



Financial Statements  
December 31, 2012

# City of Glyndon, Minnesota

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City of Glyndon, Minnesota  
Elected and Appointed Officials (Unaudited)  
December 31, 2012

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Council		
Cecil Johnson	Mayor	December 31, 2012
Chris Jensen	Council Member	December 31, 2016
Joe Olson	Council Member	December 31, 2016
David Owings	Council Member	December 31, 2014
Roger Wyland	Council Member	December 31, 2014
Officials		
Pam Ness	Clerk Treasurer	
Michael Cline	Chief of Police	
Ken Norman	City Attorney	



## **Independent Auditor's Report**

The Honorable Mayor,  
City Council and Clerk Treasurer  
City of Glyndon, Minnesota

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

Management is responsible for the fair preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 the *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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund of the City of Glyndon, Minnesota as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Correction of Error**

As discussed in Note 11 to the financial statements, certain errors resulted in a misstatement of an amount that should have previously been reported as a special assessment receivable in the Sewer Fund at December 31, 2011 and was discovered during the current year audit. Accordingly, the City's net position as of December 31, 2011, has been restated to correct the error. Our opinion is not modified with respect to that matter.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City's financial statements as a whole. The listing of elected and appointed officials, budgetary comparison schedule – cash basis – general fund, combining schedule of receipts, disbursements, changes in fund balance – cash basis – general fund, by department, schedule of accounts receivable, and schedule of accounts payable are presented for purposes of additional analysis and are not a required part of the financial statements.

The budgetary comparison schedule – cash basis – general fund and combining schedule of receipts, disbursements, and changes in fund balance – cash basis – general fund, by department are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 listing of elected and appointed officials, schedule of accounts receivable, and schedule of accounts payable have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 13, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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. This report is an integral part of a *Government Auditing Standards* audit in considering the City's internal control over financial reporting and compliance.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared using accounting principles prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
May 13, 2013

City of Glyndon, Minnesota  
Statement of Net Position  
December 31, 2012

	<u>Governmental Activities - Cash Basis</u>	<u>Business-Type Activities</u>
<b>Assets</b>		
Cash and investments	\$ 567,526	\$ 155,776
Accounts receivable	-	51,644
Special assessments receivable	-	136,353
Capital assets, net of accumulated depreciation	-	1,767,026
Total assets	<u>\$ 567,526</u>	<u>\$ 2,110,799</u>
 <b>Liabilities and Net Position</b>		
<b>Liabilities</b>		
Current liabilities		
Accrued interest	\$ -	\$ 7,963
Noncurrent liabilities		
Due within one year	-	113,517
Due in more than one year	-	1,364,729
Total liabilities	<u>-</u>	<u>1,486,209</u>
 <b>Net Position</b>		
Net investment in capital assets	-	295,438
Restricted	724,712	-
Unrestricted	(157,186)	329,152
Total net position	<u>567,526</u>	<u>624,590</u>
Total liabilities and net position	<u>\$ 567,526</u>	<u>\$ 2,110,799</u>

City of Glyndon, Minnesota  
Statement of Activities  
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities - Cash Basis	Business-Type Activities
<b>Primary Government</b>					
Governmental activities - cash basis:					
General government	\$ 402,563	\$ 100,831	\$ -	\$ (301,732)	\$ -
Public safety	230,414	37,867	33,954	(158,593)	-
Sanitation	90,123	88,972	-	(1,151)	-
Streets and highways	59,352	-	-	(59,352)	-
Culture and recreation	9,204	-	-	(9,204)	-
Debt service	362,433	-	-	(362,433)	-
TIF repayments	62,325	-	-	(62,325)	-
Total governmental activities - cash basis	<u>1,216,414</u>	<u>227,670</u>	<u>33,954</u>	<u>(954,790)</u>	<u>-</u>
Business-type activities					
Water	107,234	255,878	-	-	148,644
Sewer	152,626	226,716	12,720	-	86,810
Total business-type activities	<u>259,860</u>	<u>482,594</u>	<u>12,720</u>	<u>-</u>	<u>235,454</u>
General revenues					
Property taxes				407,260	676
Licenses, permits, fines, and forfeitures				41,763	-
Intergovernmental				281,341	-
TIF increments				114,045	-
Interest earnings				452	-
Tax anticipation bond proceeds, net				100,000	-
Interfund transfers				56,560	(56,560)
Miscellaneous				55,983	5,332
Total general revenues				<u>1,057,404</u>	<u>(50,552)</u>
Change in net position				102,614	184,902
Net position - beginning of year, as restated				464,912	439,688
Net position - end of year				<u>\$ 567,526</u>	<u>\$ 624,590</u>



