



Financial Statements  
December 31, 2011

# City of Glyndon, Minnesota

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City of Glyndon, Minnesota  
Elected and Appointed Officials (Unaudited)  
December 31, 2011

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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, 2012
Joe Schreiber	Council Member	December 31, 2012
David Owings	Council Member	December 31, 2014
Rodger Wyland	Council Member	December 31, 2014
Officials		
Pam Ness	Clerk Treasurer	
Michael Cline	Chief of Police	
Ken Norman	City Attorney	
Denise Anderson	Deputy Clerk	



## Independent Auditor's Report

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the aforementioned financial statements were prepared on the cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, except for the proprietary funds which are presented in accordance with accounting principles generally accepted in the United States of America.

The City did not maintain adequate accounting records for its delinquent accounts receivable in the business type activities, Water Fund, Sewer Fund, and the Storm Water Utility Fund. Accounting principles generally accepted in the United States of America require that an adequate balance be recorded for delinquent accounts receivable, less an adequate allowance, which would increase the assets and net assets and change the revenues in the business-type activities, Water Fund, Sewer Fund, and the Storm Water Utility Fund.

The City did not maintain adequate accounting records for its compensated absences payable in the business type activities, Water Fund, and Sewer Fund. Accounting principles generally accepted in the United States of America require that an accurate accrual be recorded for compensated absences, which would increase the liabilities, decrease the net assets and change the expenses in the business-type activities, Water Fund, and Sewer Fund.

The amount by which these departures described in the preceding two paragraphs would affect the assets, liabilities, net assets, revenues, and expenses of the business type activities, Water Fund, Sewer Fund, and Storm Water Utility Fund is not readily determinable.

In our opinion, except for the effects described in the preceding three paragraphs for the business type activities, Water Fund, Sewer Fund, and Storm Water Utility Fund, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, Water Fund, Sewer Fund, and Storm Water Utility Fund of the City, as of December 31, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Centennial Addition Fund, 2000 Economic Development Fund, 2001 Economic Development Fund, 2002 Economic Development Fund, Sewer/Street Lights Fund, Stockwood Improvements Fund, and the aggregate remaining fund information of the City, as of December 31, 2011, and the respective changes in financial position on the cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. As discussed in Note 9 to the financial statements, the City presented a retroactive restatement of the previously reported fund balances.

Previous to 2011, the City had prepared the Storm Water Utility Fund on the cash basis, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As discussed in Note 9 to the financial statements, the 2011 financial statements have been retrospectively adjusted to reflect the change in basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The listing of elected and appointed officials, budgetary comparison schedule, combining schedules, and schedules of accounts receivable and accounts payable are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedule, combining schedules, and schedules of accounts receivable and 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 taken 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 them.

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 15, 2012

City of Glyndon, Minnesota  
Statement of Net Assets  
December 31, 2011

	<u>Governmental Activities - Cash Basis</u>	<u>Business-Type Activities</u>
<b>Assets</b>		
Cash and investments	\$ 464,912	\$ 96,904
Accounts receivable	-	43,162
Capital assets, net of accumulated depreciation	-	1,809,155
Total assets	<u>\$ 464,912</u>	<u>\$ 1,949,221</u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ -	\$ 47,823
Accrued interest	-	8,991
Noncurrent liabilities		
Due within one year	-	137,243
Due in more than one year	-	1,472,262
Total liabilities	<u>-</u>	<u>1,666,319</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	-	207,209
Restricted	564,870	-
Unrestricted	(99,958)	75,693
Total net assets	<u>464,912</u>	<u>282,902</u>
Total liabilities and net assets	<u>\$ 464,912</u>	<u>\$ 1,949,221</u>

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities - cash basis:			
General government	\$ 167,480	\$ 146,279	\$ -
Public safety	273,527	54,258	11,348
Sanitation	69,881	88,012	-
Streets and highways	130,872	-	-
Culture and recreation	16,770	-	-
Debt service	376,330	-	-
Capital outlay	6,492	-	-
TIF repayments	106,717	-	-
Insurance	42,018	-	-
Recycling center	23,605	-	-
Total governmental activities - cash basis	<u>1,213,692</u>	<u>288,549</u>	<u>11,348</u>
Business-type activities			
Water	168,003	221,824	-
Sewer	140,380	133,893	348
Storm water utility	47,079	46,027	-
Total business-type activities	<u>355,462</u>	<u>401,744</u>	<u>348</u>
General revenues			
Property taxes			
Licenses, permits, fines, and forfeitures			
Intergovernmental			
TIF increments			
Interest earnings			
Miscellaneous			
Total general revenues			
Change in net assets			
Net assets - beginning of year			
Net assets - end of year			

