

**CITY OF HALSTAD
HALSTAD, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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CITY OF HALSTAD
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2022

CITY COUNCIL

Darin Johnson	Mayor	12/31/22
Brandon Mickelson	Vice Mayor/Trustee	12/31/24
Terri Trygg	Clerk	Appointed
Mike Trygg	Deputy Clerk	12/31/22
Alli Tice	Treasurer	Appointed
Shirley Weeding	Trustee	12/31/22
Donna Scholl	Trustee	12/31/24

UTILITIES COMMISSION

Tom Maroney	President	12/31/24
Ron Gotteberg	Secretary	12/31/22
Darin Johnson	Commission Member	12/31/23
Lucas Spaeth	Utilities Superintendent	Appointed

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Halstad
Halstad, Minnesota

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Qualified Opinion on Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, 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, 2022, 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 on Business-Type Activities, each Major Fund, and Aggregate Remaining Fund Information

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 aggregate remaining fund information of the City of Halstad, Minnesota, as of December 31, 2022, 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.

Basis for Qualified and Unmodified Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Halstad, Minnesota and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to the 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Halstad, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Halstad, Minnesota's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Halstad, Minnesota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, 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 is the responsibility of management and, 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.

Management 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Halstad, Minnesota's basic financial statements. The combining statements and schedule of operating revenues and expenses – public utility departments are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining statements and schedule of operating revenues and expenses – public utility departments are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the elected and appointed officials and statistical section but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2023 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, 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**

June 21, 2023

CITY OF HALSTAD
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2022

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,092,517	\$ 957,044	\$ 2,049,561
Accounts receivable, net of allowance	3,099	217,669	220,768
Notes receivable, net of allowance	2,100	5,105	7,205
Internal balances	(26,100)	26,100	-
Lease Receivable	67,290	-	67,290
Taxes receivable	25,277	-	25,277
Special assessments receivable	292,563	-	292,563
Inventories	-	56,610	56,610
Total current assets	<u>1,456,746</u>	<u>1,262,528</u>	<u>2,719,274</u>
Non-current assets:			
Notes receivable	5,925	14,556	20,481
Nondepreciable capital assets:			
Land	41,648	64,219	105,867
Construction in progress	-	32,374	32,374
Depreciable capital assets:			
Infrastructure	2,146,829	-	2,146,829
Building, improvements, and equipment	2,609,897	4,911,070	7,520,967
Less accumulated depreciation	<u>(1,804,514)</u>	<u>(2,768,085)</u>	<u>(4,572,599)</u>
Total capital assets (net of accumulated depreciation)	<u>2,993,860</u>	<u>2,239,578</u>	<u>5,233,438</u>
Total assets	<u>4,456,531</u>	<u>3,516,662</u>	<u>7,973,193</u>
Deferred Outflows of Resources			
Cost sharing defined benefit pension plan	-	122,854	122,854
Total deferred outflows of resources	<u>-</u>	<u>122,854</u>	<u>122,854</u>
Liabilities			
Current liabilities			
Accounts payable	5,844	103,491	109,335
Accrued employee benefits	-	4,470	4,470
Compensated absences	-	32,056	32,056
Accrued interest payable	15,400	-	15,400
Notes payable - due within one year	94,000	-	94,000
Unearned rent	-	2,605	2,605
Unearned revenue	100,673	-	100,673
Customer deposits	-	19,655	19,655
Total current liabilities	<u>215,917</u>	<u>162,277</u>	<u>378,194</u>
Long-term liabilities			
Notes payable	1,268,000	-	1,268,000
Net pension liability	-	356,401	356,401
Total long-term liabilities	<u>1,268,000</u>	<u>356,401</u>	<u>1,624,401</u>
Total liabilities	<u>1,483,917</u>	<u>518,678</u>	<u>2,002,595</u>
Deferred Inflows of Resources			
Cost sharing defined benefit pension plan	-	5,063	5,063
Leases	65,483	-	65,483
Total deferred inflows of resources	<u>65,483</u>	<u>5,063</u>	<u>70,546</u>
Net Position			
Net investment in capital assets	1,778,860	2,239,578	4,018,438
Restricted for economic development	80,102	-	80,102
Restricted for debt service	476,328	-	476,328
Unrestricted	<u>571,841</u>	<u>876,197</u>	<u>1,448,038</u>
Total net position	<u>\$ 2,907,131</u>	<u>\$ 3,115,775</u>	<u>\$ 6,022,906</u>

See Notes to the Financial Statements

CITY OF HALSTAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 61,496	\$ 2,255	\$ -	\$ -	\$ (59,241)	\$ -	\$ (59,241)
Public safety	447,785	13,471	305,950	19,887	(108,477)	-	(108,477)
Highways and streets	269,018	10,730	-	13,968	(244,320)	-	(244,320)
Culture and recreation	143,485	28,287	37,241	-	(77,957)	-	(77,957)
Economic development	6,965	3,195	-	420	(3,350)	-	(3,350)
Interest and fees	38,508	-	-	-	(38,508)	-	(38,508)
Total governmental activities	967,257	57,938	343,191	34,275	(531,853)	-	(531,853)
Business-type activities:							
Public service utilities	1,513,049	1,520,945	-	10,000	-	17,896	17,896
John Wimmer homes	41,094	49,153	-	-	-	8,059	8,059
Sunrise apartments	62,721	90,668	-	-	-	27,947	27,947
Total business-type activities	1,616,864	1,660,766	-	10,000	-	53,902	53,902
Total primary government	\$ 2,584,121	\$ 1,718,704	\$ 343,191	\$ 44,275	(531,853)	53,902	(477,951)
General revenues:							
Property taxes					256,511	-	256,511
Intergovernmental					213,526	-	213,526
Interest					16,016	596	16,612
Gain on sale of capital assets					235	-	235
Miscellaneous					57,518	-	57,518
Total general revenues					543,806	596	544,402
Changes in net position					11,953	54,498	66,451
Net position - beginning					2,895,178	3,061,277	5,956,455
Net position - ending					\$ 2,907,131	\$ 3,115,775	\$ 6,022,906

