

**CITY OF HALSTAD
HALSTAD, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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**CITY OF HALSTAD
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2013**

CITY COUNCIL

Steve Sortland	Mayor	12/31/14
Shane Carlson	Acting Mayor	12/31/14
Ronald Gotteberg	Clerk-Treasurer	12/31/14
Tom Maroney	Trustee	12/31/16
Renaë Horning	Trustee	12/31/16

UTILITIES COMMISSION

Tom Maroney	President	12/31/15
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, 2013, 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, 2013, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 schedule of operating revenues and expenses – public utility departments and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of operating revenues and expenses – public utility departments is 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.

Brady Martz

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

February 17, 2014

CITY OF HALSTAD
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 415,741	\$ 580,419	\$ 996,160
Accounts receivable, net of accumulated provision for uncollectible accounts	-	185,699	185,699
Internal balances	(51,763)	51,763	-
Taxes and special assessments receivable	24,769	-	24,769
Inventories	-	36,362	36,362
Total current assets	388,747	854,243	1,242,990
Non-current assets:			
Capital assets:			
Nondepreciable:			
Land	17,322	11,168	28,490
Depreciable:			
Infrastructure	725,000	-	725,000
Building, improvements, and equipment	971,978	4,333,748	5,305,726
Less accumulated depreciation	(678,548)	(1,862,873)	(2,541,421)
Total capital assets (net of accumulated depreciation)	1,035,752	2,482,043	3,517,795
Total assets	\$ 1,424,499	\$ 3,336,286	\$ 4,760,785
Liabilities and net position			
Current liabilities			
Accounts payable	\$ -	\$ 138,738	\$ 138,738
Accrued employee benefits	-	19,712	19,712
Bonds payable - due within one year	55,000	-	55,000
Customer deposits	-	15,425	15,425
Total current liabilities	55,000	173,875	228,875
Net position			
Net investment in capital assets	980,752	2,482,043	3,462,795
Unrestricted	388,747	680,368	1,069,115
Total net position	1,369,499	3,162,411	4,531,910
Total liabilities and net position	\$ 1,424,499	\$ 3,336,286	\$ 4,760,785

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, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					
	Expenses	Program Revenues		Primary Government		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities:						
General government	\$ 32,717	\$ 10,092	\$ 29,000	\$ 6,375	\$ -	\$ 6,375
Public safety	258,060	14,742	11,629	(231,689)	-	(231,689)
Highways and street	118,627	-	-	(118,627)	-	(118,627)
Culture and recreation	(8,882)	-	-	8,882	-	8,882
Miscellaneous	64,053	-	-	(64,053)	-	(64,053)
Total governmental activities	<u>464,575</u>	<u>24,834</u>	<u>40,629</u>	<u>(399,112)</u>	<u>-</u>	<u>(399,112)</u>
Business-type activities:						
Public service utilities	1,330,602	1,347,275	-	-	16,673	16,673
John Wimmer homes	36,195	32,038	-	-	(4,157)	(4,157)
Sunrise apartments	49,395	39,856	-	-	(9,539)	(9,539)
Total business-type activities	<u>1,416,192</u>	<u>1,419,169</u>	<u>-</u>	<u>-</u>	<u>2,977</u>	<u>2,977</u>
Total primary government	<u>\$ 1,880,767</u>	<u>\$ 1,444,003</u>	<u>\$ 40,629</u>	<u>(399,112)</u>	<u>2,977</u>	<u>(396,135)</u>
General revenues:						
Property taxes				173,343	-	173,343
Intergovernmental				176,292	-	176,292
Interest				1,052	3,403	4,455
Insurance Proceeds				-	131,969	131,969
Miscellaneous				9,022	-	9,022
Total general revenues				<u>359,709</u>	<u>135,372</u>	<u>495,081</u>
Changes in net position				<u>(39,403)</u>	<u>138,349</u>	<u>98,946</u>
Net position - beginning, as previously reported				1,357,702	3,024,062	4,381,764
Prior period adjustment - See Note 13				51,200	-	51,200
Net position - beginning, as restated				<u>1,408,902</u>	<u>3,024,062</u>	<u>4,432,964</u>
Net position - ending				<u>\$ 1,369,499</u>	<u>\$ 3,162,411</u>	<u>\$ 4,531,910</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, 2013

