

**CITY OF HALSTAD  
HALSTAD, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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**CITY OF HALSTAD**  
**ELECTED AND APPOINTED OFFICIALS**  
**DECEMBER 31, 2019**

**CITY COUNCIL**

Lori DeLong	Mayor	12/31/20
Darin Johnson	Vice Mayor/Trustee	12/31/20
Veronica Dye	Clerk-Treasurer	02/01/20
Jeremy Melting	Trustee	01/01/20
Brandon Mickelson	Trustee	12/31/20

**UTILITIES COMMISSION**

Tom Maroney	President	12/31/21
Ron Gotteberg	Secretary	12/31/19
Darin Johnson	Commission Member	12/31/20
Lucas Spaeth	Utilities Superintendent	Appointed

## INDEPENDENT AUDITOR'S REPORT

To 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, 2019, 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 from 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 unmodified and qualified audit opinions.

## **Summary of Opinions**

<u>Opinion Units</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Tax Increment District	Unmodified
Economic Development Authority	Unmodified
Capital Projects Fund	Unmodified
Debt Service Fund	Unmodified
Public Service Utility Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### ***Basis for Qualified Opinion on Governmental Activities***

Management has not adopted Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Halstad Fire Relief Association. Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources and deferred inflows of resources for defined benefit pension plans have an actuarial study to determine the effect on net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of Halstad, Minnesota as of December 31, 2019, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad, Minnesota, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 schedules, schedule of City’s contribution to PERA retirement fund, and schedule of City’s and non-employer proportionate share of the net pension liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Halstad has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Halstad's basic financial statements. The combining statements and 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 basic financial statements.

The combining statements and schedule of operating revenues and expenses – public utility departments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The elected and appointed officials and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2020 on our consideration of the City of Halstad, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City of Halstad, Minnesota's 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, Minnesota's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.  
THIEF RIVER FALLS, MINNESOTA**

April 13, 2020

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**CITY OF HALSTAD**  
**STATEMENT OF NET POSITION**  
**AS OF DECEMBER 31, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 767,764	\$ 571,075	\$ 1,338,839
Accounts receivable, net of allowance	132,003	197,953	329,956
Notes receivable, net of allowance	7,250	1,920	9,170
Internal balances	(29,800)	29,800	-
Taxes receivable	21,312	-	21,312
Inventories	-	73,578	73,578
Total current assets	<u>898,529</u>	<u>874,326</u>	<u>1,772,855</u>
<b>Non-current assets:</b>			
Notes receivable	9,625	5,050	14,675
<b>Nondepreciable capital assets:</b>			
Land	50,415	64,219	114,634
Construction in progress	20,000	-	20,000
<b>Depreciable capital assets:</b>			
Infrastructure	1,685,639	-	1,685,639
Building, improvements, and equipment	1,507,306	4,745,769	6,253,075
Less accumulated depreciation	<u>(1,319,180)</u>	<u>(2,352,831)</u>	<u>(3,672,011)</u>
Total capital assets (net of accumulated depreciation)	<u>1,944,180</u>	<u>2,457,157</u>	<u>4,401,337</u>
<b>Total assets</b>	<u>2,852,334</u>	<u>3,336,533</u>	<u>6,188,867</u>
<b>Deferred Outflows of Resources</b>			
Cost sharing defined benefit pension plan	-	19,895	19,895
Total deferred outflows of resources	<u>-</u>	<u>19,895</u>	<u>19,895</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	120,268	99,176	219,444
Accrued employee benefits	-	3,104	3,104
Compensated absences	-	25,547	25,547
Accrued interest payable	15,700	-	15,700
Notes payable - due within one year	3,500	-	3,500
Prepaid rent	-	3,288	3,288
Unearned revenue	21,055	-	21,055
Customer deposits	-	16,275	16,275
Total current liabilities	<u>160,523</u>	<u>147,390</u>	<u>307,913</u>
<b>Long-term liabilities</b>			
Notes payable	1,379,700	-	1,379,700
Net pension liability	-	199,036	199,036
Total long-term liabilities	<u>1,379,700</u>	<u>199,036</u>	<u>1,578,736</u>
Total liabilities	<u>1,540,223</u>	<u>346,426</u>	<u>1,886,649</u>
<b>Deferred Inflows of Resources</b>			
Cost sharing defined benefit pension plan	-	46,864	46,864
Total deferred inflows of resources	<u>-</u>	<u>46,864</u>	<u>46,864</u>
<b>Net Position</b>			
Net investment in capital assets	595,180	2,457,157	3,052,337
Restricted for economic development	60,296	-	60,296
Restricted for capital projects	81,327	-	81,327
Restricted for debt service	37,441	-	37,441
Unrestricted	<u>537,867</u>	<u>505,981</u>	<u>1,043,848</u>
Total net position	<u>\$ 1,312,111</u>	<u>\$ 2,963,138</u>	<u>\$ 4,275,249</u>

See Notes to the Financial Statements

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**CITY OF HALSTAD**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities:							
General government	\$ 76,634	\$ 14,782	\$ 33,819	\$ -	\$ (28,033)	\$ -	\$ (28,033)
Public safety	253,709	13,230	126,630	21,293	(92,556)	-	(92,556)
Highways and streets	507,275	-	2,539	-	(504,736)	-	(504,736)
Culture and recreation	61,425	3,359	3,945	-	(54,121)	-	(54,121)
Interest and fees	42,304	-	-	-	(42,304)	-	(42,304)
Total governmental activities	<u>941,347</u>	<u>31,371</u>	<u>166,933</u>	<u>21,293</u>	<u>(721,750)</u>	<u>-</u>	<u>(721,750)</u>
Business-type activities:							
Public service utilities	1,423,590	1,451,191	-	10,525	-	38,126	38,126
John Wimmer homes	25,451	35,649	-	-	-	10,198	10,198
Sunrise apartments	69,580	46,795	-	-	-	(22,785)	(22,785)
Total business-type activities	<u>1,518,621</u>	<u>1,533,635</u>	<u>-</u>	<u>10,525</u>	<u>-</u>	<u>25,539</u>	<u>25,539</u>
Total primary government	<u>\$ 2,459,968</u>	<u>\$ 1,565,006</u>	<u>\$ 166,933</u>	<u>\$ 31,818</u>	<u>(721,750)</u>	<u>25,539</u>	<u>(696,211)</u>
			General revenues:				
			Property taxes		262,863	-	262,863
			Intergovernmental		194,518	-	194,518
			Interest		2,454	3,097	5,551
			Insurance proceeds		-	13,720	13,720
			Miscellaneous		113,383	-	113,383
			Total general revenues		<u>573,218</u>	<u>16,817</u>	<u>590,035</u>
			Changes in net position		<u>(148,532)</u>	<u>42,356</u>	<u>(106,176)</u>
			Net position - beginning		<u>1,460,643</u>	<u>2,920,782</u>	<u>4,381,425</u>
			Net position - ending		<u>\$ 1,312,111</u>	<u>\$ 2,963,138</u>	<u>\$ 4,275,249</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**AS OF DECEMBER 31, 2019**