See Notes to the Financial Statements

CITY OF HALSTAD
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2022

	General	Tax Increment District 2-3	Economic Development Authority	Debt Service	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 818,216	\$ 20,120	\$ 75,136	\$ 179,045	\$ 1,092,517
Accounts receivable	2,919	-	180	-	3,099
Notes receivable, net of allowance	-	-	8,025	-	8,025
Lease Receivable	67,290	-	-	-	67,290
Taxes receivable	25,277	-	-	-	25,277
Special Assessments - Delinquent	-	-	-	1,203	1,203
Special Assessments - Noncurrent	-	-	-	291,360	291,360
Total assets	\$ 913,702	\$ 20,120	\$ 83,341	\$ 471,608	\$ 1,488,771
Liabilities					
Accounts payable	\$ 5,845	\$ -	\$ -	\$ -	\$ 5,845
Unearned revenue	97,434	-	3,239	-	100,673
Due to other funds	26,100	-	-	-	26,100
Total liabilities	129,379	-	3,239	-	132,618
Deferred inflows of resources					
Leases	65,483	-	-	-	65,483
Unavailable revenues	25,277	-	-	292,563	317,840
Total deferred inflows of resources	90,760	-	-	292,563	383,323
Fund balance					
Restricted for economic development	-	-	80,102	-	80,102
Restricted for debt service	-	20,120	-	179,045	199,165
Assigned for housing rehab program	14,441	-	-	-	14,441
Unassigned	679,122	-	-	-	679,122
Total fund balance	693,563	20,120	80,102	179,045	972,830
Total liabilities, deferred inflows of resources and fund balance	\$ 913,702	\$ 20,120	\$ 83,341	\$ 471,608	\$ 1,488,771

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, 2022

Total governmental funds balance	\$	972,830
<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	\$ 4,798,374	
Accumulated depreciation	<u>(1,804,514)</u>	2,993,860
<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		25,278
Special assessments receivable		292,563
<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		(15,400)
<p>Long-term liabilities not due and payable in the current period and therefore are not included in the funds:</p>		
Notes payable		<u>(1,362,000)</u>
Net position of governmental activities	\$	<u>2,907,131</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, 2022

	General	Tax Increment District 2	Tax Increment District 2-3	Economic Development Authority	Debt Service	Total Governmental Funds
Revenues						
Property taxes	\$ 139,842	\$ -	\$ 25,453	\$ -	\$ 90,215	\$ 255,510
Special assessments	2,803	-	-	-	22,728	25,531
Licenses and permits	2,255	-	-	-	-	2,255
Intergovernmental	529,476	-	-	-	-	529,476
Charges for services	24,202	-	-	3,195	-	27,397
Fines and penalties	40	-	-	-	-	40
Interest	852	-	-	75	15,088	16,015
Contributions and donations	57,128	-	-	-	-	57,128
Rents	28,287	-	-	-	-	28,287
Reimbursements and refunds	1,490	-	-	-	-	1,490
Miscellaneous	29,560	-	-	3,650	-	33,210
Total receipts	<u>815,935</u>	<u>-</u>	<u>25,453</u>	<u>6,920</u>	<u>128,031</u>	<u>976,339</u>
Expenditures						
Current:						
General government	58,949	-	-	-	-	58,949
Public safety	338,340	-	-	-	-	338,340
Highways and streets	154,057	-	-	-	-	154,057
Culture and recreation	101,616	-	1,000	-	-	102,616
Economic development	-	1,000	-	5,965	-	6,965
Capital outlay	78,419	-	-	-	-	78,419
Debt service:						
Principal	-	-	-	-	77,000	77,000
Interest and other charges	-	-	4,410	-	35,098	39,508
Total disbursements	<u>731,381</u>	<u>1,000</u>	<u>5,410</u>	<u>5,965</u>	<u>112,098</u>	<u>855,854</u>
Excess (deficiency) of revenues over expenditures	<u>84,554</u>	<u>(1,000)</u>	<u>20,043</u>	<u>955</u>	<u>15,933</u>	<u>120,485</u>
Other financing sources (uses)						
Proceeds from sale of asset	6,000	-	-	-	-	6,000
Transfer out	(7,000)	-	-	-	-	(7,000)
Transfer in	-	1,000	-	6,000	-	7,000
Total other financing sources (uses)	<u>(1,000)</u>	<u>1,000</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Net change in fund balance	83,554	-	20,043	6,955	15,933	126,485
Fund balance - beginning	<u>610,009</u>	<u>-</u>	<u>77</u>	<u>73,147</u>	<u>163,112</u>	<u>846,345</u>
Fund balance - ending	<u>\$ 693,563</u>	<u>\$ -</u>	<u>\$ 20,120</u>	<u>\$ 80,102</u>	<u>\$ 179,045</u>	<u>\$ 972,830</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, 2022**

Net change in fund balance - total governmental funds \$ 126,485

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.

Current year depreciation	(189,403)
Gain on Sale	(5,765)

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.

Change in accrued interest payable	1,000
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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.

