



Financial Statements
December 31, 2013

City of Glyndon, Minnesota

City of Glyndon, Minnesota
Table of Contents
December 31, 2013

Elected and Appointed Officials (Unaudited) 1

Independent Auditor’s Report 2

Basic Financial Statements

 Government-Wide Financial Statements

 Statement of Net Position 4

 Statement of Activities 5

 Fund Financial Statements

 Government Funds 6

 Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis 6

 7 Proprietary Funds

 Statement of Net Position 8

 Statement of Changes in Net Position 9

 Statement of Cash Flows 9

 10 Notes to Financial Statements 11

Other Supplementary Information

 Budgetary Comparison Schedule, General Fund – Cash Basis 23

 Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis (Nonmajor
 Governmental Funds) 24

 Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis (General Fund by

Department)
25 Schedule of Accounts Receivable 26
.....
Schedule of Accounts Payable
27

Additional Reports

Independent Auditors 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 28
Report on *Minnesota Legal Compliance*
30
Schedule of Audit Findings
31

City of Glyndon, Minnesota
Elected and Appointed Officials (Unaudited)
December 31, 2013

Name	Position	Term Expires <u>December 31,</u>
Council		
Cecil Johnson	Mayor	2016
Chris Jensen	Council Member	2016
Joe Olson	Council Member	2016
David Owings	Council Member	2014
Roger Wyland	Council Member	2014
Officials		
Pam Ness (resigned effective 11/1/13)	Clerk Treasurer	
Denise Anderson (appointed effective 11/1/13)	Clerk Treasurer	
Michael Cline	Chief of Police	



Independent Auditor's Report

The Honorable Mayor,
City Council and Clerk Treasurer

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, 2013, 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.

www.eidebailly.com

4310 17th Ave. S. | P.O. Box 2545 | Fargo, ND 58108-2545 | T 701.239.8500 | F 701.239.8600 | EOE

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, 2013, 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.

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, statement of receipts, disbursements, and changes in fund balances – cash basis (nonmajor governmental funds), statement 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 statement of receipts, disbursements, and changes in fund balances – cash basis (nonmajor governmental funds), statement of receipts, disbursements, changes in fund balance – cash basis (general fund, by department), schedule of accounts receivable, and schedule of accounts payable 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 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 Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2014 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.



Fargo, North Dakota May
12, 2014

City of Glyndon, Minnesota
Statement of Net Position
December 31, 2013

	Governmental	
	Activities - Cash Basis	Business-Type Activities
	<u> </u>	<u> </u>
Assets		
Cash and investments	\$ 434,143	\$ 294,412
Accounts receivable	-	,140 59
Special assessments receivable	-	118,070
Capital assets, net of accumulated depreciation	<u>-</u>	<u>,724,895 1</u>
Total assets	<u>\$ 434,143</u>	<u>,196,517\$ 2</u>
Liabilities and Net Position		
Liabilities		
Current liabilities		
Accounts payable	\$ -	\$ 405
Accrued interest	-	,398 7
Noncurrent liabilities		
Due within one year	-	93,000
Due in more than one year	-	1,275,105
Total liabilities	<u>-</u>	<u>,375,908 1</u>
Net Position		
Net investment in capital assets	-	366,824
Restricted	732,980	-
Unrestricted	(298,837)	453,785
Total net position	<u>434,143</u>	<u>820,609</u>
Total liabilities and net position	<u>\$ 434,143</u>	<u>,196,517\$ 2</u>

