>70,312</u>	<u>137,326</u>
Total liabilities and net position	<u>\$ 71,846</u>	<u>\$ 76,784</u>	<u>\$ 148,630</u>

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – NON-MAJOR
– PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	<u>Total</u>
Operating revenue			
Tenant rent	\$ 24,975	\$ 37,076	\$ 62,051
Other	<u>1,347</u>	<u>1,554</u>	<u>2,901</u>
Total operating revenue	<u>26,322</u>	<u>38,630</u>	<u>64,952</u>
Operating expenses			
Salaries and wages	4,513	8,974	13,488
Loaded Wages	842	1,220	2,062
Heat, light and power	8,877	12,461	21,338
Repairs, maintenance and supplies	2,257	9,255	11,511
Insurance	2,748	6,723	9,471
Depreciation	2,885	4,600	7,485
Telephone	-	425	425
Property taxes	1,420	5,548	6,968
Administration fee	1,071	1,931	3,002
Other	<u>157</u>	<u>1,197</u>	<u>1,354</u>
Total operating expenses	<u>24,770</u>	<u>52,333</u>	<u>77,103</u>
Total operating income	<u>1,552</u>	<u>(13,703)</u>	<u>(12,151)</u>
Non-operating revenues (expenses)			
Interest income	<u>47</u>	<u>1</u>	<u>48</u>
Change in net position	1,599	(13,702)	(12,103)
Net position beginning	<u>65,415</u>	<u>84,014</u>	<u>149,429</u>
Net position ending	<u>\$ 67,014</u>	<u>\$ 70,312</u>	<u>\$ 137,326</u>

CITY OF HALSTAD
COMBINING STATEMENT OF CASH FLOWS – NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	John Wimmer Homes	Sunrise Apartments	Totals
Cash flows from operating activities			
Receipts from customers and users	\$ 26,870	\$ 39,030	\$ 65,899
Payments to suppliers	(17,404)	(36,027)	(53,431)
Payments to employees	(5,355)	(10,194)	(15,549)
Net cash provided (used) by operating activities	4,111	(7,192)	(3,081)
Cash flows from investing activities			
Interest income	47	1	48
Net cash provided (used) by investing activities	47	1	48
Net increase in cash and cash equivalents	4,158	(7,191)	(3,033)
Cash and cash equivalents, January 1	46,694	21,092	67,786
Cash and cash equivalents, December 31	\$ 50,852	\$ 13,901	\$ 64,753
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,552	\$ (13,703)	\$ (12,151)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	2,885	4,600	7,485
Accounts receivable	148	-	148
Accounts payable	(432)	1,327	895
Accrued expenses	(442)	185	(258)
Customer deposits	400	400	800
Total adjustments	2,558	6,512	9,070
Net cash provided (used) by operating activities	\$ 4,111	\$ (7,192)	\$ (3,081)

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<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	\$ 850,732	\$ 103,039	\$ 129,297	\$ 51,926	\$ 1,134,994
City departments - energy	-	-	-	-	-
City departments - administration fee	16,496	-	-	-	16,496
Penalties	8,190	-	-	-	8,190
Generator Revenue	83,496	-	-	-	83,496
Other	2,609	-	-	-	2,609
Total operating revenues	<u>961,523</u>	<u>103,039</u>	<u>129,297</u>	<u>51,926</u>	<u>1,245,785</u>
Operating expenses					
Production and distribution					
Salaries	57,671	9,019	19,174	-	85,864
Repair, maintenance and supplies	-	2,553	23,030	-	25,583
Electric energy purchased	659,948	-	-	-	659,948
Sewer waste disposal	-	-	10,802	-	10,802
Depreciation	60,329	25,918	17,631	-	103,878
Generator expenses	23,116	-	-	-	23,116
Dumpster rent and pickup	-	-	-	47,148	47,148
Truck expense	7,022	1,098	2,335	-	10,455
Miscellaneous and training	55,403	11,702	3,700	-	70,805
Total production and distribution	<u>863,489</u>	<u>50,290</u>	<u>76,672</u>	<u>47,148</u>	<u>1,037,599</u>
General and administrative					
Salaries - administrative and office	22,201	22,200	22,200	-	66,600
General supplies and maintenance	-	528	4,760	-	5,288
Office supplies and postage	1,659	1,658	1,658	-	4,975
Telephone	1,387	1,387	1,387	-	4,161
Depreciation	1,555	668	455	-	2,678
Professional fees and services	3,748	792	250	-	4,790
Insurance	7,817	1,222	2,599	-	11,639
PERA and social security	20,424	3,194	6,790	-	30,408
Less: benefits charged out	(10,893)	(1,703)	(3,621)	-	(16,217)
Miscellaneous	9,438	1,993	630	-	12,061
Employee insurance and other	14,504	2,268	4,823	-	21,595
Total general and administrative	<u>71,840</u>	<u>34,208</u>	<u>41,931</u>	<u>-</u>	<u>147,978</u>
Total operating expenses	<u>935,329</u>	<u>84,498</u>	<u>118,603</u>	<u>47,148</u>	<u>1,185,577</u>
Net operating income (loss)	<u>\$ 26,194</u>	<u>\$ 18,541</u>	<u>\$ 10,694</u>	<u>\$ 4,778</u>	<u>\$ 60,208</u>

CITY OF HALSTAD
UTILITY STATISTICS – ELECTRICAL UTILITIES STATISTICS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Kilowatt hours sold								
Residential	2,647,759	2,864,992	2,954,375	2,983,705	3,088,384	3,046,520	2,918,829	2,910,448
Off peak heating	2,510,458	2,901,579	2,788,170	2,908,079	2,965,714	2,533,853	2,522,682	2,399,759
Commerical lighting	1,055,877	1,170,293	1,126,791	1,194,609	1,082,091	1,217,837	1,139,306	1,277,661
Power	1,505,821	1,658,657	1,725,051	1,799,756	1,879,987	1,942,600	1,894,184	2,021,845
City usage	189,148	178,274	197,194	234,619	206,516	94,958	92,345	182,326
Water and sewer department usage	<u>131,063</u>	<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>
Total KWH sold	8,040,126	8,935,099	8,955,596	9,287,724	9,388,104	9,000,808	8,697,129	8,928,929
Add								
Electric plant usage	<u>270,820</u>	<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>8,310,946</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>
Total KWH purchased	8,757,050	9,691,092	9,601,056	10,060,367	10,165,594	9,644,753	9,168,915	9,366,627
Total KWH generated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,757,050</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>
Line loss	<u>(446,104)</u>	<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>
Loss percentage of KWH purchased	<u>5.09%</u>	<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>