77,000

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Note Forgiveness	23,200
Taxes receivable	(997)
Special assessments receivable	<u>(19,567)</u>

Changes in net position	<u>\$ 11,953</u>
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CITY OF HALSTAD
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2022

	Public Service Utilities Fund	Nonmajor Funds	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 843,894	\$ 113,150	\$ 957,044
Accounts receivable, net	202,379	15,290	217,669
Due from other funds	35,899	15,000	50,899
Notes receivable	5,105	-	5,105
Inventories	56,610	-	56,610
Total current assets	<u>1,143,887</u>	<u>143,440</u>	<u>1,287,327</u>
Non-current assets			
Notes receivable	14,556	-	14,556
Capital assets			
Land	55,697	8,522	64,219
Construction in Progress	32,374	-	32,374
Building, improvements, and equipment	4,561,456	349,614	4,911,070
Less accumulated depreciation	<u>(2,511,311)</u>	<u>(256,774)</u>	<u>(2,768,085)</u>
Total capital assets	<u>2,138,216</u>	<u>101,362</u>	<u>2,239,578</u>
Total assets	<u>3,296,659</u>	<u>244,802</u>	<u>3,541,461</u>
Deferred outflows of resources			
Cost sharing defined benefit pension plan	<u>122,854</u>	-	<u>122,854</u>
Total deferred outflows of resources	<u>122,854</u>	-	<u>122,854</u>
Liabilities			
Current liabilities			
Accounts payable	101,664	1,827	103,491
Accrued employee benefits	4,470	-	4,470
Compensated absences	32,056	-	32,056
Due to other funds	-	24,799	24,799
Unearned rent	-	2,605	2,605
Customer deposits	9,075	10,580	19,655
Total current liabilities	<u>147,265</u>	<u>39,811</u>	<u>187,076</u>
Long-term liabilities			
Net pension liability	<u>356,401</u>	-	<u>356,401</u>
Total long-term liabilities	<u>356,401</u>	-	<u>356,401</u>
Total liabilities	<u>503,666</u>	<u>39,811</u>	<u>543,477</u>
Deferred inflows of resources			
Cost sharing defined benefit pension plan	<u>5,063</u>	-	<u>5,063</u>
Total deferred inflows of resources	<u>5,063</u>	-	<u>5,063</u>
Net position			
Net investment in capital assets	2,138,216	101,362	2,239,578
Unrestricted	<u>772,568</u>	<u>103,629</u>	<u>876,197</u>
Total net position	<u>\$ 2,910,784</u>	<u>\$ 204,991</u>	<u>\$ 3,115,775</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, 2022

	Public Service Utilities Fund	Nonmajor Funds	Totals
Operating revenue			
Charges for services	\$ 1,380,799	\$ -	\$ 1,380,799
City departments - administration fee	27,397	-	27,397
Penalties	11,926	-	11,926
Rentals	-	131,010	131,010
Generator revenue	62,508	-	62,508
Other	38,315	8,811	47,126
Total operating revenue	1,520,945	139,821	1,660,766
Operating expenses			
Electric energy purchased	693,094	-	693,094
Sewer waste disposal	29,534	-	29,534
Salaries and wages	273,925	27,849	301,774
Heat, light and power	-	26,367	26,367
Repairs, maintenance and supplies	42,089	11,585	53,674
Professional services	8,250	-	8,250
Insurance	18,427	8,274	26,701
Payroll taxes and employee benefits	106,378	-	106,378
Depreciation	126,530	10,728	137,258
Dumpster rent and pickup	58,683	-	58,683
Generator expense	51,497	-	51,497
Other	104,642	19,012	123,654
Total operating expenses	1,513,049	103,815	1,616,864
Operating income	7,896	36,006	43,902
Non-operating revenues			
Grant proceeds	10,000	-	10,000
Interest income	560	36	596
Total non-operating revenues	10,560	36	10,596
Net income before transfers	18,456	36,042	54,498
Transfers out	-	-	-
Change in net position	18,456	36,042	54,498
Net position, beginning	2,892,328	168,949	3,061,277
Net position, ending	\$ 2,910,784	\$ 204,991	\$ 3,115,775

See Notes to the Financial Statements

CITY OF HALSTAD
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Public Service Utilities Fund	Nonmajor Funds	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,492,590	\$ 132,896	\$ 1,625,486
Payments to suppliers	(982,756)	(63,949)	(1,046,705)
Payments to employees	(346,314)	(27,849)	(374,163)
Net cash provided (used) by operating activities	<u>163,520</u>	<u>41,098</u>	<u>204,618</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(67,572)	(19,227)	(86,799)
Net cash provided (used) by capital and related financing activities	<u>(57,572)</u>	<u>(19,227)</u>	<u>(76,799)</u>
Cash flows from noncapital financing activities			
Change in due to/from other funds	(5,889)	3,781	(2,108)
Net cash provided (used) by noncapital financing activities	<u>(5,889)</u>	<u>3,781</u>	<u>(2,108)</u>
Cash flows from investing activities			
Notes receivable proceeds	12,118	-	12,118
Issuance of notes receivable	(6,850)	-	(6,850)
Interest income	560	36	596
Net cash provided (used) by investing activities	<u>5,828</u>	<u>36</u>	<u>5,864</u>
Net increase (decrease) in cash and cash equivalents	105,887	25,688	131,575
Cash and cash equivalents, January 1	<u>738,007</u>	<u>87,462</u>	<u>825,469</u>
Cash and cash equivalents, December 31	<u>\$ 843,894</u>	<u>\$ 113,150</u>	<u>\$ 957,044</u>
Reconciliation of net operating income to			
Net cash provided (used) by operating activities:			
Operating income (loss)	\$ 7,896	\$ 36,006	\$ 43,902
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	126,530	10,728	137,258
Change in assets and liabilities:			
Accounts receivable	(27,955)	(11,250)	(39,205)
Inventories	15,294	-	15,294
Deferred pension outflows	43,742	-	43,742
Accounts payable	8,166	1,289	9,455
Accrued expenses	1,205	-	1,205
Compensated absences	277	-	277
Unearned rent	-	2,145	2,145
Customer deposits	(400)	2,180	1,780
Net pension liability	164,231	-	164,231
Deferred pension inflows	(175,466)	-	(175,466)
Total adjustments	<u>155,624</u>	<u>5,092</u>	<u>160,716</u>
Net cash provided (used) by operating activities	<u>\$ 163,520</u>	<u>\$ 41,098</u>	<u>\$ 204,618</u>