	<u>General</u>	<u>Tax Increment District</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 402,147	\$ 13,594	\$ 415,741
Due from other funds	105,910	-	105,910
Taxes receivable	24,769	-	24,769
Total assets	<u>\$ 532,826</u>	<u>\$ 13,594</u>	<u>\$ 546,420</u>
Liabilities, Deferred Inflows of Resources and Fund Balance			
Liabilities			
Due to other funds	\$ 513	\$ 157,160	\$ 157,673
Deferred inflows of resources			
Deferred revenue	<u>24,769</u>	<u>-</u>	<u>24,769</u>
Fund balance			
Assigned for housing rehab program	14,278	-	14,278
Unassigned	493,266	(143,566)	349,700
Total fund balance	<u>507,544</u>	<u>(143,566)</u>	<u>363,978</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 532,826</u>	<u>\$ 13,594</u>	<u>\$ 546,420</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, 2013

Total governmental funds balance	\$	363,978
Amounts reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund.		
Capital assets	1,714,300	
Accumulated depreciation	<u>(678,548)</u>	1,035,752
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		24,769
Long-term liabilities not due and payable in the current period and therefore are not included in the funds:		
Bonds payable		<u>(55,000)</u>
Net position of governmental activities	\$	<u>1,369,499</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, 2013

	General	Tax Increment District	Total Governmental Funds
Revenues			
Property taxes	\$ 156,635	\$ 7,139	\$ 163,774
Special assessments	11,629	-	11,629
Licenses and permits	1,097	-	1,097
Intergovernmental	176,292	-	176,292
Charges for services	14,742	-	14,742
Fines and penalties	2,707	-	2,707
Interest	1,042	10	1,052
Contributions and donations	29,000	-	29,000
Rents	600	-	600
Reimbursements and refunds	5,688	-	5,688
Miscellaneous	9,022	-	9,022
	<u>408,454</u>	<u>7,149</u>	<u>415,603</u>
Expenditures			
Current:			
General government	32,405	-	32,405
Public safety	198,813	-	198,813
Highways and streets	83,521	-	83,521
Culture and recreation	10,983	-	10,983
Miscellaneous	30,271	-	30,271
Capital outlay	48,165	-	48,165
Debt service:			
Principal	55,000	-	55,000
Interest and other charges	4,425	6,402	10,827
	<u>463,583</u>	<u>6,402</u>	<u>469,985</u>
Excess (deficiency) of revenues over expenditures	(55,129)	747	(54,382)
Fund balance - beginning, as previously reported	562,673	(195,513)	367,160
Prior period adjustment-see Note 13	-	51,200	51,200
	<u>562,673</u>	<u>(144,313)</u>	<u>418,360</u>
Fund balance - beginning as restated	<u>562,673</u>	<u>(144,313)</u>	<u>418,360</u>
Fund balance - end of year	<u>\$ 507,544</u>	<u>\$ (143,566)</u>	<u>\$ 363,978</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, 2013

Net change in fund balance - total governmental funds		\$ (54,382)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay		48,164
Current year depreciation		(97,754)
<p>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 position.</p>		
		55,000
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Special assessments	(488)	
Taxes receivable	<u>10,057</u>	<u>9,569</u>
Changes in net position		<u>\$ (39,403)</u>

