

**CITY OF HALSTAD
HALSTAD, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CITY OF HALSTAD
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2015

CITY COUNCIL

Ronald Gotteberg	Mayor	12/31/16
Shane Carlson	Vice Mayor/Trustee	12/31/18
Veronica Dye	Clerk-Treasurer	12/31/18
Tom Maroney	Trustee	12/31/16
Renae Horning	Trustee	12/31/16

UTILITIES COMMISSION

Tom Maroney	President	12/31/15
Steve Rude	Secretary	12/31/16
Darin Johnson	Commission Member	12/31/17
Lucas Spaeth	Utilities Superintendent	Appointed



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

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

Basis for Qualified Opinion on Governmental Activities

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of Halstad as of December 31, 2015, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad, Minnesota, as of December 31, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As described in Note 14 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 14 to the financial statements, the

City has restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Correction of Misstatement

As discussed in Note 14 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, schedule of City's contribution to PERA retirement fund, and schedule of City's and non-employer proportionate share of the net pension liability information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Halstad's basic financial statements. The schedule of operating revenues and expenses – public utility departments and statistical section are presented for purposes of additional analysis and is not a required part of the financial statements.

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

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

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated April 4, 2016 on our consideration of the City of Halstad, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Halstad, Minnesota's internal control over financial reporting and compliance.



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

April 4, 2016

CITY OF HALSTAD
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 437,714	\$ 550,523	\$ 988,237
Accounts receivable	12,401	171,594	183,995
Internal balances	(62,425)	62,425	-
Taxes receivable	16,161	-	16,161
Inventories	-	43,019	43,019
Total current assets	<u>403,851</u>	<u>827,561</u>	<u>1,231,412</u>
Non-current assets:			
Nondepreciable capital assets:			
Land	17,322	11,168	28,490
Depreciable capital assets:			
Infrastructure	725,000	-	725,000
Building, improvements, and equipment	1,080,569	4,250,865	5,331,434
Less accumulated depreciation	<u>(908,017)</u>	<u>(1,864,396)</u>	<u>(2,772,413)</u>
Total capital assets (net of accumulated depreciation)	<u>914,874</u>	<u>2,397,637</u>	<u>3,312,511</u>
Total assets	<u>1,318,725</u>	<u>3,225,198</u>	<u>4,543,923</u>
Deferred Outflows of Resources			
Cost sharing defined benefit pension plan	-	25,971	25,971
Total deferred outflows of resources	<u>-</u>	<u>25,971</u>	<u>25,971</u>
Liabilities			
Current liabilities			
Accounts payable	168	93,831	93,999
Accrued employee benefits - current portion	-	14,000	14,000
Customer deposits	-	19,475	19,475
Total current liabilities	<u>168</u>	<u>127,306</u>	<u>127,474</u>
Long-term liabilities			
Accrued employee benefits (net of current)	-	2,680	2,680
Net pension liability	-	186,571	186,571
Total long-term liabilities	<u>-</u>	<u>189,251</u>	<u>189,251</u>
Total liabilities	<u>168</u>	<u>316,557</u>	<u>316,725</u>
Deferred Inflows of Resources			
Cost Sharing Defined Benefit Pension Plan	-	30,545	30,545
Total Deferred Inflows of Resources	<u>-</u>	<u>30,545</u>	<u>30,545</u>
Net Position			
Net investment in capital assets	914,874	2,397,637	3,312,511
Unrestricted	<u>403,683</u>	<u>506,430</u>	<u>910,113</u>
Total net position	<u>\$ 1,318,557</u>	<u>\$ 2,904,067</u>	<u>\$ 4,222,624</u>

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government							
Governmental activities:							
General government	\$ 49,089	\$ 5,714	\$ 17,842	\$ -	\$ (25,533)	\$ -	\$ (25,533)
Public safety	208,327	14,656	1,163	12,263	(180,245)	-	(180,245)
Highways and streets	114,508	-	-	-	(114,508)	-	(114,508)
Culture and recreation	73,721	-	-	-	(73,721)	-	(73,721)
Total governmental activities	<u>445,645</u>	<u>20,370</u>	<u>19,005</u>	<u>12,263</u>	<u>(394,007)</u>	<u>-</u>	<u>(394,007)</u>
Business-type activities:							
Public service utilities	1,331,533	1,337,633	1,213	-	-	7,313	7,313
John Wimmer homes	24,625	34,904	-	-	-	10,279	10,279
Sunrise apartments	50,824	63,049	-	-	-	12,225	12,225
Total business-type activities	<u>1,406,982</u>	<u>1,435,586</u>	<u>1,213</u>	<u>-</u>	<u>-</u>	<u>29,817</u>	<u>29,817</u>
Total primary government	<u>\$ 1,852,627</u>	<u>\$ 1,455,956</u>	<u>\$ 20,218</u>	<u>\$ 12,263</u>	<u>(394,007)</u>	<u>29,817</u>	<u>(364,190)</u>
			General revenues:				
			Property taxes		170,931	-	170,931
			Intergovernmental		222,057	-	222,057
			Interest		1,464	6,014	7,478
			Miscellaneous		7,412	-	7,412
			Total general revenues		<u>401,864</u>	<u>6,014</u>	<u>407,878</u>
			Changes in net position		<u>7,857</u>	<u>35,831</u>	<u>43,688</u>
			Net position - beginning		1,310,700	2,868,236	4,178,936
			Prior Period Adjustment - See Note 14		(124,403)		
			GASB 68 and 71 Adjustment - See Note 14		-	(189,812)	(189,812)
			Net position - beginning as restated		1,186,297	2,678,424	3,989,124
			Net position - ending		<u>\$ 1,318,557</u>	<u>\$ 2,904,067</u>	<u>\$ 4,222,624</u>