See Notes to the Financial Statements

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022

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, 2022

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 2 – 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) Tax Increment District 2-3 – The Tax Increment Financing District No. 2-3 was established to provide upfront tax increment financing to a new grocery store and hardware store for the City. Future tax collections will be used for payments of principal, interest and fees out of this fund.
- d) Economic Development Authority (EDA) – The Economic Development Authority fund is to account for beautification projects, economic growth incentives and community events.
- 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, 2022

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, 2022

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 2022.

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 unavailable revenue as it is not available to finance current expenditures.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

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.

Noncurrent – 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, 2022. 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, 2022, 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, if considered necessary. Management has determined that no allowance was necessary as of December 31, 2022.

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.

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, 2022

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

Leases

The City is a lessor for a lease of building. The City recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term.

Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases. The City has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Inventories

Inventories are stated at the lower of cost or net realizable value 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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

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.

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. 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

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

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 item 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.

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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

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 CHANGE IN ACCOUNTING PRINCIPLES

The City implemented GASB Statement No. 87, Leases in the year ended December 31, 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset.

The adoption of GASB 87 resulted in the recognition of a lease receivable and a deferred inflow of resources of \$73,112 as of January 1, 2022. Results for periods prior to January 1, 2022 continue to be reported in accordance with the City's historical accounting treatment. See note 8 for expanded disclosures regarding the City's leases.

NOTE 3 DEPOSITS

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

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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Minnesota Statutes require that all City 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. As of December 31, 2022 the City had \$103,995 of funds that were undercollateralized.

NOTE 4 CAPITAL ASSETS

The following is a summary of governmental and business type capital assets for the year ended December 31, 2022:

<u>Governmental Type Activities</u>	<u>Balance</u> 1/1/22	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/22
Capital assets, not being depreciated				
Land	\$ 47,413	\$ -	\$ (5,765)	\$ 41,648
Total capital assets not being depreciated	<u>47,413</u>	<u>-</u>	<u>(5,765)</u>	<u>41,648</u>
Capital assets, being depreciated				
Infrastructure	2,146,829	-	-	2,146,829
Building	1,296,235	-	-	1,296,235
Equipment	1,313,662	-	-	1,313,662
Total capital assets being depreciated	4,756,726	-	-	4,756,726
Less accumulated depreciation	<u>(1,615,112)</u>	<u>(189,403)</u>	<u>-</u>	<u>(1,804,514)</u>
Governmental activities capital assets, being depreciated, net	<u>3,141,614</u>	<u>(189,403)</u>	<u>-</u>	<u>2,952,212</u>
Total capital assets, net	<u>\$ 3,189,027</u>	<u>\$ (189,403)</u>	<u>\$ (5,765)</u>	<u>\$ 2,993,860</u>

Depreciation expense was charged to government functions as follows:

General Government	\$ 2,547
Highways and Streets	107,709
Culture and Recreation	40,868
Public Safety	38,279
	<u>\$ 189,403</u>

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

Business Type Activities	Balance 1/1/22	Increases	Decreases	Balance 12/31/22
Capital assets, not being depreciated				
Land	\$ 64,219	\$ -	\$ -	\$ 64,219
Construction in progress	-	32,374	-	32,374
Total capital assets not being depreciated	64,219	32,374	-	96,593
Capital assets, being depreciated				
Water	1,248,866	-	-	1,248,866
Sewer	952,513	21,951	-	974,464
Electric	2,066,002	4,452	-	2,070,454
General utilities	258,877	8,795	-	267,672
Sunrise Apartments	120,415	1,733	-	122,148
Wimmer Homes	209,973	17,494	-	227,467
Total capital assets being depreciated	4,856,646	54,425	-	4,911,070
Less accumulated depreciation	(2,630,828)	(137,257)	-	(2,768,085)
Total capital assets, being depreciated, net	2,225,818	(82,832)	-	2,142,985
Total capital assets, net	\$ 2,290,037	\$ (50,458)	\$ -	\$ 2,239,578

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

Water	\$ 14,610
Sewer	16,814
Electric	86,358
General utilities	8,747
Sunrise Apartments	5,028
Wimmer Homes	5,700
	\$ 137,257

NOTE 5 COMPENSATED ABSENCES

Compensated absences for the City are as follows:

	Balance 01/01/22	New Issued	Retired	Balance 12/31/22	Due Within One Year
Business Type Activities:					
Compensated Absences	\$ 31,779	\$ 32,700	\$ (32,423)	\$ 32,056	\$ 32,056

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

NOTE 6 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% 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% 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-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 June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of 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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

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 2022 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, 2022 were \$25,229. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2022, the City reported a liability of \$356,401 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. 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 \$10,377. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportion share was 0.0045% at the end of the measurement period and .0045% for the beginning of the period.