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



City of Glyndon, Minnesota  
Statement of Activities  
Year Ended December 31, 2011

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities - Cash Basis	Business-Type Activities
\$ (21,201)	\$ -
(207,921)	-
18,131	-
(130,872)	-
(16,770)	-
(376,330)	-
(6,492)	-
(106,717)	-
(42,018)	-
(23,605)	-
(913,795)	-
-	53,821
-	(6,139)
-	(1,052)
-	46,630
317,644	38,545
48,998	-
327,599	-
118,575	-
14,779	-
24,947	8,532
852,542	47,077
(61,253)	93,707
526,165	189,195
\$ 464,912	\$ 282,902

	General	Special Revenue Fund Centennial Addition
Receipts		
Property taxes	\$ 217,409	\$ -
Special assessments	18,021	-
Licenses and permits	17,814	-
Intergovernmental	332,768	-
Charges for services	142,270	-
Fines and forfeits	31,184	-
TIF increments	-	118,575
Interest earnings	14,779	-
Miscellaneous	24,947	-
Total receipts	<u>799,192</u>	<u>118,575</u>
Disbursements		
Current		
General government	167,480	-
Public safety	273,527	-
Streets and highways	130,872	-
Sanitation	69,881	-
Culture and recreation	16,770	-
Insurance	42,018	-
Recycling center	23,605	-
Capital outlay	6,492	-
Debt service		
Principal	18,506	-
Interest and other charges	1,718	-
TIF repayments	-	106,717
Total disbursements	<u>750,869</u>	<u>106,717</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	48,323	11,858
Other Financing Sources (Uses)		
Transfers in	211,188	-
Transfers out	<u>(211,188)</u>	<u>-</u>
	-	-
Net Change in Cash Basis Fund Balances	48,323	11,858
Cash Basis Fund Balances (Deficit) - Beginning, as Restated	<u>(58,130)</u>	<u>46,289</u>
Cash Basis Fund Balances (Deficit) - Ending	<u>\$ (9,807)</u>	<u>\$ 58,147</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, 2011

Debt Service Funds					Other	Total
2000 Economic Development	2001 Economic Development	2002 Economic Development	Sewer/Street Lights	Stockwood Improvements	Governmental Funds	Governmental Funds
\$ 10,673	\$ -	\$ -	\$ 1,659	\$ -	\$ 87,903	\$ 317,644
16,061	16,191	76,352	182	1,901	17,571	146,279
-	-	-	-	-	-	17,814
-	-	-	114	-	6,065	338,947
-	-	-	-	-	-	142,270
-	-	-	-	-	-	31,184
-	-	-	-	-	-	118,575
-	-	-	-	-	-	14,779
-	-	-	-	-	-	24,947
<u>26,734</u>	<u>16,191</u>	<u>76,352</u>	<u>1,955</u>	<u>1,901</u>	<u>111,539</u>	<u>1,152,439</u>
-	-	-	-	-	-	167,480
-	-	-	-	-	-	273,527
-	-	-	-	-	-	130,872
-	-	-	-	-	-	69,881
-	-	-	-	-	-	16,770
-	-	-	-	-	-	42,018
-	-	-	-	-	-	23,605
-	-	-	-	-	-	6,492
12,000	5,128	40,000	30,000	70,000	100,000	275,634
3,480	1,672	15,465	919	57,583	19,859	100,696
-	-	-	-	-	-	106,717
<u>15,480</u>	<u>6,800</u>	<u>55,465</u>	<u>30,919</u>	<u>127,583</u>	<u>119,859</u>	<u>1,213,692</u>
11,254	9,391	20,887	(28,964)	(125,682)	(8,320)	(61,253)
-	-	-	-	-	211,188	422,376
-	-	-	(211,188)	-	-	(422,376)
-	-	-	(211,188)	-	211,188	-
11,254	9,391	20,887	(240,152)	(125,682)	202,868	(61,253)
<u>178,250</u>	<u>132,401</u>	<u>154,540</u>	<u>240,152</u>	<u>113,153</u>	<u>(280,490)</u>	<u>526,165</u>
<u>\$ 189,504</u>	<u>\$ 141,792</u>	<u>\$ 175,427</u>	<u>\$ -</u>	<u>\$ (12,529)</u>	<u>\$ (77,622)</u>	<u>\$ 464,912</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)	\$ (9,807)	\$ 58,147
Cash Basis Fund Balances		
Restricted for TIF repayments	\$ -	\$ 58,147
Restricted for capital projects	-	-
Restricted for debt service	-	-
Unassigned	(9,807)	-
	<u>\$ (9,807)</u>	<u>\$ 58,147</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, 2011