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

City of Glyndon, Minnesota
Statement of Activities
Year Ended December 31, 2013

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
Primary Government					
Governmental activities - cash basis:					
General government	\$ 441,205	,339\$ 73	\$ -	\$ (367,866)	\$ -
Public safety	257,633	22,866	34,130	(200,637)	-
Sanitation	,208 98	116,577	-	,369 18	-
Streets and highways	,748 21	-	-	(21,748)	-
Culture and recreation	,124 11	-	-	(11,124)	-
Debt service	378,901	-	-	(378,901)	-
TIF repayments	126,358	-	-	(126,358)	-
Total governmental activities - cash basis	<u>,335,177 1</u>	<u>212,782</u>	<u>,130 34</u>	<u>,088,265 (1)</u>	<u>-</u>
Business-type activities					
Water	176,979	241,575	-	-	,596 64
Sewer	204,207	330,233	1,213	-	127,239
Total business-type activities	<u>381,186</u>	<u>571,808</u>	<u>,213 1</u>	<u>-</u>	<u>191,835</u>
General revenues					
Property taxes				439,296	684
Licenses, permits, fines, and forfeitures				,136 58	-
Intergovernmental				318,550	-
TIF increments				126,219	-
Interest earnings				259	-
Tax anticipation bond payments, net				(100,000)	-
Equipment loan proceeds				35,137	-
Miscellaneous				77,285	3,500
Total general revenues	<u>954,882</u>	4,184	Change in net position (133,383)	196,019	Net position - beginning
of year	<u>567,526</u>	624,590			
Net position - end of year				<u>\$ 434,143</u>	<u>\$ 820,609</u>

City of Glyndon, Minnesota

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

	General	Special Revenue Fund Centennial Addition
	<u> </u>	<u> </u>
Receipts		
Property taxes	\$ 283,341	\$ -
Special assessments	-	-
Licenses and permits	,538 20	-
Intergovernmental	352,680	-
Charges for services	139,443	-
Fines and forfeits	37,598	-
TIF increments	-	1
Interest earnings	259	26,219
Miscellaneous	<u>77,285</u>	-
Total receipts	<u>911,144</u>	<u>126,219</u>
Disbursements		
Current		
General government	441,205	-
Public safety	257,633	-
Streets and highways	,748 21	-
Sanitation	98,208	-
Culture and recreation	,124 11	-
Debt service		
Principal	10,527	-
Interest and other charges	,999 11	-
TIF repayments	-	<u>1</u>
		<u>26,358</u>

Total disbursements	<u>852,444</u>	<u>126,358</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	,700 58	(139)
Other Financing Sources (Uses)		
Tax anticipation bond proceeds	100,000	-
Tax anticipation principal payments	(200,000)	-
Equipment loan proceeds	<u>,137 35</u>	<u>-</u>
Total other financing sources (uses)	<u>(64,863)</u>	<u>-</u>
Net Change in Cash Basis Fund Balances	,163) (6	(139)
Cash Basis Fund Balances (Deficit) - Beginning	<u>171,064</u>	<u>109,867</u>
Cash Basis Fund Balances (Deficit) - Ending	<u>\$ 164,901</u>	<u>\$ 109,728</u>

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

Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2013

<u>2000 Economic Development</u>	<u>Debt Service Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>2001 Economic Development</u>	<u>2002 Economic Development</u>		
\$ -	\$ 155,955	\$ -	\$ -	\$ 439,296
	6,442	30,263	73,339	1
-	-	-	,538	20
-	-	-	352,680	-
-	-	-	139,443	-
-	-	,598	37	-
-	126,219	-	-	-
-	259	-	-	-
<u>1</u>	<u>162,397</u>	<u>30,263</u>	<u>36,633</u>	<u>1,266,657</u>
-	-	-	441,205	-
-	-	-	257,633	-
-	-	,748	21	-
-	-	-	,208	98
-	-	-	,124	11

City of Glyndon, Minnesota

12,000	16,848	40,000	210,000	289,375	2,040	481
12,885	62,121	89,526	-	-	126,358	-
-	-	-	-	-	-	-
<u>14,040</u>	<u>17,329</u>	<u>52,885</u>	<u>272,121</u>	<u>1,335,177</u>		
(14,039)	145,068	(22,622)	(235,488)	(68,520)		
-	-	-	-	100,000		
-	-	-	-	(200,000)		
-	-	-	137	35		
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64,863)</u>		
(14,039)	145,068	(22,622)	(235,488)	(133,383)		
<u>179,315</u>	<u>180,262</u>	<u>155,268</u>	<u>(228,250)</u>	<u>567,526</u>		
<u>\$ 165,276</u>	<u>\$ 325,330</u>	<u>\$ 132,646</u>	<u>\$ (463,738)</u>	<u>\$ 434,143</u>		

	Special Revenue Fund	
	Centennial General	Addition
Cash Basis Assets - End of Year		
Cash and investments (deficit)	<u>\$ 164,901</u>	<u>\$ 109,728</u>
Cash Basis Fund Balances		
Restricted for TIF repayments	\$ -	\$ 109,728