City's proportionate share of net pension liability	\$ 356,401
State of Minnesota's proportionate share of the net pension liability associated with the City	10,377
Total	\$ 366,778

For the year ended December 31, 2022, the City recognized pension expense of \$55,196 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$1,551 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, 2022, 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, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,977	\$ 3,769
Changes in actuarial assumptions	80,661	1,294
Difference between projected and actual investment earnings	4,654	-
Changes in proportion	21,576	-
Contributions paid to PERA subsequent to the measurement date	12,986	-
Total	\$ 122,854	\$ 5,063

\$12,986 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, 2023. 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 December 31:	Amount
2023	\$ 44,516
2024	39,418
2025	(11,356)
2026	32,227

E. Long-Term Expected Return on Investment

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 Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022.

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuations.

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.5%. 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.

H. 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 (5.5%)	Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
City's proportionate share of the net pension liability:	\$ 562,955	\$ 356,401	\$ 186,996

I. 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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

J. Halstad Firefighters' Relief Association

Plan Description

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

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$16,456 for 2022.

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, 2022, 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 7 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.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

Total contributions made by the City during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$ 990	\$ 990	5%	5%	5%

NOTE 8 LEASES

The following is a summary of lease revenue and future payments:

Lease-related Revenue	Year Ending 2022
Lease Revenue	
Building	\$ (7,629)
Total Lease Revenue	(7,629)
Interest Revenue	(4,178)
Total	\$ (11,808)

Maturity Analysis	Principal	Interest	Total Receipts
2023	\$ (6,150)	\$ (3,850)	\$ (10,000)
2024	(6,529)	(3,471)	(10,000)
2025	(6,932)	(3,068)	(10,000)
2026	(7,360)	(2,640)	(10,000)
2027	(7,814)	(2,186)	(10,000)
2028-2032	(32,505)	(3,663)	(36,168)
Total Future Receipts	\$ (67,290)	\$ (18,878)	\$ (86,169)

NOTE 9 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.

As of December 31, 2022, the City had construction commitments for EV Chargers project and Utility Building Remodel Project. The EV Charger Project contract has an estimated cost of \$14,516 and has a remaining commitment of \$9,551. The Utility Building Remodel Project has an estimated cost of \$34,410 and has a remaining commitment of \$7,000.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances and transfers as of December 31, 2022, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Public Service Utilities Fund	General Fund	\$ 26,100
Public Service Utilities Fund	Nonmajor Proprietary Fund - Wimmer	5,912
Public Service Utilities Fund	Nonmajor Proprietary Fund - Sunrise	3,887
Nonmajor Proprietary Fund - Wimmer	Nonmajor Proprietary Fund - Sunrise	15,000
		<u>\$ 50,899</u>

The receivables are due to operating expenses at year end.

Transfers to / from other funds:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Economic Development Authority	General Fund	\$ 6,000
Tax Increment District 2	General Fund	1,000
		<u>\$ 7,000</u>

The transfer from the General fund to the Economic Development Authority is an annual transfer for economic development activities. The transfers from the General fund to Tax Increment District 2 was to eliminate the deficits in those funds.

NOTE 11 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. This debt was forgiven as of February 7, 2022.

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 2020, the City issued a general obligation tax increment financing note, Series 2020A in the amount of \$147,000 to fund a new grocery store and hardware store for the City. The Note has an interest rate of 3.0% and a maturity date of February 1, 2031.

During the year ended December 31, 2022, the following changes occurred in the liabilities reported in long-term debt:

	<u>Balance</u> 12/31/21	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/22	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Note Payable	\$ 23,200	\$ -	\$ 23,200	\$ -	\$ -
Taxable GO TIF Note Series 2020A	147,000	-	-	147,000	15,000
GO Note Series 2019A	1,292,000	-	77,000	1,215,000	79,000
Governmental Activities Total	<u>\$ 1,462,200</u>	<u>\$ -</u>	<u>\$ 100,200</u>	<u>\$ 1,362,000</u>	<u>\$ 94,000</u>

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

The debt service requirements for the governmental activities notes are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 94,000	\$ 37,099	\$ 131,099
2024	96,000	34,409	130,409
2025	98,000	31,663	129,663
2026	101,000	28,846	129,846
2027	105,000	25,930	130,930
2028-2032	547,000	83,346	630,346
2033-2035	321,000	13,650	334,650
	<u>\$ 1,362,000</u>	<u>\$ 254,943</u>	<u>\$ 1,616,943</u>

NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

and measurement of a lease liability and a lease asset, and identification of lease incentives.

- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

CITY OF HALSTAD
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2022

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
General property taxes	\$ 139,741	\$ 139,842	\$ 101
Special assessments	3,000	2,803	(197)
Licenses and permits	1,125	2,255	1,130
	<u>143,866</u>	<u>144,900</u>	<u>1,034</u>
Intergovernmental revenues			
Local government aid	213,418	213,418	-
Other intergovernmental revenue	-	10,000	10,000
State grants	4,000	5,945	1,945
PERA aid	-	108	108
FEMA aid	-	283,549	283,549
Fire relief association aid	14,000	16,456	2,456
	<u>231,418</u>	<u>529,476</u>	<u>298,058</u>
Charges for services			
Fire protection fees	14,000	13,471	(529)
Street sweeping	-	370	370
Snow removal	1,500	10,361	8,861
	<u>15,500</u>	<u>24,202</u>	<u>8,702</u>
Fines and penalties	<u>750</u>	<u>40</u>	<u>(710)</u>
Miscellaneous revenues			
Gifts and donations	-	57,128	57,128
Interest on investments	500	852	352
Reimbursements and refunds	300	1,490	1,190
Rent	13,250	28,287	15,037
Other	1,500	29,560	28,060
	<u>15,550</u>	<u>117,317</u>	<u>101,767</u>
Total revenues	<u>407,084</u>	<u>815,935</u>	<u>408,851</u>
Expenditures			
General government			
Audit	8,500	8,750	(250)
Assessment services	800	1,434	(634)
Payroll expenses	25,618	25,534	84
County assessment	2,000	1,988	12
Insurance	8,750	8,399	351
Supplies and other	12,600	12,844	(244)
Total general government	<u>58,268</u>	<u>58,949</u>	<u>(681)</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, 2022