	General	Tax Increment District	Economic Development Authority	Capital Project	Debt Service	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 564,324	\$ 14,390	\$ 52,041	\$ 83,868	\$ 53,141	\$ 767,764
Accounts receivable	131,958	-	45	-	-	132,003
Notes receivable, net of allowance	-	-	16,875	-	-	16,875
Due from other funds	105,910	4,242	-	42,523	-	152,675
Taxes receivable	21,312	-	-	-	-	21,312
<b>Total assets</b>	<b>\$ 823,504</b>	<b>\$ 18,632</b>	<b>\$ 68,961</b>	<b>\$ 126,391</b>	<b>\$ 53,141</b>	<b>\$ 1,090,629</b>
<b>Liabilities</b>						
Accounts payable	\$ 75,094	\$ -	\$ 110	\$ 45,064	\$ -	\$ 120,268
Unearned revenue	12,500	-	8,555	-	-	21,055
Due to other funds	32,877	149,598	-	-	-	182,475
<b>Total liabilities</b>	<b>120,471</b>	<b>149,598</b>	<b>8,665</b>	<b>45,064</b>	<b>-</b>	<b>323,798</b>
<b>Deferred inflows of resources</b>						
Unavailable revenue - property taxes	21,312	-	-	-	-	21,312
<b>Fund balance</b>						
Restricted for economic development	-	-	60,296	-	-	60,296
Restricted for capital projects	-	-	-	81,327	-	81,327
Restricted for debt service	-	-	-	-	53,141	53,141
Assigned for housing rehab program	14,403	-	-	-	-	14,403
Unassigned	667,318	(130,966)	-	-	-	536,352
<b>Total fund balance</b>	<b>681,721</b>	<b>(130,966)</b>	<b>60,296</b>	<b>81,327</b>	<b>53,141</b>	<b>745,519</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 823,504</b>	<b>\$ 18,632</b>	<b>\$ 68,961</b>	<b>\$ 126,391</b>	<b>\$ 53,141</b>	<b>\$ 1,090,629</b>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF**  
**GOVERNMENTAL ACTIVITIES**  
**AS OF DECEMBER 31, 2019**

Total governmental funds balance	\$	745,519
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental fund.</p>		
Capital assets	\$ 3,263,360	
Accumulated depreciation	<u>(1,319,180)</u>	1,944,180
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.</p>		
Property taxes		21,312
<p>Short-term liabilities not due and payable in the current period and therefore are not included in the governmental funds</p>		
Accrued interest payable		(15,700)
<p>Long-term liabilities not due and payable in the current period and therefore are not included in the funds:</p>		
Notes payable		<u>(1,383,200)</u>
Net position of governmental activities	\$	<u>1,312,111</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	General	Tax Increment District	Economic Development Authority	Capital Project	Debt Service	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 206,904	\$ 8,484	\$ -	\$ -	\$ -	\$ 215,388
Special assessments	2,539	-	-	-	52,108	54,647
Licenses and permits	1,182	-	-	-	-	1,182
Intergovernmental	342,441	-	-	-	-	342,441
Charges for services	26,830	-	2,910	-	-	29,740
Fines and penalties	731	-	-	-	-	731
Interest	2,196	19	188	-	51	2,454
Contributions and donations	33,819	-	995	-	-	34,814
Rents	300	-	-	-	-	300
Reimbursements and refunds	1,850	-	-	42,523	-	44,373
Miscellaneous	34,422	-	4,094	-	-	38,516
<b>Total receipts</b>	<u>653,214</u>	<u>8,503</u>	<u>8,187</u>	<u>42,523</u>	<u>52,159</u>	<u>764,586</u>
<b>Expenditures</b>						
Current:						
General government	73,840	-	-	-	-	73,840
Public safety	111,027	-	-	-	-	111,027
Highways and streets	114,687	-	-	-	-	114,687
Culture and recreation	31,154	600	15,004	-	-	46,758
Capital outlay	226,502	-	-	1,286,239	-	1,512,741
Debt service:						
Principal	-	3,000	-	-	-	3,000
Interest and other charges	-	3,629	-	22,975	-	26,604
<b>Total disbursements</b>	<u>557,210</u>	<u>7,229</u>	<u>15,004</u>	<u>1,309,214</u>	<u>-</u>	<u>1,888,657</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>96,004</u>	<u>1,274</u>	<u>(6,817)</u>	<u>(1,266,691)</u>	<u>52,159</u>	<u>(1,124,071)</u>
<b>Other financing sources (uses)</b>						
Proceeds from sale of asset	501	-	-	-	-	501
Debt issued	-	-	-	1,348,018	982	1,349,000
Transfer out	(6,000)	-	-	-	-	(6,000)
Transfer in	-	-	6,000	-	-	6,000
<b>Total other financing sources (uses)</b>	<u>(5,499)</u>	<u>-</u>	<u>6,000</u>	<u>1,348,018</u>	<u>982</u>	<u>1,349,501</u>
<b>Net change in fund balance</b>	90,505	1,274	(817)	81,327	53,141	225,430
<b>Fund balance - beginning</b>	<u>591,216</u>	<u>(132,240)</u>	<u>61,113</u>	<u>-</u>	<u>-</u>	<u>520,089</u>
<b>Fund balance - ending</b>	<u>\$ 681,721</u>	<u>\$ (130,966)</u>	<u>\$ 60,296</u>	<u>\$ 81,327</u>	<u>\$ 53,141</u>	<u>\$ 745,519</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balance - total governmental funds	\$ 225,430
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 costs of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlay	1,135,771
Current year depreciation	(105,385)
Loss on disposal of capital assets	(38,015)
Proceeds from long-term debt provide current financial resources to governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(1,349,000)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	
Accrued interest payable	(15,700)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment is shown as a reduction in long-term liabilities in the statement of net position.	3,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Taxes receivable	<u>(4,633)</u>
Changes in net position	<u>\$ (148,532)</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2019**