Restricted for capital projects	-	-
Restricted for debt service	-	-
Unassigned	164,901	-
	<u>164,901</u>	<u>109,728</u>
	<u>\$ 164,901</u>	<u>\$ 109,728</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, 2013

2000 Economic Development	Debt Service Funds		Other Governmental Funds	Total Governmental Funds
	2001 Economic Development	2002 Economic Development		
\$ 165,276	\$ 325,330	\$ 132,646	\$ (463,738)	\$ 434,143
\$ -	- \$ 132,646	- \$ -	- \$ 109,728	-
325,330	-	-	132,646	165,276
-	-	-	490,606	-
-	-	-	(463,738)	(298,837)
<u>\$ 165,276</u>	<u>\$ 325,330</u>	<u>\$ 132,646</u>	<u>\$ (463,738)</u>	<u>\$ 434,143</u>

City of Glyndon, Minnesota

Water		Sewer		Total	
Statement of Net Position					
Proprietary Funds					
December 31, 2013					
		Sewer		Total	
<hr/>					
Assets					
Current Assets					
Cash and investments	\$ 181,240	\$ 113,172		\$ 294,412	
Accounts receivable	23,880	35,260		,140	59
Special assessments receivable, current portion	-	19,587		,587	19
Total current assets	<u>205,120</u>	<u>168,019</u>		<u>373,139</u>	
Noncurrent Assets					
Water plant and tower	918,829	1,187,663		2,106,492	
Accumulated depreciation	(310,125)	(71,472)		(381,597)	
Total noncurrent assets	<u>608,704</u>	<u>,116,191</u>	<u>1</u>	<u>,724,895</u>	<u>1</u>
Special assessments receivable, net of					
current portion	-	,483	98	,483	98
Total assets	<u>\$ 813,824</u>	<u>,382,693</u>	<u>\$ 1</u>	<u>,196,517</u>	<u>\$ 2</u>
<hr/>					
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 193	\$ 212		\$ 405	
Accrued interest	,785	,613	3	,398	7
Current portion of long-term debt	44,000	49,000		,000	93
Total current liabilities	<u>,978</u>	<u>,825</u>	<u>52</u>	<u>100,803</u>	
Noncurrent Liabilities					
Accrued compensated absences	5,017	5,017		,034	10
Long-term debt, net of current portion	396,071	869,000		,265,071	1
Total noncurrent liabilities	<u>401,088</u>	<u>874,017</u>		<u>,275,105</u>	<u>1</u>
Total liabilities	<u>449,066</u>	<u>926,842</u>		<u>,375,908</u>	<u>1</u>
Net Position					
Net investment in capital assets	168,633	198,191		366,824	
Unrestricted	196,125	257,660		453,785	
Total net position	364,758	455,851		820,609	

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

City of Glyndon, Minnesota

Water			
Total liabilities and net position	\$ 813,824	,382,693	\$ 1,196,517
		1	2

Statement of Changes in Net Position Proprietary Funds Year Ended December 31, 2013			
		Sewer	Total
Operating Revenue			
Sales	\$ 241,575	\$ 330,233	\$ 571,808
Operating Expenses			
Cost of sales and services	46,488	68,887	115,375
Administration	100,988	100,840	201,828
Depreciation	18,377	23,754	42,131
Total operating expenses	<u>165,853</u>	<u>193,481</u>	<u>359,334</u>
Operating Income	,722 75	136,752	212,474
Nonoperating Revenue (Expense)			
General property taxes	-	684	684
Special assessments interest received	-	1,213	,213 1
Interest income	1,536	1,964	,500 3
Interest expense	(11,126)	(10,726)	(21,852)
Total nonoperating revenue (expense)	<u>,590) (9</u>	<u>,865) (6</u>	<u>(16,455)</u>
Change in Net Position	,132 66	129,887	196,019
Net Position - Beginning	<u>298,626</u>	<u>325,964</u>	<u>624,590</u>
Net Position - Ending	<u>\$ 364,758</u>	<u>\$ 455,851</u>	<u>\$ 820,609</u>

Statement of Cash Flows Proprietary Funds Year Ended December 31, 2013			
		Sewer	Total
Operating Activities			
Receipts from customers	\$ 243,155	\$ 321,157	\$ 564,312