	<u>Original and</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
Public safety			
Police protection			
Contracted service	\$ 30,000	\$ -	\$ 30,000
Insurance	550	-	550
Other	4,500	4,500	-
	<u>35,050</u>	<u>4,500</u>	<u>30,550</u>
Fire protection			
Volunteers compensation	8,000	8,882	(882)
Equipment and repairs	15,000	264,628	(249,628)
Hydrant rental	1,850	1,850	-
Telephone and utilities	7,000	8,796	(1,796)
County assessment	800	772	28
Insurance	7,500	6,037	1,463
Other expense	500	585	(85)
Education and training	6,000	8,603	(2,603)
Firemen's relief association	16,000	18,708	(2,708)
Capital outlay	-	62,477	(62,477)
	<u>62,650</u>	<u>381,338</u>	<u>(318,688)</u>
Rescue squad			
Volunteers' compensation	7,500	7,198	302
Repairs	500	545	(45)
Telephone and utilities	3,500	4,039	(539)
Equipment expenses	2,500	1,137	1,363
Insurance	4,000	1,928	2,072
Other	1,200	132	1,068
	<u>19,200</u>	<u>14,979</u>	<u>4,221</u>
Flood			
Capital outlay - Dike and flood protection	15,000	8,690	6,310
	<u>15,000</u>	<u>8,690</u>	<u>6,310</u>
Total public safety	<u>131,900</u>	<u>409,507</u>	<u>(277,607)</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, 2022

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 31,000	\$ 21,045	\$ 9,955
Equipment repair and maintenance	75,120	81,987	(6,867)
Snow removal	17,000	37,564	(20,564)
Street lighting	9,600	9,600	-
Tree removal and replacement	1,200	115	1,085
Insurance	4,300	3,446	854
Other	1,500	300	1,200
Capital outlay	-	7,252	(7,252)
Total highways and streets	<u>139,720</u>	<u>161,309</u>	<u>(21,589)</u>
Culture and recreation			
Recreation programs			
Park and other expense	10,000	4,666	5,334
Community building (LRC)	20,000	23,118	(3,118)
Landmark Building	15,400	57,389	(41,989)
City beautification - projects	20,000	16,346	3,654
Economic Development Association	6,000	-	6,000
Other	500	97	403
Total culture and recreation	<u>71,900</u>	<u>101,616</u>	<u>(29,716)</u>
Total expenditures	<u>401,788</u>	<u>731,381</u>	<u>(329,593)</u>
Excess (deficiency) of revenues over expenditures	<u>5,296</u>	<u>84,554</u>	<u>79,258</u>
Other financing sources (uses)			
Sale of capital asset	-	6,000	6,000
Transfer Out	-	(7,000)	(7,000)
Total other financing sources (uses)	<u>-</u>	<u>(1,000)</u>	<u>(1,000)</u>
Net change in fund balance	<u>5,296</u>	<u>83,554</u>	<u>78,258</u>
Fund balance, beginning of year	<u>610,009</u>	<u>610,009</u>	<u>-</u>
Fund balance, end of year	<u>\$ 615,305</u>	<u>\$ 693,563</u>	<u>\$ 78,258</u>

See Notes to the Required Supplementary Information

CITY OF HALSTAD
SCHEDULE OF CITY'S CONTRIBUTION TO PERA RETIREMENT FUND
AS OF DECEMBER 31, 2022

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%
2020	24,177	24,177	-	322,356	7.50%
2021	25,033	25,033	-	333,767	7.50%
2022	25,229	25,229	-	336,388	7.50%

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

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, 2022

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	Plan Fiduciary Net
						Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	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%
2020	0.0040%	239,818	7,533	247,351	287,962	83.3%	79.06%
2021	0.0045%	192,170	5,948	198,118	325,335	59.1%	87.00%
2022	0.0045%	356,401	10,377	366,778	333,450	106.9%	187.00%

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

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, 2022

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 \$329,593. The City did not adopt an Economic Development Authority budget for 2022.

NOTE 2 - DEFINED BENEFIT PLAN

General Employees Fund

2022 Changes

Changes in Actuarial Assumptions:

- The mortality improvement scale was change from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was change from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

CITY OF HALSTAD
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
AS OF DECEMBER 31, 2022

- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments.
- The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

CITY OF HALSTAD
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
AS OF DECEMBER 31, 2022

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.
- 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, 2022