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, 2013

	<u>Major Funds</u>		<u>Nonmajor Fund</u>	<u>Totals</u>
	Public Service Utilities Fund	John Wimmer Homes	Sunrise Apartments	
Assets				
Current assets				
Cash and cash equivalents	\$ 508,996	\$ 61,122	\$ 10,301	\$ 580,419
Accounts receivable, net of accumulated provision for uncollectible accounts	184,209	410	1,080	185,699
Due from other funds	55,078	2,500	-	57,578
Inventories	<u>36,362</u>	<u>-</u>	<u>-</u>	<u>36,362</u>
Total current assets	<u>784,645</u>	<u>64,032</u>	<u>11,381</u>	<u>860,058</u>
Capital assets				
Land	2,646	3,522	5,000	11,168
Building, improvements, and equipment	4,078,485	140,263	115,000	4,333,748
Less accumulated depreciation	<u>(1,675,148)</u>	<u>(126,008)</u>	<u>(61,717)</u>	<u>(1,862,873)</u>
Total capital assets	<u>2,405,983</u>	<u>17,777</u>	<u>58,283</u>	<u>2,482,043</u>
Total assets	<u>\$ 3,190,628</u>	<u>\$ 81,809</u>	<u>\$ 69,664</u>	<u>\$ 3,342,101</u>
Liabilities and net position				
Current liabilities				
Accounts payable	\$ 124,565	\$ 13,868	\$ 305	\$ 138,738
Accrued employee benefits	19,712	-	-	19,712
Due to other funds	-	430	5,385	5,815
Customer deposits	<u>7,625</u>	<u>4,600</u>	<u>3,200</u>	<u>15,425</u>
Total current liabilities	<u>151,902</u>	<u>18,898</u>	<u>8,890</u>	<u>179,690</u>
Net position				
Net investment in capital assets	2,405,983	17,777	58,283	2,482,043
Unrestricted	<u>632,743</u>	<u>45,134</u>	<u>2,491</u>	<u>680,368</u>
Total net position	<u>3,038,726</u>	<u>62,911</u>	<u>60,774</u>	<u>3,162,411</u>
Total liabilities and net position	<u>\$ 3,190,628</u>	<u>\$ 81,809</u>	<u>\$ 69,664</u>	<u>\$ 3,342,101</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, 2013

	<u>Major Funds</u>		<u>Nonmajor Fund</u>	
	Public Service	John Wimmer	Sunrise	
	<u>Utilities Fund</u>	<u>Homes</u>	<u>Apartments</u>	<u>Totals</u>
Operating revenue				
Charges for services	\$ 1,228,446	\$ -	\$ -	\$ 1,228,446
City departments - energy	13,205	-	-	13,205
City departments - administration fee	13,159	-	-	13,159
Penalties	11,064	-	-	11,064
Rentals	-	30,764	38,256	69,020
Generator Revenue	80,702	-	-	80,702
Other	699	1,274	1,600	3,573
Total operating revenue	<u>1,347,275</u>	<u>32,038</u>	<u>39,856</u>	<u>1,419,169</u>
Operating expenses				
Electric energy purchased	722,965	-	-	722,965
Sewer water disposal	12,793	-	-	12,793
Salaries and wages	169,493	4,768	7,999	182,260
Heat, light and power	-	6,094	14,111	20,205
Repairs, maintenance and supplies	54,611	17,150	6,303	78,064
Professional services	5,800	-	-	5,800
Insurance	21,656	2,336	8,180	32,172
Payroll taxes and employee benefits	54,440	-	-	54,440
Depreciation	109,629	2,821	4,600	117,050
Dumpster rent and pickup	47,212	-	-	47,212
Generator expense	36,216	-	-	36,216
Other	90,448	3,026	8,202	101,676
Total operating expenses	<u>1,325,263</u>	<u>36,195</u>	<u>49,395</u>	<u>1,410,853</u>
Operating Income (Loss)	<u>22,012</u>	<u>(4,157)</u>	<u>(9,539)</u>	<u>8,316</u>
Non-operating revenues (expenses)				
Interest income	3,349	54	-	3,403
Insurance proceeds	131,969	-	-	131,969
Loss on disposal of asset	(5,339)	-	-	(5,339)
Total non-operating revenues (expenses)	<u>129,979</u>	<u>54</u>	<u>-</u>	<u>130,033</u>
Change in net position	151,991	(4,103)	(9,539)	138,349
Net position, beginning	<u>2,886,735</u>	<u>67,014</u>	<u>70,313</u>	<u>3,024,062</u>
Net position, ending	<u>\$ 3,038,726</u>	<u>\$ 62,911</u>	<u>\$ 60,774</u>	<u>\$ 3,162,411</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, 2013