See Notes to Financial Statements

CITY OF HALSTAD
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	General	Tax Increment District	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 430,093	\$ 7,621	\$ 437,714
Accounts receivable	12,401	-	12,401
Due from other funds	105,910	-	105,910
Taxes receivable	16,161	-	16,161
Total assets	\$ 564,565	\$ 7,621	\$ 572,186
Liabilities			
Accounts payable	\$ 168	\$ -	\$ 168
Due to other funds	13,827	154,508	168,335
Total liabilities	13,995	154,508	168,503
Deferred inflows of resources			
Unavailable revenue - property taxes	16,161	-	16,161
Fund balance			
Assigned for housing rehab program	14,299	-	14,299
Unassigned	520,110	(146,887)	373,223
Total fund balance	534,409	(146,887)	387,522
Total liabilities, deferred inflows of resources and fund balance	\$ 564,565	\$ 7,621	\$ 572,186

See Notes to Financial Statements

CITY OF HALSTAD
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
AS OF DECEMBER 31, 2015

Total governmental funds balance	\$	387,522
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental fund.

Capital assets	\$ 1,822,891	
Accumulated depreciation	<u>(908,017)</u>	914,874

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.

Property taxes		<u>16,161</u>
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Net position of governmental activities	\$	<u><u>1,318,557</u></u>
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CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General</u>	Tax Increment <u>District</u>	Total Governmental <u>Funds</u>
Revenues			
Property taxes	\$ 170,671	\$ 4,601	\$ 175,272
Special assessments	1,163	-	1,163
Licenses and permits	1,407	-	1,407
Intergovernmental	225,615	-	225,615
Charges for services	14,656	-	14,656
Fines and penalties	2,090	-	2,090
Interest	1,365	11	1,376
Contributions and donations	17,842	-	17,842
Rents	1,450	-	1,450
Reimbursements and refunds	6,347	-	6,347
Miscellaneous	<u>7,315</u>	<u>-</u>	<u>7,315</u>
Total receipts	<u>449,921</u>	<u>4,612</u>	<u>454,533</u>
Expenditures			
Current:			
General government	36,831	600	37,431
Public safety	124,262	-	124,262
Highways and streets	87,970	-	87,970
Culture and recreation	49,706	-	49,706
Capital outlay	65,279	-	65,279
Debt service:			
Principal	-	2,500	2,500
Interest and other charges	<u>-</u>	<u>6,926</u>	<u>6,926</u>
Total disbursements	<u>364,048</u>	<u>10,026</u>	<u>374,074</u>
Excess (deficiency) of revenues over expenditures	85,873	(5,414)	80,459
Fund balance - beginning	<u>448,536</u>	<u>(141,473)</u>	<u>307,063</u>
Fund balance - ending	<u>\$ 534,409</u>	<u>\$ (146,887)</u>	<u>\$ 387,522</u>

See Notes to Financial Statements

CITY OF HALSTAD

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balance - total governmental funds \$ 80,459

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Capital outlay	53,025
Current year depreciation	(120,033)

Loss on trade of capital asset	(1,340)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Taxes receivable	<u>(4,254)</u>
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Changes in net position	<u>\$ 7,857</u>
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CITY OF HALSTAD
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2015