	John Wimmer Homes	Sunrise Apartments	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets			
Cash and cash equivalents	\$ 69,169	\$ 43,981	\$ 113,150
Due from other funds	15,000	-	15,000
Accounts receivable, net	<u>3,413</u>	<u>11,877</u>	<u>15,290</u>
 Total current assets	 <u>87,582</u>	 <u>55,858</u>	 <u>143,440</u>
Non-current assets			
Capital assets			
Land	3,522	5,000	8,522
Building, improvements, and equipment	227,467	122,147	349,614
Less accumulated depreciation	<u>(152,447)</u>	<u>(104,327)</u>	<u>(256,774)</u>
 Total capital assets	 <u>78,542</u>	 <u>22,820</u>	 <u>101,362</u>
 Total assets	 <u>166,124</u>	 <u>78,678</u>	 <u>244,802</u>
Liabilities			
Current liabilities			
Accounts payable	731	1,096	1,827
Due to other funds	5,912	18,887	24,799
Unearned rent	1,715	890	2,605
Customer deposits	<u>5,000</u>	<u>5,580</u>	<u>10,580</u>
 Total Liabilities	 <u>13,358</u>	 <u>26,453</u>	 <u>39,811</u>
Net position			
Net investment in capital assets	78,542	22,820	101,362
Unrestricted	<u>74,224</u>	<u>29,405</u>	<u>103,629</u>
 Total net position	 <u>\$ 152,766</u>	 <u>\$ 52,225</u>	 <u>\$ 204,991</u>

CITY OF HALSTAD
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
– NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	John Wimmer Homes	Sunrise Apartments	Totals
Operating revenue			
Rentals	\$ 42,365	\$ 88,645	\$ 131,010
Other	<u>6,788</u>	<u>2,023</u>	<u>8,811</u>
Total operating revenue	<u>49,153</u>	<u>90,668</u>	<u>139,821</u>
Operating expenses			
Salaries and wages	16,215	11,634	27,849
Heat, light and power	6,389	19,978	26,367
Repairs, maintenance and supplies	5,677	5,908	11,585
Insurance	1,693	6,581	8,274
Depreciation	5,700	5,028	10,728
Other	<u>5,420</u>	<u>13,592</u>	<u>19,012</u>
Total operating expenses	<u>41,094</u>	<u>62,721</u>	<u>103,815</u>
Operating income	<u>8,059</u>	<u>27,947</u>	<u>36,006</u>
Non-operating revenues			
Interest income	<u>36</u>	<u>-</u>	<u>36</u>
Total non-operating revenues	<u>36</u>	<u>-</u>	<u>36</u>
Change in net position	8,095	27,947	36,042
Net position, beginning	<u>144,671</u>	<u>24,278</u>	<u>168,949</u>
Net position, ending	<u>\$ 152,766</u>	<u>\$ 52,225</u>	<u>\$ 204,991</u>

CITY OF HALSTAD
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	John Wimmer Homes	Sunrise Apartments	Totals
Cash flows from operating activities:			
Receipts from customers and users	\$ 49,418	\$ 83,478	\$ 132,896
Payments to suppliers	(18,802)	(45,147)	(63,949)
Payments to employees	(16,215)	(11,634)	(27,849)
Net cash provided (used) by operating activities	<u>14,401</u>	<u>26,697</u>	<u>41,098</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	<u>(17,494)</u>	<u>(1,733)</u>	<u>(19,227)</u>
Net cash provided (used) by capital and related financing activities	<u>(17,494)</u>	<u>(1,733)</u>	<u>(19,227)</u>
Cash flows from noncapital financing activities			
Change in due to/from other funds	<u>4,399</u>	<u>(618)</u>	<u>3,781</u>
Net cash provided (used) by noncapital financing activities	<u>4,399</u>	<u>(618)</u>	<u>3,781</u>
Cash flows from investing activities			
Interest income	<u>36</u>	<u>-</u>	<u>36</u>
Net cash provided (used) by investing activities	<u>36</u>	<u>-</u>	<u>36</u>
Net increase (decrease) in cash and cash equivalents	1,342	24,346	25,688
Cash and cash equivalents, January 1	<u>67,827</u>	<u>19,635</u>	<u>87,462</u>
Cash and cash equivalents, December 31	<u>\$ 69,169</u>	<u>\$ 43,981</u>	<u>\$ 113,150</u>
Reconciliation of net operating income to			
Net cash provided (used) by operating activities:			
Operating income (loss)	\$ 8,059	\$ 27,947	\$ 36,006
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	5,700	5,028	10,728
Change in assets and liabilities:			
Accounts receivable	(1,450)	(9,800)	(11,250)
Accounts payable	377	912	1,289
Unearned rent	1,715	430	2,145
Customer deposits	-	2,180	2,180
Total adjustments	<u>6,342</u>	<u>(1,250)</u>	<u>5,092</u>
Net cash provided (used) by operating activities	<u>\$ 14,401</u>	<u>\$ 26,697</u>	<u>\$ 41,098</u>

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Electric Department	Water Department	Sewage Disposal Department	Refuse Disposal Department	Total
Operating revenues					
Halstad consumers	\$ 1,021,255	\$ 123,551	\$ 167,517	\$ 68,476	\$ 1,380,799
City departments - administration fee	27,397	-	-	-	27,397
Penalties	11,926	-	-	-	11,926
Generator revenue	62,508	-	-	-	62,508
Other	38,315	-	-	-	38,315
Total operating revenues	1,161,401	123,551	167,517	68,476	1,520,945
Operating expenses					
Production and distribution					
Salaries	89,231	34,096	48,943	-	172,270
Repair, maintenance and supplies	-	6,823	13,733	-	20,556
Electric energy purchased	693,094	-	-	-	693,094
Sewer waste disposal	-	-	29,534	-	29,534
Depreciation	86,358	14,610	16,814	-	117,782
Generator expenses	51,497	-	-	-	51,497
Dumpster rent and pickup	-	-	-	58,683	58,683
Truck expense	5,145	1,966	2,822	-	9,933
Miscellaneous and training	46,941	17,937	17,540	-	82,418
Total production and distribution	972,266	75,432	129,386	58,683	1,235,767
General and administrative					
Salaries - administrative and office	33,886	33,885	33,885	-	101,656
General supplies and maintenance	-	1,466	2,952	-	4,418
Office supplies and postage	2,394	2,395	2,395	-	7,184
Telephone	1,358	1,359	1,359	-	4,076
Depreciation	6,416	1,085	1,248	-	8,749
Professional fees and services	4,699	1,795	1,756	-	8,250
Insurance	9,545	3,647	5,235	-	18,427
PERA, social security, employee insurance and other	55,099	21,055	30,222	-	106,376
Miscellaneous	10,335	3,949	3,862	-	18,146
Total general and administrative	123,732	70,636	82,914	-	277,282
Total operating expenses	1,095,998	146,068	212,300	58,683	1,513,049
Operating income (loss)	\$ 65,403	\$ (22,517)	\$ (44,783)	\$ 9,793	\$ 7,896