	General	Special Revenue Fund Centennial Addition
Receipts		
Property taxes	\$ 363,955	\$ -
Special assessments	-	-
Licenses and permits	10,978	-
Intergovernmental	315,295	-
Charges for services	126,839	-
Fines and forfeits	30,785	-
TIF increments	-	114,045
Interest earnings	452	-
Miscellaneous	55,983	-
Total receipts	<u>904,287</u>	<u>114,045</u>
Disbursements		
Current		
General government	402,563	-
Public safety	230,414	-
Streets and highways	59,352	-
Sanitation	90,123	-
Culture and recreation	9,204	-
Debt service		
Principal	17,014	-
Interest and other charges	14,746	-
TIF repayments	-	62,325
Total disbursements	<u>823,416</u>	<u>62,325</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	80,871	51,720
Other Financing Sources (Uses)		
Tax anticipation bond proceeds	200,000	-
Tax anticipation principal payments	(100,000)	-
Transfers in	-	-
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>
Net Change in Cash Basis Fund Balances	180,871	51,720
Cash Basis Fund Balances (Deficit) - Beginning	<u>(9,807)</u>	<u>58,147</u>
Cash Basis Fund Balances (Deficit) - Ending	<u>\$ 171,064</u>	<u>\$ 109,867</u>

The notes to the financial statements are an integral part of this statement.

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Governmental Funds  
Year Ended December 31, 2012

Debt Service Funds				Other	Total
2000 Economic Development	2001 Economic Development	2002 Economic Development	Stockwood Improvements	Governmental Funds	Governmental Funds
\$ 693	\$ 42,612	\$ -	\$ -	\$ -	\$ 407,260
3,878	7,926	33,643	1,901	53,483	100,831
-	-	-	-	-	10,978
-	-	-	-	-	315,295
-	-	-	-	-	126,839
-	-	-	-	-	30,785
-	-	-	-	-	114,045
-	-	-	-	-	452
-	-	-	-	-	55,983
<u>4,571</u>	<u>50,538</u>	<u>33,643</u>	<u>1,901</u>	<u>53,483</u>	<u>1,162,468</u>
-	-	-	-	-	402,563
-	-	-	-	-	230,414
-	-	-	-	-	59,352
-	-	-	-	-	90,123
-	-	-	-	-	9,204
12,000	10,976	40,000	75,000	105,000	259,990
2,760	1,092	13,802	54,792	15,251	102,443
-	-	-	-	-	62,325
<u>14,760</u>	<u>12,068</u>	<u>53,802</u>	<u>129,792</u>	<u>120,251</u>	<u>1,216,414</u>
(10,189)	38,470	(20,159)	(127,891)	(66,768)	(53,946)
-	-	-	-	-	200,000
-	-	-	-	-	(100,000)
-	-	-	-	56,560	56,560
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,560</u>	<u>156,560</u>
(10,189)	38,470	(20,159)	(127,891)	(10,208)	102,614
<u>189,504</u>	<u>141,792</u>	<u>175,427</u>	<u>(12,529)</u>	<u>(77,622)</u>	<u>464,912</u>
<u>\$ 179,315</u>	<u>\$ 180,262</u>	<u>\$ 155,268</u>	<u>\$ (140,420)</u>	<u>\$ (87,830)</u>	<u>\$ 567,526</u>

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	<u>General</u>	<u>Special Revenue Fund Centennial Addition</u>
Cash Basis Assets - End of Year		
Cash and investments (deficit)	<u>\$ 171,064</u>	<u>\$ 109,867</u>
Cash Basis Fund Balances		
Restricted for TIF repayments	\$ -	\$ 109,867
Restricted for capital projects	-	-
Restricted for debt service	-	-
Restricted for repayment of tax anticipation certificates	100,000	-
Unassigned	<u>71,064</u>	<u>-</u>
	<u>\$ 171,064</u>	<u>\$ 109,867</u>

The notes to the financial statements are an integral part of this statement.

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements and Changes in Fund Balances-Cash Basis  
Governmental Funds  
Year Ended December 31, 2012

Debt Service Funds				Other Governmental Funds	Total Governmental Funds
2000 Economic Development	2001 Economic Development	2002 Economic Development	Stockwood Improvements		
\$ 179,315	\$ 180,262	\$ 155,268	\$ (140,420)	\$ (87,830)	\$ 567,526
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,867
-	-	155,268	-	-	155,268
179,315	180,262	-	-	-	359,577
-	-	-	-	-	100,000
-	-	-	(140,420)	(87,830)	(157,186)
\$ 179,315	\$ 180,262	\$ 155,268	\$ (140,420)	\$ (87,830)	\$ 567,526

City of Glyndon, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and investments	\$ 136,641	\$ 19,135	\$ 155,776
Accounts receivable	25,460	26,184	51,644
Special assessments receivable, current portion	-	18,283	18,283
Total current assets	<u>162,101</u>	<u>63,602</u>	<u>225,703</u>
<b>Noncurrent Assets</b>			
Water plant and tower	918,829	1,187,663	2,106,492
Accumulated depreciation	(291,748)	(47,718)	(339,466)
Total noncurrent assets	<u>627,081</u>	<u>1,139,945</u>	<u>1,767,026</u>
Special assessments receivable, net of current portion	<u>-</u>	<u>118,070</u>	<u>118,070</u>
Total assets	<u>\$ 789,182</u>	<u>\$ 1,321,617</u>	<u>\$ 2,110,799</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accrued interest	\$ 4,156	\$ 3,807	\$ 7,963
Current portion of long-term debt	43,000	70,517	113,517
Total current liabilities	<u>47,156</u>	<u>74,324</u>	<u>121,480</u>
<b>Noncurrent Liabilities</b>			
Accrued compensated absences	3,329	3,329	6,658
Long-term debt, net of current portion	440,071	918,000	1,358,071
Total noncurrent liabilities	<u>443,400</u>	<u>921,329</u>	<u>1,364,729</u>
Total liabilities	<u>490,556</u>	<u>995,653</u>	<u>1,486,209</u>
<b>Net Position</b>			
Net investment in capital assets	144,010	151,428	295,438
Unrestricted	154,616	174,536	329,152
Total net position	<u>298,626</u>	<u>325,964</u>	<u>624,590</u>
Total liabilities and net position	<u>\$ 789,182</u>	<u>\$ 1,321,617</u>	<u>\$ 2,110,799</u>