	Public Service Utilities Fund	Nonmajor Funds	Totals
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 405,522	\$ 165,553	\$ 571,075
Accounts receivable, net	192,053	5,900	197,953
Due from other funds	71,957	-	71,957
Notes receivable	1,920	-	1,920
Inventories	73,578	-	73,578
Total current assets	<u>745,030</u>	<u>171,453</u>	<u>916,483</u>
Non-current assets			
Notes receivable	5,050	-	5,050
Capital assets			
Land	55,697	8,522	64,219
Building, improvements, and equipment	4,448,923	296,846	4,745,769
Less accumulated depreciation	<u>(2,125,374)</u>	<u>(227,457)</u>	<u>(2,352,831)</u>
Total capital assets	<u>2,379,246</u>	<u>77,911</u>	<u>2,457,157</u>
Total assets	<u>3,129,326</u>	<u>249,364</u>	<u>3,378,690</u>
<b>Deferred outflows of resources</b>			
Cost sharing defined benefit pension plan	<u>19,895</u>	-	<u>19,895</u>
Total deferred outflows of resources	<u>19,895</u>	-	<u>19,895</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	98,975	201	99,176
Accrued employee benefits	3,104	-	3,104
Compensated absences	25,547	-	25,547
Due to other funds	-	42,157	42,157
Prepaid rent	-	3,288	3,288
Customer deposits	8,675	7,600	16,275
Total current liabilities	<u>136,301</u>	<u>53,246</u>	<u>189,547</u>
Long-term liabilities			
Net pension liability	<u>199,036</u>	-	<u>199,036</u>
Total long-term liabilities	<u>199,036</u>	-	<u>199,036</u>
Total liabilities	<u>335,337</u>	<u>53,246</u>	<u>388,583</u>
<b>Deferred inflows of resources</b>			
Cost sharing defined benefit pension plan	<u>46,864</u>	-	<u>46,864</u>
Total deferred inflows of resources	<u>46,864</u>	-	<u>46,864</u>
<b>Net position</b>			
Net investment in capital assets	2,379,246	77,911	2,457,157
Unrestricted	<u>387,774</u>	<u>118,207</u>	<u>505,981</u>
Total net position	<u>\$ 2,767,020</u>	<u>\$ 196,118</u>	<u>\$ 2,963,138</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Public Service Utilities Fund	Nonmajor Funds	Totals
Operating revenue			
Charges for services	\$ 1,281,076	\$ -	\$ 1,281,076
City departments - administration fee	22,744	-	22,744
Penalties	12,428	-	12,428
Rentals	-	80,188	80,188
Generator revenue	66,541	-	66,541
Other	68,402	2,256	70,658
Total operating revenue	<u>1,451,191</u>	<u>82,444</u>	<u>1,533,635</u>
Operating expenses			
Electric energy purchased	744,582	-	744,582
Sewer waste disposal	16,948	-	16,948
Salaries and wages	244,386	15,641	260,027
Heat, light and power	-	22,598	22,598
Repairs, maintenance and supplies	38,874	21,595	60,469
Professional services	6,800	-	6,800
Insurance	17,077	11,803	28,880
Payroll taxes and employee benefits	70,711	-	70,711
Depreciation	127,900	6,776	134,676
Dumpster rent and pickup	52,476	-	52,476
Generator expense	40,387	-	40,387
Other	63,449	16,618	80,067
Total operating expenses	<u>1,423,590</u>	<u>95,031</u>	<u>1,518,621</u>
Operating income (loss)	<u>27,601</u>	<u>(12,587)</u>	<u>15,014</u>
Non-operating revenues			
Insurance proceeds	13,720	-	13,720
Grant proceeds	10,525	-	10,525
Interest income	2,984	113	3,097
Total non-operating revenues	<u>27,229</u>	<u>113</u>	<u>27,342</u>
Change in net position	54,830	(12,474)	42,356
Net position, beginning	<u>2,712,190</u>	<u>208,592</u>	<u>2,920,782</u>
Net position, ending	<u>\$ 2,767,020</u>	<u>\$ 196,118</u>	<u>\$ 2,963,138</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Public Service Utilities Fund	Nonmajor Funds	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,448,069	\$ 85,296	\$ 1,533,365
Payments to suppliers	(992,173)	(74,156)	(1,066,329)
Payments to employees	(304,914)	(15,641)	(320,555)
Net cash provided (used) by operating activities	<u>150,982</u>	<u>(4,501)</u>	<u>146,481</u>
Cash flows from capital and related financing activities:			
Grant proceeds	10,525	-	10,525
Purchases of capital assets	(180,334)	(39,388)	(219,722)
Net cash provided (used) by capital and related financing activities	<u>(169,809)</u>	<u>(39,388)</u>	<u>(209,197)</u>
Cash flows from noncapital financing activities			
Change in due to/from other funds	<u>(5,832)</u>	<u>38,265</u>	<u>32,433</u>
Net cash provided (used) by noncapital financing activities	<u>(5,832)</u>	<u>38,265</u>	<u>32,433</u>
Cash flows from investing activities			
Insurance proceeds	13,720	-	13,720
Notes receivable proceeds	1,689	-	1,689
Interest income	2,984	113	3,097
Net cash provided (used) by investing activities	<u>18,393</u>	<u>113</u>	<u>18,506</u>
Net increase (decrease) in cash and cash equivalents	(6,266)	(5,511)	(11,777)
Cash and cash equivalents, January 1	<u>411,788</u>	<u>171,064</u>	<u>582,852</u>
Cash and cash equivalents, December 31	<u>\$ 405,522</u>	<u>\$ 165,553</u>	<u>\$ 571,075</u>
Reconciliation of net operating income to			
Net cash provided (used) by operating activities:			
Operating income (loss)	\$ 27,601	\$ (12,587)	\$ 15,014
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	127,900	6,776	134,676
Change in assets and liabilities:			
Accounts receivable	(3,522)	764	(2,758)
Inventories	(14,833)	-	(14,833)
Deferred pension outflows	22,116	-	22,116
Accounts payable	3,253	(1,542)	1,711
Accrued expenses	(1,086)	-	(1,086)
Compensated absences	5,289	-	5,289
Prepaid rent	-	3,288	3,288
Customer deposits	400	(1,200)	(800)
Net pension liability	(11,772)	-	(11,772)
Deferred pension inflows	(4,364)	-	(4,364)
Total adjustments	<u>123,381</u>	<u>8,086</u>	<u>131,467</u>
Net cash provided (used) by operating activities	<u>\$ 150,982</u>	<u>\$ (4,501)</u>	<u>\$ 146,481</u>

See Notes to the Financial Statements

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2019**

**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.

**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.

**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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**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, deferred inflows/outflows of resources, net position, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

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.
- c) Economic Development Authority (EDA) – The Economic Development Authority fund is to account for beautification projects, economic growth incentives and community events.
- d) Capital Projects Fund – The Capital Projects Fund accounts for all activities associated with the acquisition and construction of specific capital projects.
- e) Debt Service Fund – The Debt Service Fund accounts for receipts of property taxes used for payments of bond principal, interest and fees.