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

	Water				
Payments to suppliers	(46,295)		(68,675)		(114,970)
Payments to employees	(99,300)		(99,152)		(198,452)
Net cash from operating activities	<u>,560</u>	<u>97</u>	<u>153,330</u>		<u>250,890</u>
Non-Capital Financing Activity					
Receipt of property taxes	-		684		684
Capital and Related Financing Activities					
Principal payments on debt	(43,000)		(70,517)		(113,517)
Interest paid on debt	(11,497)		(10,920)		(22,417)
Special assessments received	-		,496	19	,496 19
Interest received	,536	1	,964	1	,500 3
Net cash used for capital and related financing activities	<u>(52,961)</u>		<u>(59,977)</u>		<u>(112,938)</u>
Change in Cash and Investments	<u>,599</u>	<u>44</u>	<u>,037</u>	<u>94</u>	<u>138,636</u>
Cash and Investments Balance, Beginning	<u>136,641</u>		<u>,135</u>	<u>19</u>	<u>155,776</u>
Cash and Investments Balance, Ending	<u>\$ 181,240</u>		<u>\$ 113,172</u>		<u>\$ 294,412</u>
Reconciliation of Operating Income to					
Net Cash from Operating Activities					
Operating income	,722	\$ 75	\$ 136,752		\$ 212,474
Adjustments to reconcile operating income to					
net cash from operating activities					
Depreciation	,377	18	,754	23	,131 42
Changes in assets and liabilities					
Accounts receivable	,580	1	,076)	(9	,496) (7
Accounts payable		193		212	405
Accrued compensated absences	,688	1	,688	1	,376 3
Net cash from operating activities	<u>,560</u>	<u>\$ 97</u>	<u>\$ 153,330</u>		<u>\$ 250,890</u>

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.

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.

With respect to both the business-type activities in the government-wide financial statements and the proprietary fund financial statements the City has adopted GASB statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”

Amounts reported as program revenues 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. Revenues that do not meet the previous criteria are reported as general revenues, 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 revenues 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, 2013.

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

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 - Legal Compliance

Deficit Fund Equity

As of December 31, 2013, the following funds have deficit fund balances: 1998 Street Improvements Fund \$188,877; Drainage Improvements \$9,007; and Stockwood Improvements Fund \$265,854. 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. To address the deficits in the Drainage Improvement Fund and Stockwood Improvements Fund, the property taxes levied on the affected property will continue to be attempted to be collected.

Note 3 - Deposits and Investments

Deposits

December 31, 2013

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, 2013, 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, 2013:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Not Applicable	< 1
Certificates of deposit	,124\$ 64	\$ -	,124\$ 64
Deposits	664,431	664,431	-
	\$ 728,555	\$ 664,431	\$ 64,124

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

Balance

City of Glyndon, Minnesota
Notes to Financial Statements

December 31, 2013

	12/31/12	Additions	Retirements	12/31/13
Capital assets, being depreciated				
Sewer project	,187,663\$ 1	\$ -	\$ -	,187,663\$ 1
Water plant and tower	<u>918,829</u>	-	-	918,829
Total capital assets, being depreciated	<u>,106,492 2</u>	<u>,106,492 2</u>	-	-
Less accumulated depreciation				
Sewer project	,718 47	,754 23	-	,472 71
Water plant and tower	<u>291,748</u>	<u>,377 18</u>	-	310,125
Total accumulated depreciation	<u>339,466 42</u>	<u>339,466 131</u>	42	381,597
Total capital assets, being depreciated, net	<u>,767,026\$ 1</u>	<u>\$ (42,131)</u>	<u>\$ -</u>	<u>,724,895\$ 1</u>

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

Water	\$ 18,377
Sewer	
	<u>23,754</u>
	<u>\$ 42,131</u>

Note 5 - City Indebtedness

Changes in long-term debt were as follows:

	Balance 12/31/12	Additions	Retired	Balance 12/31/13	Balance Due Within One Year
Governmental activities					
Notes payable	\$ -	,137\$ 35	\$ -	,137\$ 35	,896\$ 6
Governmental lease/ purchase agreement	189,406	-	,527 10	178,879	,093 11
General obligation improvement bonds	,700,000 1	-	135,000	,565,000 1	150,000
Special assessment improvement bonds	<u>283,848</u>	-	143,848	<u>140,000</u>	125,000