	<u>Major Fund</u>	<u>Nonmajor Funds</u>		<u>Totals</u>
	Public Service Utilities Fund	John Wimmer Homes	Sunrise Apartments	
Assets				
Current assets				
Cash and cash equivalents	\$ 448,347	\$ 66,553	\$ 35,623	\$ 550,523
Accounts receivable	170,140	860	594	171,594
Due from other funds	65,041	5,000	-	70,041
Inventories	<u>43,019</u>	<u>-</u>	<u>-</u>	<u>43,019</u>
Total current assets	<u>726,547</u>	<u>72,413</u>	<u>36,217</u>	<u>835,177</u>
Capital assets				
Land	2,646	3,522	5,000	11,168
Building, improvements, and equipment	3,993,407	142,458	115,000	4,250,865
Less accumulated depreciation	<u>(1,663,059)</u>	<u>(130,420)</u>	<u>(70,917)</u>	<u>(1,864,396)</u>
Total capital assets	<u>2,332,994</u>	<u>15,560</u>	<u>49,083</u>	<u>2,397,637</u>
Total assets	<u>3,059,541</u>	<u>87,973</u>	<u>85,300</u>	<u>3,232,814</u>
Deferred outflows of resources				
Cost sharing defined benefit pension plan	<u>25,971</u>	<u>-</u>	<u>-</u>	<u>25,971</u>
Total deferred outflows of resources	<u>25,971</u>	<u>-</u>	<u>-</u>	<u>25,971</u>
Liabilities				
Current liabilities				
Accounts payable	93,461	34	336	93,831
Accrued employee benefits - current portion	14,000	-	-	14,000
Due to other funds	-	622	6,994	7,616
Customer deposits	<u>9,825</u>	<u>5,000</u>	<u>4,650</u>	<u>19,475</u>
Total current liabilities	<u>117,286</u>	<u>5,656</u>	<u>11,980</u>	<u>134,922</u>
Long-term liabilities				
Accrued employee benefits (net of current)	2,680	-	-	2,680
Net pension liability	<u>186,571</u>	<u>-</u>	<u>-</u>	<u>186,571</u>
Total long-term liabilities	<u>189,251</u>	<u>-</u>	<u>-</u>	<u>189,251</u>
Total Liabilities	<u>306,537</u>	<u>5,656</u>	<u>11,980</u>	<u>324,173</u>
Deferred inflows of resources				
Cost sharing defined benefit pension plan	<u>30,545</u>	<u>-</u>	<u>-</u>	<u>30,545</u>
Total deferred inflows of resources	<u>30,545</u>	<u>-</u>	<u>-</u>	<u>30,545</u>
Net position				
Net investment in capital assets	2,332,994	15,560	49,083	2,397,637
Unrestricted	<u>415,436</u>	<u>66,757</u>	<u>24,237</u>	<u>506,430</u>
Total net position	<u>\$ 2,748,430</u>	<u>\$ 82,317</u>	<u>\$ 73,320</u>	<u>\$ 2,904,067</u>

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Major Fund</u>	<u>Nonmajor Funds</u>		<u>Totals</u>
	<u>Public Service Utilities Fund</u>	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>	
Operating revenue				
Charges for services	\$ 1,213,657	\$ -	\$ -	\$ 1,213,657
City departments - energy	15,824	-	-	15,824
City departments - administration fee	14,403	-	-	14,403
Penalties	11,177	-	-	11,177
Rentals	-	33,426	61,303	94,729
Generator revenue	80,241	-	-	80,241
Other	2,331	1,478	1,746	5,555
Total operating revenue	<u>1,337,633</u>	<u>34,904</u>	<u>63,049</u>	<u>1,435,586</u>
Operating expenses				
Electric energy purchased	694,716	-	-	694,716
Sewer waste disposal	18,666	-	-	18,666
Salaries and wages	183,304	5,828	7,546	196,678
Heat, light and power	-	5,147	15,006	20,153
Repairs, maintenance and supplies	51,980	4,137	7,916	64,033
Professional services	5,750	-	-	5,750
Insurance	16,913	2,317	8,110	27,340
Payroll taxes and employee benefits	68,056	-	-	68,056
Depreciation	115,083	2,013	4,600	121,696
Dumpster rent and pickup	55,263	-	-	55,263
Generator expense	46,291	-	-	46,291
Other	75,511	5,183	7,646	88,340
Total operating expenses	<u>1,331,533</u>	<u>24,625</u>	<u>50,824</u>	<u>1,406,982</u>
Operating income (loss)	<u>6,100</u>	<u>10,279</u>	<u>12,225</u>	<u>28,604</u>
Non-operating revenues				
Grant proceeds	1,213	-	-	1,213
Interest income	5,956	58	-	6,014
Total non-operating revenues	<u>7,169</u>	<u>58</u>	<u>-</u>	<u>7,227</u>
Change in net position	<u>13,269</u>	<u>10,337</u>	<u>12,225</u>	<u>35,831</u>
Net position, beginning	2,924,973	71,980	61,095	3,058,048
GASB 68 & 71 Adjustment - See Note 14	<u>(189,812)</u>	<u>-</u>	<u>-</u>	<u>(189,812)</u>
Net position, beginning as restated	<u>2,735,161</u>	<u>71,980</u>	<u>61,095</u>	<u>2,868,236</u>
Net position, ending	<u>\$ 2,748,430</u>	<u>\$ 82,317</u>	<u>\$ 73,320</u>	<u>\$ 2,904,067</u>