City of Glyndon, Minnesota  
Statement of Changes in Net Position  
Proprietary Funds  
Year Ended December 31, 2012

	Water	Sewer	Storm Water Utility	Total
Operating Revenue				
Sales	\$ 255,878	\$ 226,716	\$ -	\$ 482,594
Operating Expenses				
Cost of sales and services	25,728	59,164	-	84,892
Administration	50,643	58,076	-	108,719
Depreciation	18,376	23,753	-	42,129
Total operating expenses	<u>94,747</u>	<u>140,993</u>	<u>-</u>	<u>235,740</u>
Net Operating Income	161,131	85,723	-	246,854
Nonoperating Revenue (Expense)				
General property taxes	-	676	-	676
Special assessments interest received	-	12,720	-	12,720
Intergovernmental	-	-	-	-
Interest income	3,041	2,291	-	5,332
Interest expense	(12,487)	(11,633)	-	(24,120)
Total nonoperating revenue (expense)	<u>(9,446)</u>	<u>4,054</u>	<u>-</u>	<u>(5,392)</u>
Income Before Other Financing Sources (Uses)	151,685	89,777	-	241,462
Other Financing Sources (Uses)				
Transfers in	-	7,380	-	7,380
Transfers out	-	(56,560)	(7,380)	(63,940)
Total other financing sources (uses)	<u>-</u>	<u>(49,180)</u>	<u>(7,380)</u>	<u>(56,560)</u>
Change in Net Position	151,685	40,597	(7,380)	184,902
Net Position - Beginning, as restated	<u>146,941</u>	<u>285,367</u>	<u>7,380</u>	<u>439,688</u>
Net Position - Ending	<u>\$ 298,626</u>	<u>\$ 325,964</u>	<u>\$ -</u>	<u>\$ 624,590</u>

City of Glyndon, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2012

	Water	Sewer	Storm Water Utility	Total
<b>Operating Activities</b>				
Receipts from customers	\$ 254,099	\$ 215,195	\$ 4,818	\$ 474,112
Payments to suppliers	(27,647)	(105,068)	-	(132,715)
Payments to employees	(54,873)	(54,747)	-	(109,620)
Net cash from operating activities	<u>171,579</u>	<u>55,380</u>	<u>4,818</u>	<u>231,777</u>
<b>Non-Capital Financing Activities</b>				
Receipt of property taxes	-	676	-	676
Change in interfund balances	-	-	-	-
Net cash from non-capital financing activities	<u>-</u>	<u>676</u>	<u>-</u>	<u>676</u>
<b>Capital and Related Financing Activities</b>				
Principal payments on debt	(42,000)	(95,681)	-	(137,681)
Proceeds on debt	-	7,323	-	7,323
Interest paid on debt	(12,497)	(12,651)	-	(25,148)
Interfund transfer	-	(49,180)	(7,380)	(56,560)
Special assessments received	-	33,153	-	33,153
Interest received	3,041	2,291	-	5,332
Net cash used for capital and related financing activities	<u>(51,456)</u>	<u>(114,745)</u>	<u>(7,380)</u>	<u>(173,581)</u>
Change in Cash and Investments	120,123	(58,689)	(2,562)	58,872
Cash and Investments Balance, Beginning	<u>16,518</u>	<u>77,824</u>	<u>2,562</u>	<u>96,904</u>
Cash and Investments Balance, Ending	<u>\$ 136,641</u>	<u>\$ 19,135</u>	<u>\$ -</u>	<u>\$ 155,776</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>				
Operating income	\$ 161,131	\$ 85,723	\$ -	\$ 246,854
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation	18,376	23,753	-	42,129
Changes in assets and liabilities				
Accounts receivable	(1,779)	(11,521)	4,818	(8,482)
Accounts payable	(1,919)	(45,904)	-	(47,823)
Accrued compensated absences	(4,230)	3,329	-	(901)
Net cash from operating activities	<u>\$ 171,579</u>	<u>\$ 55,380</u>	<u>\$ 4,818</u>	<u>\$ 231,777</u>

The notes to the financial statements are an integral part of this statement.

### **Note 1 - Summary of Significant Accounting Policies**

The City's financial statements are prepared using accounting practices prescribed or permitted by the State of Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. Governmental fund financial statements are reported using the cash basis and proprietary fund financial statements are reported on the full accrual basis. The more significant accounting policies used by the City are discussed below.