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 fund:

- 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 Enterprise funds:

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

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

**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 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 THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

**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. The City did not adopt an Economic Development Authority budget for 2019.

**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.

**Investments**

Fair Value Measurements – The City accounts for all assets and liabilities that are being measured and reported on fair value basis in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. GASB 72 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated market data.

**Property Taxes**

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

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

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.

### **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. Management has determined that no allowance for doubtful accounts was necessary for the utility receivables as of December 31, 2019. Resident accounts receivable is carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. At December 31, 2019, the allowance for doubtful receivables for resident accounts was \$1,200.

### **Notes Receivable**

Notes receivable are made within the Economic Development Authority for economic growth; the Utility Fund also issues notes receivable for utility projects done for residents. Notes receivable are reviewed annually and an allowance is made for doubtful receivables. At December 31, 2019, the allowance for doubtful receivables was \$3,350.

### **Capital Assets**

Capital assets, including land, construction in process, 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 acquisition 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:

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

Buildings	20-40 Years
Building Improvements	25 Years
Plant and Equipment	7-50 Years
Office Equipment	7 Years
Infrastructure	25-30 Years

**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.

**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.

**Compensated Absences**

City employees 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.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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 has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences with the PERA pension plan as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net 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, *unavailable 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 unavailable and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences with the PERA pension plan.

### **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 assets 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.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

Sometimes the government will fund outlays for a 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.

**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.

*Unassigned* – consists of amounts that are available for any purpose; positive amounts are reported 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.

**Use of Estimates**

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Ultimate results could differ from those estimates.

**NOTE 2 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.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

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 December 31, 2019, the City's carrying amount of deposits was \$1,338,839 and the bank balance was \$1,392,948. The bank balances were covered by Federal Depository Insurance and pledged collateral.

**NOTE 3 CAPITAL ASSETS**

The following is a summary of governmental and business type capital assets for the year ended December 31, 2019:

<u>Governmental Type Activities</u>	<u>Balance</u> <u>1/1/19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/19</u>
Capital assets, not being depreciated				
Land	\$ 50,415	\$ -	\$ -	\$ 50,415
Construction in progress	<u>49,414</u>	<u>20,000</u>	<u>(49,414)</u>	<u>20,000</u>
Total capital assets not being depreciated	<u>99,829</u>	<u>20,000</u>	<u>(49,414)</u>	<u>70,415</u>
Capital assets, being depreciated				
Infrastructure	725,000	960,639	-	1,685,639
Building	252,907	43,328	-	296,235
Equipment	<u>1,103,754</u>	<u>161,218</u>	<u>(53,901)</u>	<u>1,211,071</u>
Total capital assets being depreciated	2,081,661	1,165,185	(53,901)	3,192,945
Less accumulated depreciation	<u>(1,229,681)</u>	<u>(105,385)</u>	<u>15,886</u>	<u>(1,319,180)</u>
Governmental activities capital assets, being depreciated, net	<u>851,980</u>	<u>1,059,800</u>	<u>(38,015)</u>	<u>1,873,765</u>
Total capital assets, net	<u>\$ 951,809</u>	<u>\$ 1,079,800</u>	<u>\$ (87,429)</u>	<u>\$ 1,944,180</u>

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

Depreciation expense was charged to government functions as follows:

General Government	\$ 2,794
Highways and Streets	53,947
Culture and Recreation	14,667
Public Safety	33,977
	<u>\$ 105,385</u>

Business Type Activities	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
Capital assets, not being depreciated				
Land	\$ 11,168	\$ 53,051	\$ -	\$ 64,219
Total capital assets not being depreciated	11,168	53,051	-	64,219
Capital assets, being depreciated				
Water	1,228,710	19,056	-	1,247,766
Sewer	922,049	23,972	-	946,021
Electric	1,927,684	82,345	(9,000)	2,001,029
General utilities	257,197	1,910	(5,000)	254,107
Sunrise Apartments	115,000	5,415	-	120,415
Wimmer Homes	142,458	33,973	-	176,431
Total capital assets being depreciated	4,593,098	166,671	(14,000)	4,745,769
Less accumulated depreciation	(2,232,155)	(134,676)	14,000	(2,352,831)
Total capital assets, being depreciated, net	2,360,943	31,995	-	2,392,938
Total capital assets, net	\$ 2,372,111	\$ 85,046	\$ -	\$ 2,457,157

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

Water	\$ 20,574
Sewer	15,970
Electric	83,171
General utilities	8,185
Sunrise Apartments	4,660
Wimmer Homes	2,116
	<u>\$ 134,676</u>

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

**NOTE 4 COMPENSATED ABSENCES**

Compensated absences for the City are as follows:

	Balance	New		Balance	Due
Business Type Activities:	01/01/19	Issued	Retired	12/31/19	Within
Compensated Absences	\$ 20,258	\$ 25,900	\$ (20,611)	\$ 25,547	One Year
					\$ 25,547

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

Substantially, all employees of the City are required by state law to belong to a pension plan administered by the Public Employees Retirement Association (PERA) which is administered on a statewide basis.

Disclosures relating to these plans follow:

**Public Employees Retirement Association**

**A. Plan Description**

The City participates in the following cost-sharing multi-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan; accounted for in the General Employees Fund)

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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.

**General Employees Plan Benefits**

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019 were \$19,291. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

At December 31, 2019, the City reported a liability of \$199,036 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$6,333. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion share was 0.0036% which was a decrease of .0002% from its proportion measured as of June 30, 2018.