See Notes to Financial Statements

CITY OF HALSTAD
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Major Fund</u>		<u>Nonmajor Funds</u>		<u>Totals</u>
	<u>Public Service Utilities Fund</u>	<u>John Wimmer Homes</u>	<u>Sunrise Apartments</u>		
Cash flows from operating activities:					
Receipts from customers and users	\$ 1,484,676	\$ 36,896	\$ 64,555		\$ 1,586,127
Payments to suppliers	(1,040,217)	(17,354)	(40,406)		(1,097,977)
Payments to employees	(181,971)	(5,828)	(7,546)		(195,345)
Net cash provided (used) by operating activities	<u>262,488</u>	<u>13,714</u>	<u>16,603</u>		<u>292,805</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	(46,167)	-	-		(46,167)
Grant proceeds for capital asset	1,213	-	-		1,213
Net cash provided (used) by capital and related financing activities	<u>(44,954)</u>	<u>-</u>	<u>-</u>		<u>(44,954)</u>
Cash flows from noncapital financing activities					
Change in due to/from other funds	(12,958)	(90)	854		(12,194)
Net cash provided (used) by noncapital financing activities	<u>(12,958)</u>	<u>(90)</u>	<u>854</u>		<u>(12,194)</u>
Cash flows from investing activities					
Interest income	5,956	58	-		6,014
Net cash provided by investing activities	<u>5,956</u>	<u>58</u>	<u>-</u>		<u>6,014</u>
Net increase (decrease) in cash and cash equivalents	210,532	13,682	17,457		241,671
Cash and cash equivalents, January 1	237,815	52,871	18,166		308,852
Cash and cash equivalents, December 31	<u>\$ 448,347</u>	<u>\$ 66,553</u>	<u>\$ 35,623</u>		<u>\$ 550,523</u>
Reconciliation of net operating income to					
Net cash provided (used) by operating activities:					
Operating income (loss)	\$ 6,100	\$ 10,279	\$ 12,225		\$ 28,604
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	115,083	2,013	4,600		121,696
Change in assets and liabilities:					
Accounts receivable	146,043	1,592	856		148,491
Inventories	(4,490)	-	-		(4,490)
Deferred pension outflows	(18,488)	-	-		(18,488)
Accounts payable	(412)	(570)	(1,728)		(2,710)
Accrued expenses	(2,169)	-	-		(2,169)
Customer deposits	1,000	400	650		2,050
Net pension liability	(10,724)	-	-		(10,724)
Deferred pension inflows	30,545	-	-		30,545
Total adjustments	<u>256,388</u>	<u>3,435</u>	<u>4,378</u>		<u>264,201</u>
Net cash provided (used) by operating activities	<u>\$ 262,488</u>	<u>\$ 13,714</u>	<u>\$ 16,603</u>		<u>\$ 292,805</u>

See Notes to Financial Statements

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Halstad operates under a City Council form of government. The financial statements of the City of Halstad have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The financial statements of the City include those of independently administered organizations of which guardianship responsibility falls on the City. Guardianship responsibility is determined on the basis of taxing powers, budget authority, appointment of governing Board members, designation of management, and fiscal accountability including a guaranteed or moral responsibility for debt.

Based on the preceding criteria, there are no component units to be reported.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

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

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, 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 FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance". The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety are accounted for in this fund.
- b) Tax Increment District – The Tax Increment Financing District No. 2 was established to acquire, demolish and develop two downtown lots into a dental office and parking lot. The financing cost of this project will be paid by future tax collections.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise Fund Types are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following is the City's major enterprise 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.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*, as are the Proprietary Fund financial statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

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

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

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

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

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

E. Budgets

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

F. Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund. Investments for the City are reported at fair value.

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

G. Capital Assets

Capital assets, including land, 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 estimated fair value at the date of donation.

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

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

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

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

H. Inventories

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

I. Inter-fund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

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

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

J. Compensated Absences

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

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

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

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

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

K. Pensions

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences with the PERA pension plan as well as amounts paid to the plans after the measurement date.

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

M. Net Position

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

Sometimes the government will fund outlays for 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.

N. 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

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

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

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

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

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

NOTE 2 DEPOSITS

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

Minnesota laws require all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of Minnesota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of Minnesota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking Board.

At December 31, 2015, the City's carrying amount of deposits was \$988,237 and the bank balance was \$1,011,550. Of the bank balances, \$500,000 was covered by Federal Depository Insurance and \$511,550 was covered by pledged collateral.

NOTE 3 TAXES RECEIVABLE

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

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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

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

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the County in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Unremitted – Amounts collected by Norman County and not remitted to the City.

Delinquent – Amounts billed to property owners but not paid.

Deferred – Assessment installments which will be billed to property owners in future years.

NOTE 4 ACCOUNTS RECEIVABLE

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billings receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Resident accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis.

Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual resident receivables and considering a resident's financial condition, credit history, and current economic conditions. Resident receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management currently considers all patient accounts receivable to be collectable, thus no allowance for doubtful accounts has been provided.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 5 CAPITAL ASSETS

The following is a summary of governmental and business type capital assets for the year ended December 31, 2015:

<u>Governmental Type Activities</u>	<u>Balance 1/1/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/15</u>
Capital assets, not being depreciated				
Land	\$ 17,322	\$ -	\$ -	\$ 17,322
Construction In Progress	<u>124,403</u>	<u>-</u>	<u>(124,403)</u>	<u>-</u>
Total capital assets not being depreciated	<u>141,725</u>	<u>-</u>	<u>(124,403)</u>	<u>17,322</u>
Capital assets, being depreciated				
Infrastructure	725,000	-	-	725,000
Building	193,784	-	-	193,784
Equipment	<u>835,470</u>	<u>53,025</u>	<u>(1,710)</u>	<u>886,785</u>
Total capital assets being depreciated	1,754,254	53,025	(1,710)	1,805,569
Less accumulated depreciation	<u>(788,355)</u>	<u>(120,033)</u>	<u>371</u>	<u>(908,017)</u>
Governmental activities capital assets, being depreciated, net	<u>965,899</u>	<u>(67,008)</u>	<u>(1,339)</u>	<u>897,552</u>
Total capital assets, net	<u>\$ 1,107,624</u>	<u>\$ (67,008)</u>	<u>\$ (125,742)</u>	<u>\$ 914,874</u>

Depreciation expense was charged to government functions as follows:

General Government	\$ 12,257
Highways and Streets	30,681
Culture and Recreation	13,989
Public Safety	<u>63,106</u>
	<u>\$ 120,033</u>

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Business Type Activities	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land	\$ 11,168	\$ -	\$ -	\$ 11,168
Total capital assets not being depreciated	11,168	-	-	11,168
Capital assets, being depreciated				
Water	1,229,450	-	-	1,229,450
Sewer	912,861	-	-	912,861
Electric	1,888,100	42,626	(228,838)	1,701,888
General utilities	157,346	3,541	(11,679)	149,208
Sunrise Apartments	115,000	-	-	115,000
Wimmer Homes	142,458	-	-	142,458
Total capital assets being depreciated	4,445,215	46,167	(240,517)	4,250,865
Less accumulated depreciation	(1,983,217)	(121,696)	240,517	(1,864,396)
Total capital assets, being depreciated, net	2,461,998	(75,529)	-	2,386,469
Total capital assets net	\$ 2,473,166	\$ (75,529)	\$ -	\$ 2,397,637

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

Water	\$ 30,104
Sewer	18,027
Electric	65,636
General utilities	1,316
Sunrise Apartments	4,600
Wimmer Homes	2,013
	\$ 121,696

NOTE 6 COMPENSATED ABSENCES

Compensated absences for the City are as follows:

	Balance 01/01/15	New Issues	Retired	Balance 12/31/15	Due Within One Year
Compensated Absences	\$ 18,849	\$ 12,000	\$ (14,169)	\$ 16,680	\$ 14,000

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 7 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 (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.

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

C. Contributions

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

Basic plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$16,343. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At December 31, 2015, the City reported a liability of \$186,571 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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 proportion 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0036%

For the year ended December 31, 2015, the City recognized pension expense of \$17,823 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 9,406
Changes in actuarial assumptions	-	21,139
Difference between projected and actual investment earnings	17,662	-
Changes in proportion	-	-
Contributions paid to PERA subsequent to the measurement date	8,309	-
Total	\$ 25,971	\$ 30,545

\$8,309 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2016	\$ (5,767)
2017	(5,767)
2018	(5,767)
2019	4,418

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1 until 2034, then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 20, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45.00%	5.50%
International Stocks	15.00%	6.00%
Bonds	18.00%	1.45%
Alternative Assets	20.00%	6.40%
Cash	2.00%	0.50%

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERS net pension liability:	\$ 293,355	\$ 186,571	\$ 98,383

H. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit 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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

I. Halstad Firefighters' Relief Association

Plan Description

The City remits a state aid payment to the Halstad Firefighters' Relief Association (Association), a single-employer public retirement system that acts as an administrator for volunteer firefighters. All volunteer firefighters of the City are members of the Halstad Fire Department Relief Association. Retiring individuals receive a lump sum distribution in an amount equal to their respective account. 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 \$22,987 for 2015.

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, 2015, 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 8 DEFINED CONTRIBUTION PLAN

One council member of the City of Halstad is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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 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 of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$390	\$390	5.0%	5.0%	5.0%

NOTE 9 COMMITTED CONTRACTS

The City of Halstad is a member of the Northern Municipal Power Agency. The Power Agency was incorporated on December 14, 1976, and is a municipal corporation and political subdivision of the State of Minnesota composed of 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.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 10 INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2015, is as follows:

Due from / to other funds:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Tax Increment District	\$ 105,910
Public Service Utilities Fund	General Fund	13,827
Public Service Utilities Fund	Sunrise Apartments	1,994
Public Service Utilities Fund	John Wimmer Homes	622
Public Service Utilities Fund	Tax Increment District	48,598
John Wimmer Homes	Sunrise Apartments	<u>5,000</u>
		<u>\$ 175,951</u>

The Tax Increment Redevelopment District has a loan payable for development costs that will start to be paid back when taxes are collected to the public service utilities fund. The loan has an annual interest rate of 5%, and a balance of \$48,598 at December 31, 2015. The tax increment district also has a loan to the general fund due to cash shortages in the implementation of the district – this too will be paid back once the district generates tax income. Sunrise Apartments has a loan payable from John Wimmer Homes to cover operating losses.