City of Glyndon, Minnesota
Notes to Financial Statements

December 31, 2013

Governmental activities

long-term debt	,173,254\$	2	,137\$	35	\$ 289,375	,919,016\$	1	\$ <u>292,989</u>
----------------	------------	---	--------	----	------------	------------	---	----------------------

Business-type activities

General obligation revenue notes	,471,588\$	1	\$	-	\$ 113,517,358,071\$	1,000\$	93	
Compensated absences	,658	6	,376	3	-	,034	10	-
<hr/>								
Business-type activities long-term debt	,478,246\$	1	,376\$	3	\$ 113,517,368,105\$	1,000\$	93	

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

	Debt Service	Original	Maturity	Interest	Balance	
Governmental activities						
Notes payable						
Capital equipment	General	,137\$ 35	2018	4.50	,137\$ <u>35</u>	
Governmental lease/purchase agreement	General	250,000	2025	5.25	178,879	
	Fund	Amount	Date	Rate		12/31/13
General obligation improvement bonds						
	2002					
	Economic					
2004A	Development	630,000	2019	1.85 - 4.15	295,000	
	2007					
	Improvements	,415,000 1	2025	3.85-4.45	,195,000 1	
	Drainage					
2010	Improvements	135,000	2016	0.80 - 2.50	,000 75	
Total general obligation improvement bonds					<u>1,565,000</u>	
General obligation special assessment improvement bonds						
	1998 Street					
Centennial and sewer improvement	Improvements	,150,000 1	2014	4.10 - 4.90	115,000	
	2000					
	Economic					
Street and sewer improvements	Development	175,000	2016	5.50 - 6.00	,000 25	
Total assessment improvement bonds					<u>140,000</u>	
Total governmental activities					<u>\$ 1,919,016</u>	
	Debt Service	Original	Maturity	Interest	Balance	

City of Glyndon, Minnesota
Notes to Financial Statements

December 31, 2013

Business-type activities						
General obligation revenue bonds						
Clean water revolving fund	Sewer	,170,000	1	2030	1.089	918,000
Drinking water revolving fund	Water	867,071		2022	2.38	440,071
	Fund	Amount		Date	Rate	<u>12/31/13</u>
Total business-type activities						<u>\$ 1,358,071</u>

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

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 292,989	\$ 76,098	\$ 93,000	\$ 20,471
2014	178,408	66,542	95,000	18,889
2015	184,348	58,954	98,000	17,274
2016	160,341	51,911	99,000	15,601
2017	160,811	45,120	101,000	13,902
2018 - 2022	660,254	134,751	473,071	,947 42
2023 - 2027	281,865	,945 12	282,000	,659 15
2028 - 2030	<u>-</u>	<u>-</u>	<u>117,000</u>	<u>,917 1</u>
	<u>\$ 1,919,016</u>	<u>\$ 446,321</u>	<u>\$ 1,358,071</u>	<u>\$ 146,660</u>

Notes Payable

In 2013, the City issued capital equipment notes for purchasing equipment. It is a five year note, has a fixed rate at December 31, 2013 of 4.5% and has monthly payments of \$655.64.

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 October of 2012 and April 2013 with a value of \$100,000 each. The certificates bear interest at a rate of 2.0 percent. Both of the certificates were repaid in full as of December 31, 2013. Interest and fiscal charges on the aid anticipation certificates for the year ended December 31, 2013 in the General Fund totaled \$2,311.

Balance			Balance
12/31/12	Additions	Deletions	12/31/13
\$ 100,000	\$ 100,000	\$ 200,000	\$ -

Note 7 - Defined Benefit Pension Plans - Statewide

Plan Description

All full-time and certain part-time employees of the City of Glyndon, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), 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.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. 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 GERF 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 GERF, PEPFF, and PECF. 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 1800-652-9026.

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. GERF 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 GERF members, 7.25% for Coordinated Plan GERF 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, 2013, 2012, and 2011 were \$35,984, \$29,340, and \$32,168, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 8 - 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.