#### **Reporting Entity**

The City's financial statements include all funds and account groups for which the City is financially accountable.

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

There are no component units reported within these financial statements.

#### **Government-Wide and Fund Financial Statements**

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

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



### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Governmental funds financial statements are reported using the cash basis. Under this method, revenues are recognized only when the City receives cash, and expenditures are recognized only when the City disburses cash. For the cash basis funds, schedules of accounts receivable and accounts payable are displayed separately for informational purposes.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The City reports the following major governmental funds:

**General Fund** – The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Centennial Addition Fund** – The City accounts for cash receipts and disbursements relating to the Centennial Addition TIF activity.

**2000 Economic Development Fund** – The City accounts for cash receipts and disbursements related to the 2000 economic development debt service.

**2001 Economic Development Fund** – The City accounts for cash receipts and disbursements related to the 2001 economic development debt service.

**2002 Economic Development Fund** – The City accounts for cash receipts and disbursements related to the 2002 economic development debt service.

**Stockwood Improvements** – The City accounts for cash receipts and disbursements related to the Stockwood improvements project of 2010 debt service.

The City reports the following major proprietary funds:

**Water Fund** – The City accounts for revenues and expenses relating to the furnishing of water service to residents of the City in this fund.

**Sewer Fund**– The City accounts for revenues and expenses relating to the furnishing of sewer service to residents of the City in this fund. The general property taxes and special assessments levied to retire the bonded indebtedness relating to the construction of the sewer system are also accounted for in this fund.

**Storm Water Utility Fund**– The City accounts for revenues and expenses relating to charging residents for the use of the storm water utility and the payment of special assessments to the County. The City charges the residents a flat fee each month to cover the cost of their special assessments to the County each year relating to improvements that the County made to the storm water system. Effective January 1, 2012, the City decided to account for all related activity in the Sewer Fund.

With respect to the proprietary funds, the City has adopted GASB statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements as well as private accounting standards, issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The City has also elected not to apply private-standard pronouncements after November 30, 1989.

Amounts reported as program receipts include the following:

- amounts received from those who purchase, use or directly benefit from a program;
- amounts received from parties outside the City that are restricted to one or more specific programs;
- and earnings on investments that are legally restricted for a specific program. Receipts that do not meet the previous criteria are reported as general receipts, including all taxes.

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

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

## **Other Significant Accounting Policies**

### **Cash and Investments**

The City maintains cash pools that are used by substantially all of the City funds. The City considers cash equivalents to include cash, savings accounts, and money market accounts. These are separately held for each fund and are stated at fair value. Investments consist of asset backed securities, mutual funds, preferred securities, and certificates of deposits with original maturities of over three months. These are separately held for each fund and are stated at fair value as of the balance sheet date.

### **Receivables**

All receivables are shown net of any allowance for uncollectibles, if applicable. There were no allowances recorded in the proprietary funds as of December 31, 2012.

### **Capital Assets**

Capital assets of the proprietary funds are stated at cost if purchased or at fair market value on the date received if donated, less accumulated depreciation. Major renewals and improvements are charged to the capital asset accounts and depreciated accordingly. Replacements, maintenance, and repairs are expensed currently. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized at that time.

Depreciation is provided for the capital assets of the proprietary funds using the straight-line method over the estimated useful life of 50 years.

The City's threshold amount for determining which purchases to include in the capital assets is items greater than \$5,000.

### **Compensated Absences**

Vacation is earned at the following rates for full time employees: 1) during the first year of employment: 56 hours of vacation are earned; 2) beginning the second year of employment: 96 hours are earned; 3) beginning the third year, and each year thereafter, 8 additional hours are added to the vacation earned rate until a maximum of 225 hours per year is reached. The maximum vacation earned is reached in the 12th year of employment. Vacation is accrued in the proprietary funds and is considered long-term for reporting purposes. In all other funds, vacation is recorded as an expenditure when used.

Sick pay is earned and may be accumulated by City employees up to 130 days. Employees can use 33 percent of unused sick leave for severance pay upon retirement. Severance pay of 33 percent of sick pay is accrued in the water and sewer funds and is considered long-term for reporting purposes. In all other funds, sick pay is recorded as an expenditure when used.

### **Fund Equity**

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

### **Net Position**

For the year ended December 31, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, Elements of Financial Statements.

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred by 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.

### **Property Taxes**

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

The county spreads all levies over assessable property. Such taxes become a lien on January 1 and receivable by the City at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The county provides tax settlements to the City in April, June, and November.

### **Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state 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 are generally collected by county and remitted to the City at the same time property tax settlements are made.

### **Budgets**

Annual budgets are adopted for the General Fund on the cash basis. Budgetary comparisons presented in this report are on this budgetary basis.

Appropriations are authorized by the City Council at the fund level, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. All unexpended appropriations lapse at year-end.

Any changes in the total budget of each fund must be approved by a majority vote of the City Council.