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

Under accounting principles generally accepted in the United States of America, the City was required to implement Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* for its year ended December 31, 2009. In Minnesota, public entities are required to make health and dental benefits offered to employees available to retirees. Under Minn. Stat. section 471.61, subd. 2b, public entities cannot create a separate insurance group for retirees. Therefore, the City subsidizes premiums for retirees through an implicit rate subsidy. At December 31, 2015, the City has 4 employees and no retirees participating in its health and dental plans.

Management has elected not to adopt GASB 45 and obtain an actuary calculation of the liability and expenses associated with the implicit rate subsidy. As a result, the City's liabilities and expenses are understated by an immaterial amount at December 31, 2015.

NOTE 12 FUND BALANCE DEFICIT

There was a deficit fund balance of \$146,887 in the tax increment district fund as of December 31, 2015. This will be funded through tax levies and general fund transfers.

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 13 NEW PRONOUNCEMENTS

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources

CITY OF HALSTAD
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

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

NOTE 14 CHANGE IN ACCOUNTING PRINCIPLES & RESTATEMENT OF NET POSITION

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension liability and deferred outflows of resources as of January 1, 2015 as follows:

	Public Service <u>Utility Fund</u>
Net Position January 1, 2015, as previously reported	\$ 2,924,973
Restatement for pension accounting:	
Net Pension Liability	(197,295)
Pension related Deferred Outflows of Resources	<u>7,483</u>
Net Position January 1, 2015, as restated	<u>\$ 2,735,161</u>

During 2014, the City capitalized \$124,403 of work in process due to levy projects. It has been determined that this project will not be a capital asset for the City and has been subsequently removed from the governmental government wide statements.

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
General property taxes	\$ 166,600	\$ 170,671	\$ 4,071
Special assessments	-	1,163	1,163
Licenses and permits	<u>1,100</u>	<u>1,407</u>	<u>307</u>
	<u>167,700</u>	<u>173,241</u>	<u>5,541</u>
Intergovernmental revenues			
Local government aid	182,079	211,333	29,254
Fire relief association aid	<u>9,100</u>	<u>14,282</u>	<u>5,182</u>
	<u>191,179</u>	<u>225,615</u>	<u>34,436</u>
Charges for services			
Fire protection fees	12,000	14,656	2,656
Snow removal	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
	<u>13,500</u>	<u>14,656</u>	<u>1,156</u>
Fines and penalties			
	<u>2,000</u>	<u>2,090</u>	<u>90</u>
Miscellaneous revenues			
Gifts and donations	-	17,842	17,842
Interest on investments	1,000	1,365	365
Reimbursements and refunds	6,000	6,347	347
Café rent	3,600	1,450	(2,150)
Other	<u>3,200</u>	<u>7,315</u>	<u>4,115</u>
	<u>13,800</u>	<u>34,319</u>	<u>20,519</u>
Total revenues	<u>388,179</u>	<u>449,921</u>	<u>61,742</u>
Expenditures			
General government			
Audit	7,500	6,195	1,305
Assessment services	3,000	4,920	(1,920)
Payroll expenses	15,500	18,036	(2,536)
County assessment	2,700	2,429	271
Insurance	6,700	5,498	1,202
Supplies and other	6,500	(247)	6,747
Capital outlay	<u>3,000</u>	<u>5,468</u>	<u>(2,468)</u>
Total general government	<u>44,900</u>	<u>42,299</u>	<u>2,601</u>

See Note to Budgetary Comparison Schedules

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015

	<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	\$ 28,800	\$ 28,607	\$ 193
Insurance	-	543	(543)
Animal control	1,000	-	1,000
Other	<u>6,000</u>	<u>7,027</u>	<u>(1,027)</u>
	<u>35,800</u>	<u>36,177</u>	<u>(377)</u>
Fire protection			
Volunteers compensation	8,000	9,453	(1,453)
Equipment and repairs	6,000	29,701	(23,701)
Equipment savings	-	8,363	(8,363)
Building expense	2,500	-	2,500
Hydrant rental	1,850	1,850	-
Jaws truck	300	-	300
Telephone and utilities	5,000	5,402	(402)
County assessment	800	772	28
Insurance	5,100	5,054	46
Other expense	1,000	43	957
Education and training	6,000	6,207	(207)
Firemen's relief association	12,000	9,147	2,853
Capital outlay	<u>-</u>	<u>7,329</u>	<u>(7,329)</u>
	<u>48,550</u>	<u>83,321</u>	<u>(34,771)</u>
Rescue squad			
Volunteers' compensation	6,500	5,044	1,456
Repairs	1,500	-	1,500
Telephone and utilities	3,000	3,137	(137)
Equipment expenses	6,800	1,462	5,338
Insurance	2,550	2,450	100
Other	<u>500</u>	<u>-</u>	<u>500</u>
	<u>20,850</u>	<u>12,093</u>	<u>8,757</u>
Flood			
Capital outlay	<u>20,000</u>	<u>12,254</u>	<u>7,746</u>
Total public safety	<u>125,200</u>	<u>143,845</u>	<u>(18,645)</u>