	Major Funds		Nonmajor Fund	
	Public Service Utilities Fund	John Wimmer Homes	Sunrise Apartments	Totals
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,294,214	\$ 33,624	\$ 39,576	\$ 1,367,414
Payments to suppliers	(999,780)	(16,071)	(39,287)	(1,055,138)
Payments to employees	(169,493)	(4,768)	(7,999)	(182,260)
Net cash provided (used) by operating activities	<u>124,941</u>	<u>12,785</u>	<u>(7,710)</u>	<u>130,016</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(114,072)	-	-	(114,072)
Insurance Proceeds for Capital Asset	131,969	-	-	131,969
Net cash provided (used) by capital and related financing activities	<u>17,897</u>	<u>-</u>	<u>-</u>	<u>17,897</u>
Cash flows from noncapital financing activities				
Change in due to/from other funds	(989)	(2,569)	4,109	551
Net cash provided (used) by noncapital financing activities	<u>(989)</u>	<u>(2,569)</u>	<u>4,109</u>	<u>551</u>
Cash flows from investing activities				
Interest income	3,349	54	-	3,403
Net cash provided (used) by investing activities	<u>3,349</u>	<u>54</u>	<u>-</u>	<u>3,403</u>
Net increase in cash and cash equivalents	145,198	10,270	(3,601)	151,867
Cash and cash equivalents, January 1	363,798	50,852	13,902	428,552
Cash and cash equivalents, December 31	<u>\$ 508,996</u>	<u>\$ 61,122</u>	<u>\$ 10,301</u>	<u>\$ 580,419</u>
Reconciliation of net operating income to				
Net cash provided (used) by operating activities:				
Operating income (loss)	\$ 22,012	\$ (4,157)	\$ (9,539)	\$ 8,316
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	109,629	2,821	4,600	117,050
Change in assets and liabilities:				
Accounts receivable	(54,561)	(14)	(1,080)	(55,655)
Inventories	2,137	-	-	2,137
Accounts payable	40,208	12,535	(2,491)	50,252
Accrued expenses	4,016	-	-	4,016
Customer deposits	1,500	1,600	800	3,900
Total adjustments	<u>102,929</u>	<u>16,942</u>	<u>1,829</u>	<u>121,700</u>
Net cash provided (used) by operating activities	<u>\$ 124,941</u>	<u>\$ 12,785</u>	<u>\$ (7,710)</u>	<u>\$ 130,016</u>
Schedule of non-cash capital and related financing activities:				
Loss on disposal of capital asset	\$ 5,339	\$ -	\$ -	\$ 5,339

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, 2013

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.

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, 2013

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

The City reports the following non-major Enterprises 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 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

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

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

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

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

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

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

E. Budgets

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

F. Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

applicable cash balance participation by each fund. Investments for the City are reported at fair value.

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

G. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

H. Encumbrances

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

I. Inventories

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

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

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

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

L. Compensated Absences

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

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

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

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

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

M. Deferred Outflows/Inflows of Resources

For the year ended December 31, 2013, the City implemented 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.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The City does not have any items that qualify for reporting in this category.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one of which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *deferred revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

N. Net Position

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.

Sometimes the government will fund outlays for particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

O. Fund Balance

The City follows 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.

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

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 \$70,288 in 2013.

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, 2013, the City's carrying amount of deposits was \$996,160 and the bank balance was \$1,022,142. Of the bank balances, \$295,170 was covered by Federal Depository Insurance and \$726,972 was covered by pledged collateral.

NOTE 4 TAXES RECEIVABLE

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

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

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

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, 2013

NOTE 6 CAPITAL ASSETS

The following is a summary of governmental and business type capital assets for the year ending December 31, 2013:

<u>Governmental Type Activities</u>	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated				
Lots	\$ 12,082	\$ 5,240	\$ -	\$ 17,322
Construction In Progress	<u>239,916</u>	<u>-</u>	<u>(239,916)</u>	<u>-</u>
Total capital assets not being depreciated	<u>251,998</u>	<u>5,240</u>	<u>(239,916)</u>	<u>17,322</u>
Capital assets, being depreciated				
Infrastructure	725,000	-	-	725,000
Building	175,011	-	-	175,011
Equipment	<u>514,127</u>	<u>282,840</u>	<u>-</u>	<u>796,967</u>
Total capital assets not being depreciated	1,414,138	282,840	-	1,696,978
Less accumulated depreciation	<u>(580,794)</u>	<u>(97,754)</u>	<u>-</u>	<u>(678,548)</u>
Governmental activities capital assets, being depreciated, net	<u>833,344</u>	<u>185,086</u>	<u>-</u>	<u>1,018,430</u>
Total capital assets, net	<u>\$ 1,085,342</u>	<u>\$ 190,326</u>	<u>\$ (239,916)</u>	<u>\$ 1,035,752</u>