City's proportionate share of net pension liability	\$ 199,036
State of Minnesota's proportionate share of the net pension liability associated with the City	6,333
Total	\$ 205,369

For the year ended December 31, 2019, the City recognized pension expense of \$23,699 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$474 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,595	\$ -
Changes in actuarial assumptions	-	16,119
Difference between projected and actual investment earnings	-	21,410
Changes in proportion	4,744	9,335
Contributions paid to PERA subsequent to the measurement date	9,556	-
Total	\$ 19,895	\$ 46,864

\$9,556 reported as net deferred outflows of resources related to pensions resulting from City contributions to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Year ending June 30:	Amount
2020	\$ (11,365)
2021	(18,150)
2022	(7,329)
2023	319

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019.

The following changes in actuarial assumptions and plan provisions occurred in 2019.

**General Employees Fund**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds (Fixed Income)	20.00%	0.75%
Alternative Assets (Private Markets)	25.00%	5.90%
Cash	2.00%	0.00%

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the net pension liability:	\$ 327,204	\$ 199,036	\$ 93,207

**H. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**I. 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.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

The minimum retirement age is 50 and members are fully vested after 20 years. These benefit provisions and all other requirements are consistent with state statutes.

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$14,014 for 2019.

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, 2019, and for the fiscal year then ended, the Association held no securities issued by the City or other related parties.

The City has elected not to implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to the Halstad Firefighters’ Relief Association.

**NOTE 6    DEFINED CONTRIBUTION PLAN**

Three council members of the City of Halstad are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees, employee contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent (0.0025) of the assets in each member’s account annually.

Total contributions made by the City during fiscal year 2019 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$     570	\$     570	5%	5%	5%

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

**NOTE 7 COMMITTED AND CONTINGENCIES**

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 ten 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.

During 2018, the property within the tax increment financing district was sold to a nonprofit which will not pay property taxes resulting in a possible loss for the City. As of December 31, 2019 the Tax Increment District owes other funds \$149,598, an outside entity \$34,200 and has a cash position of \$18,632.

**NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances and transfers as of December 31, 2019, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Tax Increment District	\$ 105,910
Tax Increment District	General Fund	4,242
Public Service Utilities Fund	General Fund	25,500
Public Service Utilities Fund	Nonmajor Proprietary Funds	2,769
Public Service Utilities Fund	Tax Increment District	43,688
Capital Project	General Fund	3,135
Capital Project	Nonmajor Proprietary Funds	39,388
		<u>\$ 224,632</u>

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 \$43,688 at December 31, 2019. 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 general fund also has a payable to the tax increment district for tax increment receipts that have not been transferred yet to the tax increment district.

The general fund and nonmajor proprietary funds have a payable to the capital project fund for their portion of the capital project.

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

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

Transfers to / from other funds:

Transfer In	Transfer Out	Amount
Economic Development Authority	General Fund	\$ 6,000

The transfer is an annual transfer appropriated by the General fund for economic development activities.

**NOTE 9 LONG-TERM DEBT**

The City of Halstad issued debt on November 1, 2008 in the amount of \$53,200 payable to the Halstad Telephone Company with an interest rate of 3.00% and maturity date of February 3, 2026.

During 2019, the city issued a general obligation note, Series 2019A in the amount of \$1,349,000 to fund portions of the MNDOT Highway 75 project, and the City's Mill and Overlay project. The Note has an interest rate of 2.80% and a maturity date of February 1, 2035.

During the year ended December 31, 2019, the following changes occurred in the liabilities reported in long-term debt:

	Balance 12/31/18	Additions	Reductions	Balance 12/31/19	Due Within One Year
Governmental Activities:					
Note Payable	\$ 37,200	\$ -	\$ 3,000	\$ 34,200	\$ 3,500
GO Note Series 2019A	-	1,349,000	-	1,349,000	-
Governmental Activities Total	\$ 37,200	\$ 1,349,000	\$ 3,000	\$ 1,383,200	\$ 3,500

The debt service requirements for the government's notes are as follows:

Year Ending December 31,	Principal	Interest	Total
2020	\$ 3,500	\$ 38,798	\$ 42,298
2021	60,500	37,895	98,395
2022	80,500	35,914	116,414
2023	82,500	33,625	116,125
2024	85,500	31,280	116,780
2025-2029	455,700	118,674	574,374
2030-2034	505,000	51,590	556,590
2035	110,000	1,540	111,540
	\$ 1,383,200	\$ 349,316	\$ 1,732,516

**NOTE 10 FUND BALANCE DEFICIT**

There was a deficit fund balance of \$130,966 in the tax increment district fund as of December 31, 2019. This will be funded through tax levies and general fund transfers.

**CITY OF HALSTAD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**AS OF DECEMBER 31, 2019**

**NOTE 11 NEW PRONOUNCEMENTS**

GASB Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 91, Conduit Debt Obligations, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, Omnibus 2020, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the entity'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, 2019**

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>			
General property taxes	\$ 198,646	\$ 206,904	\$ 8,258
Special assessments	2,500	2,539	39
Licenses and permits	1,000	1,182	182
	<u>202,146</u>	<u>210,625</u>	<u>8,479</u>
<b>Intergovernmental revenues</b>			
Local government aid	193,305	193,305	-
State grants	2,200	21,293	19,093
PERA aid	-	1,213	1,213
FEMA aid	-	112,616	112,616
Fire relief association aid	14,000	14,014	14
	<u>209,505</u>	<u>342,441</u>	<u>132,936</u>
<b>Charges for services</b>			
Fire protection fees	15,100	13,230	(1,870)
Snow removal	1,500	13,600	12,100
	<u>16,600</u>	<u>26,830</u>	<u>10,230</u>
<b>Fines and penalties</b>			
	<u>1,000</u>	<u>731</u>	<u>(269)</u>
<b>Miscellaneous revenues</b>			
Gifts and donations	-	33,819	33,819
Interest on investments	1,000	2,196	1,196
Reimbursements and refunds	6,000	1,850	(4,150)
Rent	1,000	300	(700)
Other	2,200	34,422	32,222
	<u>10,200</u>	<u>72,587</u>	<u>62,387</u>
<b>Total revenues</b>	<u>439,451</u>	<u>653,214</u>	<u>213,763</u>
<b>Expenditures</b>			
<b>General government</b>			
Audit	7,100	7,381	(281)
Assessment services	755	3,351	(2,596)
Payroll expenses	17,063	17,363	(300)
County assessment	2,100	1,988	112
Insurance	8,410	12,580	(4,170)
Supplies and other	8,600	31,177	(22,577)
<b>Total general government</b>	<u>44,028</u>	<u>73,840</u>	<u>(29,812)</u>