Other Supplementary Information
December 31, 2013

City of Glyndon, Minnesota

Budgetary Comparison Schedule, General Fund – Cash Basis
Year Ended December 31, 2013

	Original and Final Budget	Actual Amounts	Variance with Final Budget
	<u> </u>	<u> </u>	<u> </u>
Receipts			
Property taxes	\$ 283,030	\$ 283,341	\$ 311
Licenses and permits	,875 7	,538 20	,663 12
Intergovernmental	323,428	352,680	,252 29
Charges for services	166,027	139,443	(26,584)
Interest earnings	600	259	(341)
Fines and forfeits	,750 32	,598 37	,848 4
Miscellaneous	,161 52	,285 77	,124 25
Total receipts	<u>865,871</u>	<u>911,144</u>	<u>,273 45</u>
Disbursements			
General government	531,364	441,205	,159 90
Public safety	247,467	257,633	(10,166)
Streets and parks	,221 31	,748 21	,473 9
Sanitation	,714 90	,208 98	,494) (7
Community Center	8,940	,124 11	,184) (2
Debt service:			
Principal	20,215	,527 10	,688 9
Interest and fees	-	,999 11	(11,999)
Total disbursements	<u>929,921</u>	<u>852,444</u>	<u>,477 77</u>
Excess (Deficiency) of Receipts			
Over (Under) Disbursements	(64,050)	,700 58	(32,204)
Other Financing Sources (Uses)			

City of Glyndon, Minnesota

Tax anticipation bond proceeds	100,000		100,000	-
Tax anticipation principal payments	(100,200)		(200,000)	(99,800)
Equipment loan proceeds	-		,137 35	<u>,137 35</u>
Total other financing sources			<u> </u>	<u> </u>
(uses)				
(200)	(64,863)	(64,663)	<u>\$ (64,250)</u>	<u>,163 (6) \$ (96,867)</u>
Net Change in Cash Basis Fund Balances				<u>171,064</u>
Cash Basis Fund Deficit - Beginning				<u>\$ 164,901</u>
Cash Basis Fund Balance - Ending				

Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Nonmajor Governmental Funds
Year Ended December 31, 2013

	Debt Service Funds			Total Other
	1998 Street Drainage Improvements	Stockwood Improvements	Governmental Funds	Improvements
Receipts				
Special assessments	<u>.808\$ 22</u>	<u>.924\$ 11</u>	<u>.901\$ 1</u>	<u>.633\$ 36</u>
Disbursements				
Debt service				
Principal	115,000	20,000	75,000	210,000
Interest and other charges	<u>8,855</u>	<u>931</u>	<u>52,335</u>	<u>.121 62</u>
Total disbursements	<u>123,855</u>	<u>.931 20</u>	<u>127,335</u>	<u>272,121</u>
Deficiency of Receipts				
Under Disbursements	(101,047)	,007) (9	(125,434)	(235,488)
Cash Basis Fund Deficit - Beginning	<u>(87,830)</u>	<u>-</u>	<u>(140,420)</u>	<u>(228,250)</u>
Cash Basis Fund Deficit - Ending	<u>\$ (188,877)</u>	<u>.007)\$ (9</u>	<u>\$ (265,854)</u>	<u>\$ (463,738)</u>

	Debt Service Funds			Total Other
	1998 Street Drainage Improvements	Stockwood Improvements	Governmental Funds	Improvements
Cash Basis Assets - End of Year				
Cash and investments (deficit)	<u>\$ (188,877)</u>	<u>.007)\$ (9</u>	<u>\$ (265,854)</u>	<u>\$ (463,738)</u>
Cash Basis Fund Deficit				
Unassigned	<u>\$ (188,877)</u>	<u>.007)\$ (9</u>	<u>\$ (265,854)</u>	<u>\$ (463,738)</u>

Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
 General Fund by Department
 Year Ended December 31, 2013