Depreciation expense was charged to government functions as follows:

General Government	\$ 312
Highways and Streets	30,681
Culture and Recreation	7,513
Public Safety	<u>59,248</u>
	<u>\$ 97,754</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

Business Type Activities	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated				
Land	\$ 11,168	\$ -	\$ -	\$ 11,168
Construction in Progress	55,041	-	(55,041)	-
Total capital assets not being depreciated	66,209	-	(55,041)	11,168
Capital assets, being depreciated				
Water	1,200,548	19,714	-	1,220,262
Sewer	904,603	8,258	-	912,861
Electric	1,646,875	141,141	-	1,788,016
General utilities	165,560	-	(8,214)	157,346
Sunrise Apartments	115,000	-	-	115,000
Wimmer Homes	140,263	-	-	140,263
Total capital assets not being depreciated	4,172,849	169,113	(8,214)	4,333,748
Less accumulated depreciation	(1,748,698)	(117,050)	2,875	(1,862,873)
Total capital assets, being depreciated, net	2,424,151	52,063	(5,339)	2,470,875
 Total capital assets net	 <u>\$ 2,490,360</u>	 <u>\$ 52,063</u>	 <u>\$ (60,380)</u>	 <u>\$ 2,482,043</u>

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

Water	\$ 29,187
Sewer	18,141
Electric	60,442
General utilities	1,859
Sunrise Apartments	4,600
Wimmer Homes	2,821
	<u>\$ 117,050</u>

NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2013:

Type	Fund Debt Serviced In	Original Amount	Maturity Date & Interest Rate	Balance 12/31/13
Special assessment debt with governmental commitment				
1998 G.O. Improvement	General		2/1/14	
	Fund	\$ 725,000	5.00%	\$ 55,000
Total long-term debt				<u>\$ 55,000</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

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

	Balance 01/01/13	New Issue	Retired	Balance 12/31/13	Due Within One Year
Long-Term Debt	\$ 110,000	\$	\$ 55,000	\$ 55,000	\$ 55,000

Principal payments on the long term debt are liquidated through the general fund. The estimated principal and interest requirements to maturity will be as follows:

Year ending December 31,	Principal	Interest
2014	\$ 55,000	\$ 1,375

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 General Employees Retirement Fund (GERF) 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.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. 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 five 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 GERF members hired

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirements age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the internet at www.mnpera.org, 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. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members are required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City of Halstad, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERP member, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$13,122, \$12,748 and \$12,432, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Halstad Firefighters' Relief Association

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, 2013

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$13,167 for 2013.

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, 2013, 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 INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2013, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Tax Increment District	\$ 105,910
Public Service Utilities Fund	Nonmajor Proprietary Fund	2,885
Public Service Utilities Fund	John Wimmer Homes	430
Public Service Utilities Fund	General Fund	513
Public Service Utilities Fund	Tax Increment District	51,250
John Wimmer Homes	Nonmajor Proprietary Fund	2,500

The Tax Increment Redevelopment District has a loan payable for development costs that will start to be paid back when taxes are collected to the public service utilities fund. The loan has an annual interest rate of 5%, and a balance of \$51,250 at December 31, 2013. The tax increment district also has a loan to the general fund due to cash shortages in the implementation of the district – this too will be paid back once the district generates tax income.

The remaining receivables are due to utility expenses at year end.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

NOTE 11 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, 2013, 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, 2013.

NOTE 12 FUND BALANCE DEFICIT

There was a deficit fund balance of \$143,566 in the tax increment district fund as of December 31, 2013. This will be funded through tax levies and general fund transfers.

NOTE 13 PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2013, it came to the Cities attention that they were reporting a "pay-as-you go" loan in the tax increment financing district as a payable. However these amounts are not reported as payable under modified accrual.

NOTE 14 NEW PRONOUNCEMENTS

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.

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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2013

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. Or a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

Management has not yet determined the effect these statements will have on the City's financial statements.