## **Note 2 - Compliance**

### **Deficit Fund Equity**

As of December 31, 2012, the following funds have deficit fund balances: Stockwood Improvements Fund \$140,420; and 1998 Street Improvements Fund \$87,830. The deficits will be addressed in future budget planning. To address the deficit in the Stockwood Improvements Fund the property taxes levied on the affected property will continue to be attempted to be collected. To address the deficit in the 1998 Street Improvements Fund, the sewer rate will be increased to assure revenues are sufficient to make transfers out of this fund.

## **Note 3 - Deposits and Investments**

### **Deposits**

In accordance with Minnesota statutes, the City maintains deposits at those depositories authorized by the City Council. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – This is the risk that in the event of a bank failure, the City’s deposits may be lost.

**Interest Rate Risk** – The City does not have a formal policy that limits investment maturities. However, the City does limit the maturities of certificates of deposit to less than one year as a means of managing its exposure to fair value losses arising from increasing interest rates.

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2012, all deposits were insured or collateralized by securities held by the City’s agent in the City’s name.

The following table presents the City's deposit and investment balances at December 31, 2012:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Not Applicable	< 1
Certificates of deposit	\$ 64,119	\$ -	\$ 64,119
Deposits	659,183	659,183	-
	<u>\$ 723,302</u>	<u>\$ 659,183</u>	<u>\$ 64,119</u>

### Investments

Minnesota statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

### Note 4 - Capital Assets

	Balance 12/31/11	Additions	Retirements	Balance 12/31/12
Capital assets, being depreciated				
Sewer project	\$ 1,187,663	\$ -	\$ -	\$ 1,187,663
Water plant and tower	918,829	-	-	918,829
Total capital assets, being depreciated	<u>2,106,492</u>	<u>-</u>	<u>-</u>	<u>2,106,492</u>
Less accumulated depreciation				
Sewer project	23,965	23,753	-	47,718
Water plant and tower	273,372	18,376	-	291,748
Total accumulated depreciation	<u>297,337</u>	<u>42,129</u>	<u>-</u>	<u>339,466</u>
Total capital assets, being depreciated, net	<u>\$ 1,809,155</u>	<u>\$ (42,129)</u>	<u>\$ -</u>	<u>\$ 1,767,026</u>

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

Water	\$ 18,376
Sewer	23,753
	<u>\$ 42,129</u>

**Note 5 - City Indebtedness**

Changes in long-term debt were as follows:

	Balance 12/31/11	Additions	Retired	Balance 12/31/12	Balance Due Within One Year
<b>Governmental activities</b>					
Notes payable	\$ 8,280	\$ -	\$ 8,280	\$ -	\$ -
Governmental lease/ purchase agreement	198,140	-	8,734	189,406	10,527
General obligation improvement bonds	1,835,000	-	135,000	1,700,000	135,000
Special assessment improvement bonds	391,824	-	107,976	283,848	143,848
	<u>2,433,244</u>	<u>-</u>	<u>259,990</u>	<u>2,173,254</u>	<u>289,375</u>
Governmental activities long-term debt	<u>\$ 2,433,244</u>	<u>\$ -</u>	<u>\$ 259,990</u>	<u>\$ 2,173,254</u>	<u>\$ 289,375</u>
<b>Business-type activities</b>					
General obligation revenue notes	\$ 1,601,946	\$ 7,323	\$ 137,681	\$ 1,471,588	\$ 113,517
Compensated absences	7,559	-	901	6,658	-
	<u>1,609,505</u>	<u>7,323</u>	<u>138,582</u>	<u>1,478,246</u>	<u>113,517</u>
Business-type activities long-term debt	<u>\$ 1,609,505</u>	<u>\$ 7,323</u>	<u>\$ 138,582</u>	<u>\$ 1,478,246</u>	<u>\$ 113,517</u>

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

	Debt Service Fund	Original Amount	Maturity Date	Interest Rate	Balance 12/31/12
<b>Governmental activities</b>					
Notes payable					
Governmental lease/purchase agreement	General	\$ 250,000	2025	5.25	<u>\$ 189,406</u>
<b>General obligation improvement bonds</b>					
	2002 Economic Development	630,000	2019	1.85 - 4.15	335,000
2004A	2007 Improvements Drainage	1,415,000	2025	3.85-4.45	1,270,000
2007	2010 Improvements	135,000	2016	0.80 - 2.50	95,000
2010					<u>1,700,000</u>
Total general obligation improvement bonds					<u>1,700,000</u>
<b>General obligation special assessment improvement bonds</b>					
Centennial and sewer improvement	1998 Street Improvements	1,150,000	2014	4.10 - 4.90	230,000
Street improvements	2001 Economic Development	105,000	2013	5.50	16,848
Street and sewer improvements	2000 Economic Development	175,000	2016	5.50 - 6.00	37,000
Total assessment improvement bonds					<u>283,848</u>
Total governmental activities					<u>\$ 2,173,254</u>

City of Glyndon, Minnesota  
Notes to Financial Statements  
December 31, 2012

	Debt Service Fund	Original Amount	Maturity Date	Interest Rate	Balance 12/31/12
Business-type activities					
General obligation revenue bonds					
Wastewater treatment facility	Sewer	\$ 671,323	2013	3.64	\$ 21,220
Clean water revolving fund	Sewer	1,170,000	2030	1.089	967,297
Drinking water revolving fund	Water	867,071	2022	2.38	483,071
Total business-type activities					<u>\$ 1,471,588</u>