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Kilowatt hours sold										
Residential	2,956,699	2,722,499	2,754,323	2,823,001	2,864,972	2,759,617	2,758,247	2,864,149	2,942,617	2,847,267
Off peak heating	2,389,083	2,005,705	2,325,058	2,802,918	2,783,064	2,530,302	2,384,351	2,821,492	3,124,387	2,963,626
Commercial lighting	852,231	793,937	835,359	943,923	971,791	878,926	921,494	992,232	1,035,544	1,092,154
Power	1,323,066	1,303,448	1,138,333	1,250,345	1,571,975	1,458,388	1,623,535	1,724,877	1,627,901	1,647,448
City usage	396,963	265,538	239,122	223,269	279,281	253,107	220,327	246,040	243,293	244,353
Water and sewer department usage	<u>137,645</u>	<u>131,209</u>	<u>127,195</u>	<u>141,325</u>	<u>150,420</u>	<u>140,232</u>	<u>138,154</u>	<u>151,443</u>	<u>158,620</u>	<u>154,412</u>
Total KWH sold	8,055,687	7,222,336	7,419,390	8,184,781	8,621,503	8,020,572	8,046,108	8,800,233	9,132,362	8,949,260
Add										
Electric plant usage	<u>218,498</u>	<u>203,957</u>	<u>198,426</u>	<u>212,467</u>	<u>218,067</u>	<u>197,894</u>	<u>189,578</u>	<u>214,396</u>	<u>295,452</u>	<u>284,689</u>
	<u>8,274,185</u>	<u>7,426,293</u>	<u>7,617,816</u>	<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>
Total KWH purchased	<u>8,717,449</u>	<u>7,847,507</u>	<u>8,072,971</u>	<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>
Line loss	<u>(443,264)</u>	<u>(421,214)</u>	<u>(455,155)</u>	<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>
Loss percentage of KWH purchased	<u>5.08%</u>	<u>5.37%</u>	<u>5.64%</u>	<u>3.67%</u>	<u>3.17%</u>	<u>5.57%</u>	<u>4.86%</u>	<u>(0.43%)</u>	<u>3.84%</u>	<u>5.12%</u>

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

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
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, 2022, and have issued our report thereon dated June 21, 2023. 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, we noted that City of Halstad failed to comply with provisions of the depositories of public funds and public investments of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Responses as item 2022-03. Also, in connection with our audit, nothing came to our attention that caused us to believe that City of Halstad failed to comply with the provisions of the contracting - bid laws, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. 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.

City of Halstad, Minnesota's Response to Findings

City of Halstad's response to the finding identified in our audit is described in the Schedule of Findings and Responses as item 2022-003. City of Halstad's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

This report is intended solely for the information and use of those charged with governance and management of City of Halstad and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady Martz".

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

June 21, 2023

**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 and
Members of the City Council
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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 21, 2023. 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.

Report on 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) as a basis for designing 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 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Halstad, Minnesota'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 financial statements. 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, Minnesota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Halstad, Minnesota's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Halstad, Minnesota's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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**

June 21, 2023

CITY OF HALSTAD
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022

2022-001 – Significant Deficiency

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

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 prepare the financial statements, including the accompanying notes disclosures, as required by accounting principles generally accepted in the United States of America. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and to review the 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 AND RESPONSES - CONTINUED
DECEMBER 31, 2022

2022-002 – Significant Deficiency

Criteria

A proper system of internal control has the proper segregation 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

The City is subject to 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

We recommend the City review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The Council should constantly be aware of this condition. Compensating controls that mitigate the related risks 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.

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 AND RESPONSES - CONTINUED
DECEMBER 31, 2022

2022-003 FINDING

Criteria

Minnesota Statute 118A.03, requires the City to obtain a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposit.

Condition

The City had deposits which were in excess of deposit insurance and the City did not have sufficient collateral to cover the deposits.

Cause

Oversight by the City's staff.

Effect

The City had uninsured and uncollateralized deposits during the calendar year.

Recommendation

The City should establish a policy and a procedure to monitor the depository balances. We would recommend the balances be monitored on a monthly basis and more often if the City may have deposits in excess of the deposit insurance and the collateral.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will implement immediately.

CITY OF HALSTAD
CORRECTIVE ACTION PLAN
DECEMBER 31, 2022

2022-001 FINDING

Contact Person – Alli Tice, Treasurer

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

Completion Date – Ongoing

2022-002 FINDING

Contact Person – Alli Tice, Treasurer

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

- 1) The City Council approves checks.
- 2) The City Council reviews bank reconciliations and bank statements.
- 3) The City Council approves the annual budget.

Completion Date – Ongoing

2022-003 FINDING

Contact Person – Alli Tice, Treasurer

Corrective Action Plan – Will obtain sufficient collateral.

Completion Date – Immediately