See Notes to the Required Supplementary Information

**CITY OF HALSTAD**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET TO ACTUAL – GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Original and Final Budget	Actual	Variance with Final Budget
Public safety			
Police protection			
Contracted service	\$ 27,097	\$ 28,180	\$ (1,083)
Insurance	444	455	(11)
Animal control	1,000	18	982
Other	6,000	4,500	1,500
	<u>34,541</u>	<u>33,153</u>	<u>1,388</u>
Fire protection			
Volunteers compensation	8,000	5,306	2,694
Equipment and repairs	15,000	12,786	2,214
Hydrant rental	1,850	1,850	-
Telephone and utilities	7,000	7,179	(179)
County assessment	800	772	28
Insurance	7,807	8,620	(813)
Other expense	500	1,785	(1,285)
Education and training	6,000	2,938	3,062
Firemen's relief association	16,000	16,208	(208)
Capital outlay	-	48,852	(48,852)
	<u>62,957</u>	<u>106,296</u>	<u>(43,339)</u>
Rescue squad			
Volunteers' compensation	8,000	7,904	96
Repairs	1,500	140	1,360
Telephone and utilities	3,500	3,581	(81)
Equipment expenses	7,700	2,455	5,245
Insurance	3,750	4,303	(553)
Other	200	2,047	(1,847)
	<u>24,650</u>	<u>20,430</u>	<u>4,220</u>
Flood			
Capital outlay - Dike and flood protection	15,000	108,703	(93,703)
	<u>15,000</u>	<u>108,703</u>	<u>(93,703)</u>
Total public safety	<u>137,148</u>	<u>268,582</u>	<u>(131,434)</u>

See Notes to the Required Supplementary Information

**CITY OF HALSTAD**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET TO ACTUAL – GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 30,000	\$ 25,747	\$ 4,253
Equipment repair and maintenance	70,000	29,382	40,618
Snow removal	14,000	45,596	(31,596)
Street lighting	8,800	9,600	(800)
Tree removal and replacement	500	600	(100)
Insurance	3,550	3,636	(86)
Other	4,000	126	3,874
Capital outlay	47,039	55,039	(8,000)
Total highways and streets	<u>177,889</u>	<u>169,726</u>	<u>8,163</u>
Culture and recreation			
Recreation programs			
Park and other expense	15,000	12,073	2,927
Community building (LRC)	20,000	9,806	10,194
City beautification - projects	33,000	9,240	23,760
Meals program	1,500	-	1,500
Economic Development Association	6,000	-	6,000
Other	2,000	35	1,965
Capital outlay	-	13,908	(13,908)
Total culture and recreation	<u>77,500</u>	<u>45,062</u>	<u>32,438</u>
Total expenditures	<u>436,565</u>	<u>557,210</u>	<u>(120,645)</u>
Excess (deficiency) of revenues over expenditures	<u>2,886</u>	<u>96,004</u>	<u>93,118</u>
Other financing sources (uses)			
Sale of capital asset	-	501	501
Transfer Out	-	(6,000)	(6,000)
Total other financing sources (uses)	<u>-</u>	<u>(5,499)</u>	<u>(5,499)</u>
Net change in fund balance	<u>2,886</u>	<u>90,505</u>	<u>87,619</u>
Fund balance, beginning of year	<u>591,216</u>	<u>591,216</u>	<u>-</u>
Fund balance, end of year	<u>\$ 594,102</u>	<u>\$ 681,721</u>	<u>\$ 87,619</u>

See Notes to the Required Supplementary Information

**CITY OF HALSTAD**  
**SCHEDULE OF CITY'S CONTRIBUTION TO PERA RETIREMENT FUND**  
**AS OF DECEMBER 31, 2019**

Year Ended	Statutorily Required Contributions	Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a % of Covered Payroll
2015	\$ 16,343	\$ 16,343	\$ -	\$ 217,909	7.50%
2016	17,259	17,259	-	230,113	7.50%
2017	18,324	18,324	-	244,320	7.50%
2018	19,362	19,362	-	258,159	7.50%
2019	19,291	19,291	-	257,210	7.50%

The amounts presented for each year were determined as of the City's year end, which is December 31<sup>st</sup>.

The City implemented GASB Statement No. 68 and 71 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

**CITY OF HALSTAD**  
**SCHEDULE OF CITY'S AND NON-EMPLOYER PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**AS OF DECEMBER 31, 2019**

Year Ended	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	State Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0036%	\$ 186,571	\$ -	\$ 186,571	\$ 206,893	90.2%	78.19%
2016	0.0036%	292,302	3,873	296,175	223,987	130.5%	68.91%
2017	0.0037%	236,205	2,962	239,167	237,715	99.4%	75.90%
2018	0.0038%	210,808	6,871	217,679	253,440	83.2%	79.53%
2019	0.0036%	199,036	6,333	205,369	258,028	77.1%	80.23%

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30<sup>th</sup>.

The City implemented GASB Statement No. 68 and 71 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

**CITY OF HALSTAD**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**AS OF DECEMBER 31, 2019**

**NOTE 1 - BUDGETARY COMPARISON**

Budgets are prepared for City funds on the same basis and using the same accounting practices that 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. In the current year, the General fund saw expenses in excess of budgeted in the amount of . The City did not adopt an Economic Development Authority budget for 2019.

**NOTE 2 - DEFINED BENEFIT PLAN**

**General Employees Fund**

*2019 Changes*

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

*2018 Changes*

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

*2017 Changes*

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

*2016 Changes*

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.