See Note to Budgetary Comparison Schedules

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Original and Final Budget	Actual	Variance with Final Budget
Highways and streets			
Streets and property maintenance	\$ 45,000	\$ 17,180	\$ 27,820
Equipment repair and maintenance	45,000	4,462	40,538
Snow removal	12,000	7,057	4,943
Street lighting	10,250	9,600	650
Street resurfacing	15,000	44,370	(29,370)
Tree removal and replacement	1,500	171	1,329
Insurance	5,100	4,344	756
Other	5,000	786	4,214
Capital Outlay	15,000	40,228	(25,228)
	<u>153,850</u>	<u>128,198</u>	<u>25,652</u>
Culture and recreation			
Recreation programs			
Park and other expense	7,000	10,979	(3,979)
Community building (LRC)	20,000	18,041	1,959
City beautification - projects	15,500	7,999	7,501
Meals program	1,500	3,000	(1,500)
Economic Development Association	6,000	6,000	-
Café building expense	10,000	3,687	6,313
Other	2,500	-	2,500
	<u>62,500</u>	<u>49,706</u>	<u>12,794</u>
Total expenditures	<u>386,450</u>	<u>364,048</u>	<u>22,402</u>
Excess (deficiency) of revenues over expenditures	<u>1,729</u>	<u>85,873</u>	<u>84,144</u>
Fund balance, beginning of year	<u>448,536</u>	<u>448,536</u>	<u>-</u>
Fund balance, end of year	<u>\$ 450,265</u>	<u>\$ 534,409</u>	<u>\$ 84,144</u>

See Note to Budgetary Comparison Schedules

CITY OF HALSTAD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET TO ACTUAL – TAX INCREMENT DISTRICT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
General property taxes	\$ 9,500	\$ 4,601	\$ (4,899)
	<u>9,500</u>	<u>4,601</u>	<u>(4,899)</u>
Miscellaneous revenues			
Interest on investments	-	11	11
	<u>-</u>	<u>11</u>	<u>11</u>
Total revenues	<u>9,500</u>	<u>4,612</u>	<u>(4,888)</u>
Expenditures			
General			
Professional fees	-	600	(600)
Debt Service			
Principal	5,310	2,500	2,810
Interest	5,310	6,926	(1,616)
	<u>10,620</u>	<u>9,426</u>	<u>1,194</u>
Total expenditures	<u>10,620</u>	<u>10,026</u>	<u>594</u>
Excess (deficiency) of revenues over expenditures	<u>(1,120)</u>	<u>(5,414)</u>	<u>(4,294)</u>
Fund balance, beginning of year	<u>(141,473)</u>	<u>(141,473)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (142,593)</u>	<u>\$ (146,887)</u>	<u>\$ (4,294)</u>

See Note to Budgetary Comparison Schedules

CITY OF HALSTAD
NOTE TO BUDGETARY COMPARISON SCHEDULES
AS OF DECEMBER 31, 2015

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.

CITY OF HALSTAD
SCHEDULE OF CITY'S CONTRIBUTION TO PERA RETIREMENT FUND
AS OF DECEMBER 31, 2015

Year Ended	Statutorily Required Contributions	Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	\$ 16,343	\$ 16,343	\$ -	\$ 217,909	7.50%

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

The City implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

CITY OF HALSTAD
SCHEDULE OF CITY'S AND NON-EMPLOYER PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
AS OF DECEMBER 31, 2015

Year Ended	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0036%	\$ 186,571	\$ 217,909	85.6%	78.20%