Estimated principal and interest requirements to maturity will be as follows:

Years Ending December 31,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 289,375	\$ 87,498	\$ 113,517	\$ 22,417
2014	286,093	74,470	93,000	20,471
2015	171,689	65,095	95,000	18,889
2016	177,318	58,116	98,000	17,274
2017	152,981	51,403	99,000	15,601
2018 - 2022	681,158	163,920	520,071	51,916
2023 - 2027	414,640	28,731	278,000	18,686
2028 - 2030	-	-	175,000	3,823
	<u>\$ 2,173,254</u>	<u>\$ 529,233</u>	<u>\$ 1,471,588</u>	<u>\$ 169,077</u>

### Notes Payable

In 2003, the City issued capital equipment notes for purchasing equipment.

### Governmental Lease/Purchase Agreement

The City of Glyndon entered into a governmental lease agreement with Northwestern State Bank for the purpose of building a new City hall facility. The City of Glyndon will own such property upon the final payment under the terms of this agreement. Northwestern State Bank has a security interest in this property for the full term of this lease agreement. The total cost of this lease agreement was \$250,000.

### General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for general government are payable from the debt service funds primarily through special assessments and property taxes levied and collected. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds.

### General Obligation Revenue Bonds

General obligation revenue bonds are payable from utility revenues and, if required, by ad valorem tax levies



**Note 6 - Tax Anticipation Certificate**

The City sold tax anticipation certificates dated March and October of 2012 with a value of \$100,000 each. The certificates bear interest at a rate of 2.0 percent. One of the certificates was repaid in full as of December 31, 2012. The remaining certificate was paid in April 2013. Interest and fiscal charges on the aid anticipation certificates for the year ended December 31, 2012 in the General Fund totaled \$2,000.

Balance 12/31/11	Additions	Deletions	Balance 12/31/12
\$ -	\$ 200,000	\$ 100,000	\$ 100,000

**Note 7 - Interfund Transfers**

During the year ended December 31, 2012, the Storm Water Utility Fund was closed out and an amount of \$7,380 was transferred to the Sewer Fund. All operations of the Storm Water Utility are now accounted for in the Sewer Fund. In addition, a transfer from the Sewer Fund to the Drainage Improvement Debt Service Fund in the amount of \$56,560 was made to eliminate the deficit.

**Note 8 - Defined Benefit Pension Plans - Statewide**

**Plan Description**

All full-time and certain part-time employees of the City of Glyndon, Minnesota, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF, PEPFF, and PECF. That report may be obtained on the Internet at [www.mnpera.org](http://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.

### **Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. PECF members are required to contribute 5.83% of their annual covered salary. The City of Glyndon, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan PERF members, 14.4% for PEPFF members, and 8.75% for PECF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$29,340, \$32,168, and \$32,361, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**Note 9 - Statement of Orders Issued**

The City posts its City Council meetings monthly so Schedule 5, Statement of Orders Issued, is not required for the Minnesota State Auditor's Office.

**Note 10 - Subsequent Events**

On April 3, 2013, the City issued a \$100,000 tax anticipation bond in order to assist in operating costs. The bond bears a 2% interest rate and matures on April 1, 2014.

**Note 11 - Restatement**

The beginning special assessments receivable and net position balances have been restated in order to reflect the correction of uncertified special assessments that should have been recorded as a receivable at December 31, 2011. Restated special assessments receivable and net position balances are presented as follows:

	Sewer
Beginning of year special assessments receivable balance, as previously reported	\$ -
Reclassification of funds	156,786
Beginning of year special assessments receivable balance, as restated	\$ 156,786
Beginning of year net position balance, as previously reported	\$ 128,581
Reclassification of funds	156,786
Beginning of year net position balance, as restated	\$ 285,367



Other Supplementary Information  
December 31, 2012

## City of Glyndon, Minnesota

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule, General Fund – Cash Basis  
 Year Ended December 31, 2012

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Receipts</b>			
Property taxes	\$ 376,495	\$ 363,955	\$ (12,540)
Licenses and permits	5,975	10,978	5,003
Intergovernmental	259,158	315,295	56,137
Charges for services	173,187	126,839	(46,348)
Interest earnings	500	452	(48)
Fines and forfeits	32,950	30,785	(2,165)
Miscellaneous	17,562	55,983	38,421
Total receipts	<u>865,827</u>	<u>904,287</u>	<u>38,460</u>
<b>Disbursements</b>			
General government	344,330	402,563	(58,233)
Public safety	250,767	230,414	20,353
Streets and parks	101,987	59,352	42,635
Sanitation	89,735	90,123	(388)
Community Center	8,423	9,204	(781)
Debt service:			
Principal	28,495	17,014	11,481
Interest and fees	1,040	14,746	(13,706)
Total disbursements	<u>824,777</u>	<u>823,416</u>	<u>1,361</u>
Excess of Receipts Over Disbursements	41,050	80,871	37,099
<b>Other Financing Sources (Uses)</b>			
Tax anticipation bond proceeds	-	200,000	200,000
Tax anticipation principal payments	-	(100,000)	(100,000)
Total other financing sources (uses)	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Net Change in Cash Basis Fund Balances	<u>\$ 41,050</u>	180,871	<u>\$ 137,099</u>
Cash Basis Fund Deficit - Beginning		<u>(9,807)</u>	
Cash Basis Fund Balance - Ending		<u>\$ 171,064</u>	