**CITY OF HALSTAD**  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
AS OF DECEMBER 31, 2019

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

*2015 Changes*

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

**CITY OF HALSTAD**  
**COMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDS**  
**AS OF DECEMBER 31, 2019**

	John Wimmer Homes	Sunrise Apartments	Totals
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 120,891	\$ 44,662	\$ 165,553
Accounts receivable, net	<u>4,383</u>	<u>1,517</u>	<u>5,900</u>
Total current assets	<u>125,274</u>	<u>46,179</u>	<u>171,453</u>
Non-current assets			
Capital assets			
Land	3,522	5,000	8,522
Building, improvements, and equipment	176,431	120,415	296,846
Less accumulated depreciation	<u>(138,080)</u>	<u>(89,377)</u>	<u>(227,457)</u>
Total capital assets	<u>41,873</u>	<u>36,038</u>	<u>77,911</u>
Total assets	<u>167,147</u>	<u>82,217</u>	<u>249,364</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	38	163	201
Due to other funds	34,565	7,592	42,157
Prepaid rent	-	3,288	3,288
Customer deposits	<u>5,000</u>	<u>2,600</u>	<u>7,600</u>
Total Liabilities	<u>39,603</u>	<u>13,643</u>	<u>53,246</u>
<b>Net position</b>			
Net investment in capital assets	41,873	36,038	77,911
Unrestricted	<u>85,671</u>	<u>32,536</u>	<u>118,207</u>
Total net position	<u>\$ 127,544</u>	<u>\$ 68,574</u>	<u>\$ 196,118</u>

**CITY OF HALSTAD**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**– NONMAJOR PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	John Wimmer Homes	Sunrise Apartments	Totals
Operating revenue			
Rentals	\$ 34,450	\$ 45,738	\$ 80,188
Other	<u>1,199</u>	<u>1,057</u>	<u>2,256</u>
Total operating revenue	<u>35,649</u>	<u>46,795</u>	<u>82,444</u>
Operating expenses			
Salaries and wages	6,904	8,737	15,641
Heat, light and power	4,846	17,752	22,598
Repairs, maintenance and supplies	5,695	15,900	21,595
Insurance	2,410	9,393	11,803
Depreciation	2,116	4,660	6,776
Other	<u>3,480</u>	<u>13,138</u>	<u>16,618</u>
Total operating expenses	<u>25,451</u>	<u>69,580</u>	<u>95,031</u>
Operating income (loss)	<u>10,198</u>	<u>(22,785)</u>	<u>(12,587)</u>
Non-operating revenues			
Interest income	<u>113</u>	<u>-</u>	<u>113</u>
Total non-operating revenues	<u>113</u>	<u>-</u>	<u>113</u>
Change in net position	10,311	(22,785)	(12,474)
Net position, beginning	<u>117,233</u>	<u>91,359</u>	<u>208,592</u>
Net position, ending	<u>\$ 127,544</u>	<u>\$ 68,574</u>	<u>\$ 196,118</u>

**CITY OF HALSTAD**  
**COMBINING STATEMENT OF CASH FLOWS – NONMAJOR PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	John Wimmer Homes	Sunrise Apartments	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 35,011	\$ 50,285	\$ 85,296
Payments to suppliers	(17,704)	(56,452)	(74,156)
Payments to employees	(6,904)	(8,737)	(15,641)
Net cash provided (used) by operating activities	<u>10,403</u>	<u>(14,904)</u>	<u>(4,501)</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	<u>(33,973)</u>	<u>(5,415)</u>	<u>(39,388)</u>
Net cash provided (used) by capital and related financing activities	<u>(33,973)</u>	<u>(5,415)</u>	<u>(39,388)</u>
Cash flows from noncapital financing activities			
Change in due to/from other funds	<u>33,680</u>	<u>4,585</u>	<u>38,265</u>
Net cash provided (used) by noncapital financing activities	<u>33,680</u>	<u>4,585</u>	<u>38,265</u>
Cash flows from investing activities			
Interest income	<u>113</u>	<u>-</u>	<u>113</u>
Net cash provided (used) by investing activities	<u>113</u>	<u>-</u>	<u>113</u>
Net increase (decrease) in cash and cash equivalents	10,223	(15,734)	(5,511)
Cash and cash equivalents, January 1	<u>110,668</u>	<u>60,396</u>	<u>171,064</u>
Cash and cash equivalents, December 31	<u>\$ 120,891</u>	<u>\$ 44,662</u>	<u>\$ 165,553</u>
Reconciliation of net operating income to			
Net cash provided (used) by operating activities:			
Operating income (loss)	\$ 10,198	\$ (22,785)	\$ (12,587)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	2,116	4,660	6,776
Change in assets and liabilities:			
Accounts receivable	(1,438)	2,202	764
Accounts payable	(1,273)	(269)	(1,542)
Prepaid rent	-	3,288	3,288
Customer deposits	<u>800</u>	<u>(2,000)</u>	<u>(1,200)</u>
Total adjustments	<u>205</u>	<u>7,881</u>	<u>8,086</u>
Net cash provided (used) by operating activities	<u>\$ 10,403</u>	<u>\$ (14,904)</u>	<u>\$ (4,501)</u>

**CITY OF HALSTAD**  
**SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Electric Department	Water Department	Sewage Disposal Department	Refuse Disposal Department	Total
<b>Operating revenues</b>					
Halstad consumers	\$ 968,776	\$ 109,740	\$ 140,645	\$ 61,915	\$ 1,281,076
City departments - administration fee	22,744	-	-	-	22,744
Penalties	12,428	-	-	-	12,428
Generator revenue	66,541	-	-	-	66,541
Other	68,402	-	-	-	68,402
<b>Total operating revenues</b>	<b>1,138,891</b>	<b>109,740</b>	<b>140,645</b>	<b>61,915</b>	<b>1,451,191</b>
<b>Operating expenses</b>					
<b>Production and distribution</b>					
Salaries	106,480	18,289	26,699	-	151,468
Repair, maintenance and supplies	-	3,232	9,213	-	12,445
Electric energy purchased	744,581	-	-	-	744,581
Sewer waste disposal	-	-	16,948	-	16,948
Depreciation	83,171	20,574	15,969	-	119,714
Generator expenses	40,387	-	-	-	40,387
Dumpster rent and pickup	-	-	-	52,476	52,476
Truck expense	7,906	1,358	1,982	-	11,246
Miscellaneous and training	19,525	14,863	18,944	-	53,332
<b>Total production and distribution</b>	<b>1,002,050</b>	<b>58,316</b>	<b>89,755</b>	<b>52,476</b>	<b>1,202,597</b>
<b>General and administrative</b>					
Salaries - administrative and office	30,973	30,973	30,973	-	92,919
General supplies and maintenance	-	2,301	6,559	-	8,860
Office supplies and postage	2,107	2,108	2,108	-	6,323
Telephone	1,522	1,522	1,522	-	4,566
Depreciation	5,687	1,407	1,091	-	8,185
Professional fees and services	2,490	1,895	2,415	-	6,800
Insurance	12,005	2,062	3,010	-	17,077
PERA, social security, employee insurance and other	49,709	8,538	12,465	-	70,712
Miscellaneous	2,032	1,547	1,972	-	5,551
<b>Total general and administrative</b>	<b>106,525</b>	<b>52,353</b>	<b>62,115</b>	<b>-</b>	<b>220,993</b>
<b>Total operating expenses</b>	<b>1,108,575</b>	<b>110,669</b>	<b>151,870</b>	<b>52,476</b>	<b>1,423,590</b>
<b>Operating income (loss)</b>	<b>\$ 30,316</b>	<b>\$ (929)</b>	<b>\$ (11,225)</b>	<b>\$ 9,439</b>	<b>\$ 27,601</b>