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

The City implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

CITY OF HALSTAD
SCHEDULE OF OPERATING REVENUES AND EXPENSES – PUBLIC UTILITY DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Electric Department	Water Department	Sewage Disposal Department	Refuse Disposal Department	Total
Operating revenues					
Halstad consumers	\$ 898,334	\$ 109,768	\$ 143,897	\$ 61,658	\$ 1,213,657
City departments - energy	10,605	1,759	3,460	-	15,824
City departments - administration fee	14,403	-	-	-	14,403
Penalties	11,177	-	-	-	11,177
Rentals					
Generator Revenue	80,241	-	-	-	80,241
Other	2,331	-	-	-	2,331
Total operating revenues	1,017,091	111,527	147,357	61,658	1,337,633
Operating expenses					
Production and distribution					
Salaries	70,810	11,746	23,106	-	105,662
Repair, maintenance and supplies	-	5,364	24,122	-	29,486
Electric energy purchased	694,716	-	-	-	694,716
Sewer waste disposal	-	-	18,666	-	18,666
Depreciation	65,636	30,103	18,027	-	113,766
Generator expenses	46,291	-	-	-	46,291
Dumpster rent and pickup	-	-	-	55,263	55,263
Truck expense	7,135	1,184	2,328	-	10,647
Miscellaneous and training	41,584	11,472	5,396	-	58,452
Total production and distribution	926,172	59,869	91,645	55,263	1,132,949
General and administrative					
Salaries - administrative and office	25,880	25,880	25,880	-	77,640
General supplies and maintenance	-	1,197	5,382	-	6,579
Office supplies and postage	1,758	1,757	1,757	-	5,272
Telephone	1,382	1,382	1,382	-	4,146
Depreciation	759	348	209	-	1,316
Professional fees and services	4,091	1,129	531	-	5,751
Insurance	11,334	1,881	3,698	-	16,913
PERA and social security	23,515	3,901	7,673	-	35,089
Miscellaneous	9,185	2,534	1,192	-	12,911
Employee insurance and other	22,093	3,666	7,208	-	32,967
Total general and administrative	99,997	43,675	54,912	-	198,584
Total operating expenses	1,026,169	103,544	146,557	55,263	1,331,533
Operating income (loss)	\$ (9,078)	\$ 7,983	\$ 800	\$ 6,395	\$ 6,100

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Kilowatt hours sold										
Residential	2,864,149	2,942,617	2,847,267	2,647,759	2,864,992	2,954,375	2,983,705	3,088,384	3,046,520	2,918,829
Off peak heating	2,821,492	3,124,387	2,963,626	2,510,458	2,901,579	2,788,170	2,908,079	2,965,714	2,533,853	2,522,682
Commerical lighting	992,232	1,035,544	1,092,154	1,055,877	1,170,293	1,126,791	1,194,609	1,082,091	1,217,837	1,139,306
Power	1,724,877	1,627,901	1,647,448	1,505,821	1,658,657	1,725,051	1,799,756	1,879,987	1,942,600	1,894,184
City usage	246,040	243,293	244,353	189,148	178,274	197,194	234,619	206,516	94,958	92,345
Water and sewer department usage	<u>151,443</u>	<u>158,620</u>	<u>154,412</u>	<u>131,063</u>	<u>161,304</u>	<u>164,015</u>	<u>166,956</u>	<u>165,412</u>	<u>165,040</u>	<u>129,783</u>
Total KWH sold	8,800,233	9,132,362	8,949,260	8,040,126	8,935,099	8,955,596	9,287,724	9,388,104	9,000,808	8,697,129
Add										
Electric plant usage	<u>214,396</u>	<u>295,452</u>	<u>284,689</u>	<u>270,820</u>	<u>300,836</u>	<u>300,130</u>	<u>299,826</u>	<u>306,005</u>	<u>241,798</u>	<u>110,957</u>
	<u>9,014,629</u>	<u>9,427,814</u>	<u>9,233,949</u>	<u>8,310,946</u>	<u>9,235,935</u>	<u>9,255,726</u>	<u>9,587,550</u>	<u>9,694,109</u>	<u>9,242,606</u>	<u>8,808,086</u>
Total KWH purchased	8,975,660	9,804,619	9,731,977	8,757,050	9,691,092	9,601,056	10,060,367	10,165,594	9,644,753	9,168,915
Total KWH generated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,975,660</u>	<u>9,804,619</u>	<u>9,731,977</u>	<u>8,757,050</u>	<u>9,691,092</u>	<u>9,601,056</u>	<u>10,060,367</u>	<u>10,165,594</u>	<u>9,644,753</u>	<u>9,168,915</u>
Line loss	<u>38,969</u>	<u>(376,805)</u>	<u>(498,028)</u>	<u>(446,104)</u>	<u>(455,157)</u>	<u>(345,330)</u>	<u>(472,817)</u>	<u>(471,485)</u>	<u>(402,147)</u>	<u>(360,829)</u>
Loss percentage of KWH purchased	<u>(0.43%)</u> (1)	<u>3.84%</u>	<u>5.12%</u>	<u>5.09%</u>	<u>4.70%</u>	<u>3.60%</u>	<u>4.70%</u>	<u>4.64%</u>	<u>4.17%</u>	<u>3.94%</u>

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of 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, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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.

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

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

April 4, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Halstad as of and for the year ended December 31, 2015, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated April 4, 2016. A qualified opinion was issued for the year ended December 31, 2015 over the governmental activities for not implemented Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Fire Relief Association, which should be included in order to conform with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness and a deficiency we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-002 to be a significant deficiency.

Compliance and Other Matters

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

City of Halstad's Response to Findings

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

Purpose of this Report

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



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

April 4, 2016

CITY OF HALSTAD
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-001

Criteria

The entity is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, material adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The entity's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation

We recommend that the entity reviews its current training system to determine if it is cost effective for the City to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions

The planned completion for the corrective action plan is when it becomes cost effective.

CITY OF HALSTAD
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-002

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The planned completion for the corrective action plan is when it becomes cost effective.