	General		Rescue		Fire		Total		
	Operations		Squad		Department		General Fund		
	Department		Department		Department		Department		
Receipts									
Property taxes	\$ 262,778		,419\$	8	,144\$	12	\$ 283,341		
Licenses and permits	,538	20		-		-	,538	20	
Intergovernmental		308,716		-		43,964		352,680	
Interest earnings		259		-		-		259	
Charges for services		134,728		-	,715	4		139,443	
Fine and forfeits	,598	37		-		-	,598	37	
Miscellaneous	,895	76		200		190	,285	77	
Total receipts	<u>841,512</u>		<u>,619</u>	<u>8</u>	<u>,013</u>	<u>61</u>	<u>911,144</u>		
Disbursements									
Current									
General government		441,205		-		-		441,205	
Public safety		195,967		11,254		50,412		257,633	
Streets and parks	,748	21		-		-	,748	21	
Sanitation	,208	98		-		-	,208	98	
Community center		11,124		-		-		11,124	
Debt service									
Principal	,527	10		-		-	,527	10	
Interest and other charges	,999	11		-		-	,999	11	
Total disbursements	<u>790,778</u>		<u>,254</u>	<u>11</u>	<u>,412</u>	<u>50</u>	<u>852,444</u>		
Excess (Deficiency) of Receipts									
Over (Under) Disbursements	,734	50	,635)	(2	,601	10	,700	58	
Other Financing Sources (Uses)									
Tax anticipation bond proceeds		100,000		-		-		100,000	
Tax anticipation principal payments		(200,000)		-		-		(200,000)	
Equipment loan proceeds	,137	35		-		-	,137	35	
Total other financing sources (uses)	<u>(64,863)</u>			<u>-</u>		<u>(64,863)</u>			
Net Change in Cash									
Basis Fund Balances		(14,129)		,635)	(2	,601	10	,163)	(6
Cash Basis Fund Balance									
Beginning	<u>,002</u>	<u>10</u>	<u>,730</u>	<u>29</u>		131,332		171,064	

City of Glyndon, Minnesota

Cash Basis Fund Balance

(Deficit) - Ending	<u>.127</u> \$ (4	<u>.095</u> \$ 27	\$ <u>141,933</u>	\$ <u>164,901</u>
--------------------	-------------------	-------------------	-------------------	-------------------

Schedule of Accounts Receivable
December 31, 2013

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Utility Customers	Utilities	,344\$
		15
Clay County	Special Assessments and Taxes	<u>.134</u> 27
		\$ <u>42,478</u>

City of Glyndon, Minnesota
Schedule of Accounts Payable
December 31, 2013

Fund and Source	Purpose	Amount
General Fund		
Glyndon Firefighters Relief	Fire aid	<u>.067\$</u> <u>9</u>



Additional Reports December
31, 2013

City of Glyndon, Minnesota



Independent Auditors 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*

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, 2013, 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 12, 2014.

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 2013-A and 2013-B 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 2013-C, 2013-D, 2013-E, and 2013-F described in the accompanying schedule of audit findings to be significant deficiencies. www.eidebailly.com

4310 17th Ave. S. | P.O. Box 2545 | Fargo, ND 58108-2545 | T 701.239.8500 | F 701.239.8600 | EOE

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*.

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.

Eide Bailly LLP

Fargo, North Dakota May
12, 2014



Report on *Minnesota Legal Compliance*

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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2014.

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

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

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

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

Fargo, North Dakota May
12, 2014

www.eidebailly.com

4310 17th Ave. S. | P.O. Box 2545 | Fargo, ND 58108-2545 | T 701.239.8500 | F 701.239.8600 | EOE

Material Weakness

2013-A 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

2013-B 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, 2013.

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.

Significant Deficiency

2013-C 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.

Criteria or Specific Requirement – A good system of internal accounting control contemplates 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.

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.

Significant Deficiency

2013-D Deficit and Excess Cash Balances of Debt Service Funds

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

Significant Deficiency

4. Planned Completion Date for the Corrective Action – December 31, 2013.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

2013-E 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, 2013.

Significant Deficiency

5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the review of the purchase orders.

2013-F Lack of Proper Oversight with regards to Cash and Cash Reconciliation

Condition – During the course of our engagement we noted instances where cash did not reconcile. We also noted instances of several accounts confirmed with the bank that were not being recorded on the City’s records.

Criteria or Specific Requirement – A good system of internal accounting control contemplates an adequate system for reconciling cash.

Effect – The 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 indemnify errors in proper cash reconciliation and recording.

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, reconcile, and record all cash 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 significant deficiency.
4. Planned Completion Date for the Corrective Action – December 31, 2013.

Significant Deficiency

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.