**CITY OF HALSTAD**  
**UTILITY STATISTICS – ELECTRICAL UTILITIES STATISTICS (UNAUDITED)**  
**LAST TEN YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Kilowatt hours sold										
Residential	2,823,001	2,864,972	2,759,617	2,758,247	2,864,149	2,942,617	2,847,267	2,647,759	2,864,992	2,954,375
Off peak heating	2,802,918	2,783,064	2,530,302	2,384,351	2,821,492	3,124,387	2,963,626	2,510,458	2,901,579	2,788,170
Commercial lighting	943,923	971,791	878,926	921,494	992,232	1,035,544	1,092,154	1,055,877	1,170,293	1,126,791
Power	1,250,345	1,571,975	1,458,388	1,623,535	1,724,877	1,627,901	1,647,448	1,505,821	1,658,657	1,725,051
City usage	223,269	279,281	253,107	220,327	246,040	243,293	244,353	189,148	178,274	197,194
Water and sewer department usage	141,325	150,420	140,232	138,154	151,443	158,620	154,412	131,063	161,304	164,015
Total KWH sold	8,184,781	8,621,503	8,020,572	8,046,108	8,800,233	9,132,362	8,949,260	8,040,126	8,935,099	8,955,596
Add										
Electric plant usage	212,467	218,067	197,894	189,578	214,396	295,452	284,689	270,820	300,836	300,130
	<u>8,397,248</u>	<u>8,839,570</u>	<u>8,218,466</u>	<u>8,235,686</u>	<u>9,014,629</u>	<u>9,427,814</u>	<u>9,233,949</u>	<u>8,310,946</u>	<u>9,235,935</u>	<u>9,255,726</u>
Total KWH purchased	<u>8,717,475</u>	<u>9,128,792</u>	<u>8,703,526</u>	<u>8,656,085</u>	<u>8,975,660</u>	<u>9,804,619</u>	<u>9,731,977</u>	<u>8,757,050</u>	<u>9,691,092</u>	<u>9,601,056</u>
Line loss	<u>(320,227)</u>	<u>(289,222)</u>	<u>(485,060)</u>	<u>(420,399)</u>	<u>38,969</u>	<u>(376,805)</u>	<u>(498,028)</u>	<u>(446,104)</u>	<u>(455,157)</u>	<u>(345,330)</u>
Loss percentage of KWH purchased	<u>3.67%</u>	<u>3.17%</u>	<u>5.57%</u>	<u>4.86%</u>	<u>(0.43%) (1)</u>	<u>3.84%</u>	<u>5.12%</u>	<u>5.09%</u>	<u>4.70%</u>	<u>3.60%</u>

(1) During 2015, the City changed its billing cycle to correspond with its purchases creating additional hours sold.

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, 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, the financial statements of the governmental activities, 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, 2019, and have issued our report thereon dated April 13, 2020. The governmental activities have a qualified report because the City did not adopt the provisions of Governmental Accounting Standards Board Statement No. 68 for the Fire Relief Association.

### Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the accompanying schedule of findings as item 2019-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**THIEF RIVER FALLS, MINNESOTA**

April 13, 2020

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 13, 2020. The governmental activities have a qualified report because the City did not adopt the provisions of Governmental Accounting Standards Board Statement No. 68 for the Fire Relief Association.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Halstad's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Halstad's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Halstad's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**THIEF RIVER FALLS, MINNESOTA**

April 13, 2020

**CITY OF HALSTAD**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**2019-001 – Significant Deficiency**

**Criteria**

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

**Condition**

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting.

**Cause**

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

**Effect**

The City Council is aware of the deficiency and addresses it by reviewing and approving the adjusting entries and completed statements prior to distribution to the end users.

**Recommendation**

We recommend the City review its current training system to determine if it is cost effective for the City to obtain this knowledge internally. As a compensating control, the entity should establish an internal control policy to document the annual review of the financial statements and to review a financial statements disclosure checklist.

**Views of Responsible Officials and Planned Corrective Actions**

The City agrees with the recommendation and will review on an annual basis.

**CITY OF HALSTAD**  
**SCHEDULE OF FINDINGS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**2019-002 – Significant Deficiency**

**Criteria**

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

**Condition**

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

**Cause**

Size and budget constraints limiting the number of personnel within the accounting department.

**Effect**

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Recommendation**

The City's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

**Views of Responsible Officials and Planned Corrective Actions**

The City agrees with the recommendation and will review on an annual basis.

**CITY OF HALSTAD**  
**SCHEDULE OF FINDINGS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**2019-003 – Finding**

**Criteria**

Minnesota Statute Section 471.425 subdivision 2 requires prompt payment of local government bills. The standard payment period is 35 days from receipt for city councils that meet at least once a month.

**Condition**

The City hasn't paid a bill for flood prevention expense from May 2019.

**Cause**

The City was waiting to receive federal grant funds, before paying the bill. The federal grant funds have not been received yet.

**Effect**

The City was not in compliance with this MN Statute.

**Recommendation**

The City should establish a policy to pay all bills within 35 days of receipt.

**Views of Responsible Officials and Planned Corrective Actions**

The City agrees with the recommendation and will pay all bills within 35 days of receipt.

**CITY OF HALSTAD**  
**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2019**

**2019-001 FINDING**

Contact Person – Alli Tice, Office Coordinator

Corrective Action Plan – Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date – Ongoing

**2019-002 FINDING**

Contact Person – Alli Tice, Office Coordinator

Corrective Action Plan – The City has the following procedures to mitigate the risk:

- 1) The city council approves checks.
- 2) The mayor reviews bank statements before turning it over to the city clerk for reconciliation.
- 3) The city council approves the annual budget.

Completion Date – Ongoing

**2019-003 FINDING**

Contact Person – Alli Tice, Office Coordinator

Corrective Action Plan – The City will pay all bills within 35 days of receipt.

Completion Date – Immediately