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
General property taxes	\$ 166,600	\$ 156,635	\$ (9,965)
Special assessments	16,000	11,629	(4,371)
Licenses and permits	1,100	1,097	(3)
	<u>183,700</u>	<u>169,361</u>	<u>(14,339)</u>
Intergovernmental revenues			
Market value credits	8,000	-	(8,000)
Local government aid	148,700	163,125	14,425
Fire relief association aid	9,100	13,167	4,067
	<u>165,800</u>	<u>176,292</u>	<u>10,492</u>
Charges for services			
Fire protection fees	12,000	14,742	2,742
Snow removal	1,500	-	(1,500)
	<u>13,500</u>	<u>14,742</u>	<u>1,242</u>
Fines and penalties			
	<u>2,000</u>	<u>2,707</u>	<u>707</u>
Miscellaneous revenues			
Gifts and donations	14,000	29,000	15,000
Interest on investments	1,000	1,042	42
Reimbursements and refunds	6,000	5,688	(312)
Café Rent	3,600	600	(3,000)
Other	11,700	9,022	(2,678)
	<u>36,300</u>	<u>45,352</u>	<u>9,052</u>
Total revenues	<u>401,300</u>	<u>408,454</u>	<u>7,154</u>
Expenditures			
General government			
Audit	7,500	5,990	1,510
Assessment services	3,000	1,478	1,522
Payroll expenses	7,500	15,045	(7,545)
County assessment	2,700	2,464	236
Insurance	4,600	4,228	372
Supplies and other	6,500	3,200	3,300
Capital Outlay	-	3,750	(3,750)
Total general government	<u>31,800</u>	<u>36,155</u>	<u>(4,355)</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, 2013

	Original and Final Budget	Actual	Variance with Final Budget
Public safety			
Police protection			
Contracted service	\$ 27,800	\$ 27,094	\$ 706
Animal control	1,000	158	842
Other	5,000	7,179	(2,179)
	<u>33,800</u>	<u>34,431</u>	<u>(631)</u>
Fire protection			
Volunteers compensation	8,000	12,002	(4,002)
Equipment and repairs	4,000	33,392	(29,392)
Equipment savings	15,000	9,746	5,254
Building Expense	2,500	1,015	1,485
Hydrant rental	1,850	1,850	-
Jaws truck	300	-	300
Telephone and utilities	5,000	7,129	(2,129)
County assessment	800	772	28
Insurance	5,000	5,624	(624)
Other expense	1,000	338	662
Education and training	6,000	6,960	(960)
Homeland Security	-	675	(675)
Firemen's relief association	12,000	16,346	(4,346)
Capital outlay	-	10,634	(10,634)
	<u>61,450</u>	<u>106,483</u>	<u>(45,033)</u>
Rescue squad			
Volunteers' compensation	6,500	4,348	2,152
Repairs	1,500	140	1,360
Telephone and utilities	3,000	3,784	(784)
Equipment Expenses	6,800	656	6,144
Insurance	2,500	2,778	(278)
Other	500	-	500
	<u>20,800</u>	<u>11,706</u>	<u>9,094</u>
Flood			
Dike maintenance	10,000	56,826	(46,826)
Total public safety	<u>126,050</u>	<u>209,446</u>	<u>(83,396)</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, 2013

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 35,000	\$ 12,519	\$ 22,481
Equipment repair and maintenance	45,000	31,967	13,033
Snow removal	12,000	15,718	(3,718)
Street lighting	10,250	10,260	(10)
Street resurfacing	15,000	-	15,000
Tree removal and replacement	1,500	745	755
Insurance	5,000	8,783	(3,783)
Tif Bond - HTC	7,070	-	7,070
Street bond interest	4,125	-	4,125
Street bond principal	55,000	-	55,000
Other	5,000	3,529	1,471
	<u>194,945</u>	<u>83,521</u>	<u>111,424</u>
Culture and recreation			
Recreation programs			
Park and other expense	7,000	10,983	(3,983)
Capital Outlay	-	-	-
	<u>7,000</u>	<u>10,983</u>	<u>(3,983)</u>
Miscellaneous			
Consulting - engineering fees	3,000	-	3,000
Community Building (LRC)	6,000	-	6,000
City beautification - projects	10,500	1,743	8,757
Meals program	1,500	1,500	-
Economic Development Association	6,000	6,000	-
Café building expense	4,000	17,885	(13,885)
Other	2,500	3,144	(644)
Capital Outlay	-	33,781	(33,781)
	<u>33,500</u>	<u>64,053</u>	<u>(30,553)</u>
Debt Service			
Principal	-	55,000	(55,000)
Interest	-	4,425	(4,425)
	<u>-</u>	<u>59,425</u>	<u>(59,425)</u>
Total expenditures	<u>393,295</u>	<u>463,583</u>	<u>(70,288)</u>
Excess (deficiency) of revenues over expenditures	<u>8,005</u>	<u>(55,129)</u>	<u>(63,134)</u>
Fund balance, beginning of year	<u>562,673</u>	<u>562,673</u>	<u>-</u>
Fund balance, end of year	<u>\$ 570,678</u>	<u>\$ 507,544</u>	<u>\$ (63,134)</u>