City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
General Fund by Department  
Year Ended December 31, 2012

	General Operations Department	Rescue Squad Department	Fire Department	Total General Fund
<b>Receipts</b>				
Property taxes	\$ 347,451	\$ 5,850	\$ 10,654	\$ 363,955
Licenses and permits	10,978	-	-	10,978
Intergovernmental	300,259	-	15,036	315,295
Interest earnings	452	-	-	452
Charges for services	100,980	2,550	23,309	126,839
Fine and forfeits	30,785	-	-	30,785
Miscellaneous	46,558	100	9,325	55,983
Total receipts	<u>837,463</u>	<u>8,500</u>	<u>58,324</u>	<u>904,287</u>
<b>Disbursements</b>				
<b>Current</b>				
General government	402,563	-	-	402,563
Public safety	184,683	3,136	42,595	230,414
Streets and parks	59,352	-	-	59,352
Sanitation	90,123	-	-	90,123
Community center	9,204	-	-	9,204
<b>Debt service</b>				
Principal	17,014	-	-	17,014
Interest and other charges	14,746	-	-	14,746
Total disbursements	<u>777,685</u>	<u>3,136</u>	<u>42,595</u>	<u>823,416</u>
<b>Excess of Receipts</b>				
Over Disbursements	59,778	5,364	15,729	80,871
<b>Other Financing Sources (Uses)</b>				
Tax anticipation bond proceeds	200,000	-	-	200,000
Tax anticipation principal payments	(100,000)	-	-	(100,000)
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
<b>Net Change in Cash</b>				
Basis Fund Balances	159,778	5,364	15,729	180,871
<b>Cash Basis Fund Balance</b>				
(Deficit) - Beginning	<u>(149,776)</u>	<u>24,366</u>	<u>115,603</u>	<u>(9,807)</u>
<b>Cash Basis Fund Balance - Ending</b>	<u>\$ 10,002</u>	<u>\$ 29,730</u>	<u>\$ 131,332</u>	<u>\$ 171,064</u>

City of Glyndon, Minnesota  
Schedule of Accounts Receivable  
December 31, 2012

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Utility Customers	Utilities	\$ 12,498
Clay County	Special Assessments and Taxes	<u>23,527</u>
		<u>\$ 36,025</u>



City of Glyndon, Minnesota  
Schedule of Accounts Payable  
December 31, 2012

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Fuchs Sanitation	Recycles charges	\$ 6,019
Midwest Regional Development	TIF Payment	62,393
Railroad MGMT Company	Land Rent License	2,994
Xcel Energy	Utilities	3,703
Heiman Fire Equipment	Equipment	4,425
Alex Air Apparatus	Bunkers	15,895
		<hr/>
		\$ 95,429
		<hr/> <hr/>



Additional Reports  
December 31, 2012

# City of Glyndon, Minnesota

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and the *Minnesota Legal Compliance Audit Guide***

The Honorable Mayor, City Council, and Clerk Treasurer  
City of Glyndon, 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, the business-type activities, each major fund, and the aggregate remaining fund of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 13, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 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 over financial reporting 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 (as discussed below), we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies 12-1, 12-2, 12-3 and 12-4 described in the accompanying schedule of findings to be 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 deficiencies 12-5 and 12-6 described in the accompanying schedule of audit findings to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Minnesota Legal Compliance**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide* for Local Government, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* 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 study included all of the listed categories. The results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

## **Response to Findings**

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

## **Purpose of 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.



Fargo, North Dakota  
May 13, 2013

## Material Weakness

### 12-1 Segregation of Duties

**Condition** – The City has a lack of segregation of duties due to a limited staff.

**Criteria or Specific Requirement** – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

**Effect** – Inadequate segregation of duties could adversely affect the City’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause** – There is a limited number of office employees involved in the internal control process.

**Recommendation** – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

**Management’s Response** – Due to cost constraints, there will be no further administrative employees added.

### Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the Council’s review of the draft financial statements, accompanying notes and review and approval of the monthly expenses.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – None. See #1 above.
4. Planned Completion Date for the Corrective Action – None. See #1 above.
5. Plan to Monitor Completion of Corrective Action – None. See #1 above.

## Material Weakness

### 12-2 Preparation of Financial Statements

**Condition** – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City’s financial statements and accompanying notes to the financial statements. This included formulating the proposal of necessary adjusting journal entries to convert the proprietary fund from cash to accrual basis form of accounting.

**Criteria or Specific Requirement** – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements, and the ability to internally prepare their financial statements.