CITY OF HALSTAD
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2013

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 \$70,288 in 2013.

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Electric Department	Water Department	Sewage Disposal Department	Refuse Disposal Department	Total
Operating revenues					
Halstad consumers	\$ 952,708	\$ 98,387	\$ 125,202	\$ 52,149	\$ 1,228,446
City departments - energy	8,872	1,642	2,691	-	13,205
City departments - administration fee	13,159	-	-	-	13,159
Penalties	11,064	-	-	-	11,064
Generator Revenue	80,702	-	-	-	80,702
Other	699	-	-	-	699
Total operating revenues	<u>1,067,204</u>	<u>100,029</u>	<u>127,893</u>	<u>52,149</u>	<u>1,347,275</u>
Operating expenses					
Production and distribution					
Salaries	63,872	11,825	19,371	-	95,068
Repair, maintenance and supplies	-	5,717	20,604	-	26,321
Electric energy purchased	722,965	-	-	-	722,965
Sewer waste disposal	-	-	12,793	-	12,793
Depreciation	60,442	29,187	18,141	-	107,770
Generator expenses	36,216	-	-	-	36,216
Dumpster rent and pickup	-	-	-	47,212	47,212
Truck expense	11,812	2,187	3,582	-	17,581
Miscellaneous and training	49,233	14,151	4,451	-	67,835
Total production and distribution	<u>944,540</u>	<u>63,067</u>	<u>78,942</u>	<u>47,212</u>	<u>1,133,761</u>
General and administrative					
Salaries - administrative and office	24,810	24,809	24,809	-	74,428
General supplies and maintenance	-	1,018	3,668	-	4,686
Office supplies and postage	2,008	2,007	2,007	-	6,022
Telephone	1,440	1,440	1,440	-	4,320
Depreciation	1,042	503	313	-	1,858
Professional fees and services	4,209	1,210	381	-	5,800
Insurance	14,550	2,694	4,412	-	21,656
PERA and social security	21,971	4,068	6,663	-	32,702
Miscellaneous	13,276	3,816	1,200	-	18,292
Employee insurance and other	14,605	2,704	4,429	-	21,738
Total general and administrative	<u>97,911</u>	<u>44,269</u>	<u>49,322</u>	<u>-</u>	<u>191,502</u>
Total operating expenses	<u>1,042,451</u>	<u>107,336</u>	<u>128,264</u>	<u>47,212</u>	<u>1,325,263</u>
Operating income (loss)	<u>\$ 24,753</u>	<u>\$ (7,307)</u>	<u>\$ (371)</u>	<u>\$ 4,937</u>	<u>\$ 22,012</u>

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

	<u>2013</u>	<u>2012</u>	<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	2,847,267	2,647,759	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	2,963,626	2,510,458	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	1,092,154	1,055,877	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	1,647,448	1,505,821	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	244,353	189,148	178,274	197,194	234,619	206,516	94,958	92,345	182,326	182,346
Water and sewer department usage	<u>154,412</u>	<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>	<u>140,902</u>
Total KWH sold	8,949,260	8,040,126	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>284,689</u>	<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>150,768</u>
	<u>9,233,949</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>	<u>9,008,810</u>
Total KWH purchased	9,731,977	8,757,050	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>-</u>	<u>-</u>
	<u>9,731,977</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>	<u>9,421,391</u>
Line loss	<u>(498,028)</u>	<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>	<u>(412,581)</u>
Loss percentage of KWH purchased	<u>5.12%</u>	<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>	<u>4.38%</u>