**Effect** – The financial disclosures in the financial statements could be incomplete.

**Cause** – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

**Recommendation** – This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Management’s Response** – Due to cost constraints, the City will continue to have the auditors draft the financial statements and accompanying notes to the financial statements, including the proposal of adjusting journal entries to convert the proprietary fund from cash to accrual basis form of accounting.

### Corrective Action Plan (CAP)

1. Actions Planned in Response to the Finding – No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – None. See #1 above.
4. Planned Completion Date for the Corrective Action – None. See #1 above.
5. Plan to Monitor Completion of Corrective Action – None. See #1 above.

## Material Weakness

### 12-3 Significant Journal Entries

**Condition** – During the course of our engagement, we proposed numerous material audit adjustments that would not have been identified as a result of the City’s existing internal controls, and therefore could have resulted in a material misstatement of the City’s financial statements.

**Criteria or Specific Requirement** – A good system of internal accounting control involves sufficient training of personnel to foster an adequate system for recording and processing entries material to the financial statements. In addition, a good system also involves adequate oversight by the Council.

**Effect** – This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

**Cause** – The City does not have an internal control system designed to identify all necessary adjustments.

**Recommendation** – The accounting staff and Council or council member should attend training and/or consult with a professional to identify and correct the inadequacies.

**Management’s Response** – The City will make an effort to review and reconcile all accounts in future years.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Management and Council will make an effort to identify and correct the inadequacies.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Cecil Johnson, Mayor, is responsible for ensuring corrective action plan of the material weakness.
4. Planned Completion Date for the Corrective Action – December 31, 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will ensure that the proper training and/or consulting is obtained to identify and correct the inadequacies.

**Material Weakness**

**12-4 Correction of an Error for Special Assessments Receivable**

**Condition** – During the course of our engagement, we noted that the uncertified special assessments were not previously recorded in the Sewer Fund.

**Criteria or Specific Requirement** – A good system of internal accounting control contemplates adequate review of the account balances to ensure proper recording.

**Effect** – This control deficiency resulted in a material misstatement to the financial statements that was not prevented or detected.

**Cause** – The City does not have an internal control system designed to identify all necessary balances to be recorded.

**Recommendation** – Management and council members need to be more diligent in review of the City's accounts and ensure adequate documentation is obtained to properly record amounts.

**Management's Response** – The City will make an effort to properly record special assessment going forward.

**Corrective Action Plan (CAP)**

1. Action Planned in Response to the Finding – Management and Council will make an effort to identify and correct the inadequacies.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Cecil Johnson, Mayor, is responsible for ensuring corrective action plan of the material weakness.
4. Planned Completion Date for the Corrective Action – December 31, 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.



## Significant Deficiency

### 12-5 Deficit and Excess Cash Balances of Debt Service Funds

**Condition** – The City has several general obligation special assessment improvement bonds. Of these, two of the bonds have cash in excess of the outstanding debt and two of the bonds are in cash deficit.

**Criteria or Specific Requirement** – A good system of internal accounting controls contemplates an adequate system for properly levying special assessment to ensure an excess or deficit cash balance does not exist after repayment of bond principal.

**Effect** – The control deficiency could result in improper collection of special assessments (excess cash balances) or additional cash burden on the general fund (deficit cash balance).

**Cause** – Management and council members have not been properly monitoring the collection of special assessments.

**Recommendation** – Management and council members need to determine the requirements to ensure the proper handling of excess cash balances for general obligation special assessment improvement bonds and ensure proper collection of bonds in deficit cash balance.

**Management's Response** – Beginning in 2013 the City is taking action to ensure proper handling for excess cash balances according to bond documents. City staff is working with the County Auditor and the City's bond attorney to ensure the proper amount of special assessments are being assessed for all bonds. Internal controls have been implemented to ensure all revenues are properly allocated to the specified fund.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Management will ensure proper handling for excess cash balances according to bond documents and ensure the proper amount of specials are being assessed for bonds in cash deficit balance.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Cecil Johnson, Mayor, is responsible for ensuring corrective action plan of the significant deficiency.
4. Planned Completion Date for the Corrective Action – December 31, 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

**Significant Deficiency**

**12-6 Purchase Orders**

**Condition** – The City has in place a purchase order policy to foster a good system of internal controls that requires specific documentation and approval prior to a purchase being initiated.

**Criteria or Specific Requirement** – A good system of internal accounting control contemplates an adequate system for approving purchases and the subsequent receipt and payment.

**Effect** – The control deficiency could result in improper purchases and/or misallocation of the expense to the correct fund.

**Cause** – Proper documentation and approval was not obtained prior to purchase.

**Recommendation** – The City needs to enforce the policy to insure there is adequate internal control in place.

**Management's Response** – The City will communicate the importance of the policy and ensure the policy is being followed.

**Corrective Action Plan (CAP)**

1. Action Planned in Response to the Finding – Management will make an effort to review the purchase orders as a part of the cash disbursement process.
2. Explanation of Disagreement – There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action – Cecil Johnson, Mayor, is responsible for ensuring corrective action plan of the significant deficiency.
4. Planned Completion Date for the Corrective Action – December 31, 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the review of the purchase orders.