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<u>2000 Economic Development</u>	<u>2001 Economic Development</u>	<u>Debt Service Funds 2002 Economic Development</u>	<u>Sewer/Street Lights</u>	<u>Stockwood Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 189,504	\$ 141,792	\$ 175,427	\$ -	\$ (12,529)	\$ (77,622)	\$ 464,912
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,147
189,504	141,792	175,427	-	-	-	175,427
-	-	-	-	(12,529)	(77,622)	(99,958)
<u>\$ 189,504</u>	<u>\$ 141,792</u>	<u>\$ 175,427</u>	<u>\$ -</u>	<u>\$ (12,529)</u>	<u>\$ (77,622)</u>	<u>\$ 464,912</u>

City of Glyndon, Minnesota  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

	Water	Sewer	Storm Water Utility	Total
Assets				
Current Assets				
Cash and investments	\$ 16,518	\$ 77,824	\$ 2,562	\$ 96,904
Accounts receivable	23,681	14,663	4,818	43,162
Total current assets	40,199	92,487	7,380	140,066
Noncurrent Assets				
Water plant and tower	918,829	1,187,663	-	2,106,492
Accumulated depreciation	(273,372)	(23,965)	-	(297,337)
Total noncurrent assets	645,457	1,163,698	-	1,809,155
Total assets	\$ 685,656	\$ 1,256,185	\$ 7,380	\$ 1,949,221
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 1,919	\$ 45,904	\$ -	\$ 47,823
Accrued interest	4,166	4,825	-	8,991
Current portion of long-term debt	42,000	95,243	-	137,243
Total current liabilities	48,085	145,972	-	194,057
Noncurrent Liabilities				
Accrued compensated absences	7,559	-	-	7,559
Long-term debt, net of current portion	483,071	981,632	-	1,464,703
Total noncurrent liabilities	490,630	981,632	-	1,472,262
Total liabilities	538,715	1,127,604	-	1,666,319
Net Assets				
Invested in capital assets, net of related debt	120,386	86,823	-	207,209
Unrestricted	26,555	41,758	7,380	75,693
Total net assets	146,941	128,581	7,380	282,902
Total liabilities and net assets	\$ 685,656	\$ 1,256,185	\$ 7,380	\$ 1,949,221

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

City of Glyndon, Minnesota  
Statement of Changes in Net Assets  
Proprietary Funds  
Year Ended December 31, 2011

	Water	Sewer	Storm Water Utility	Total
Operating Revenue				
Sales	\$ 221,824	\$ 133,893	\$ 46,027	\$ 401,744
Operating Expenses				
Cost of sales and services	52,444	14,044	47,079	113,567
Administration	84,033	100,764	-	184,797
Depreciation	18,377	20,541	-	38,918
Total operating expenses	154,854	135,349	47,079	337,282
Net Operating Income (Loss)	66,970	(1,456)	(1,052)	64,462
Nonoperating Revenue (Expense)				
General property taxes	12,385	12,455	13,705	38,545
Special assessments received, including interest	-	348	-	348
Interest income	-	8,532	-	8,532
Interest expense	(13,149)	(5,031)	-	(18,180)
Total nonoperating revenue (expense)	(764)	16,304	13,705	29,245
Change in Net Assets	66,206	14,848	12,653	93,707
Net Assets (Deficit) - Beginning, as Restated	80,735	113,733	(5,273)	189,195
Net Assets - Ending	\$ 146,941	\$ 128,581	\$ 7,380	\$ 282,902

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

City of Glyndon, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2011

	Water	Sewer	Storm Water Utility	Total
<b>Operating Activities</b>				
Receipts from customers	\$ 222,748	\$ 131,054	\$ 45,557	\$ 399,359
Payments to suppliers	(56,406)	(12,952)	(47,079)	(116,437)
Payments to employees	(84,033)	(100,764)	-	(184,797)
Net cash from (used for) operating activities	<u>82,309</u>	<u>17,338</u>	<u>(1,522)</u>	<u>98,125</u>
<b>Investing Activity</b>				
Purchase of property and equipment	-	(160,592)	-	(160,592)
<b>Non-Capital Financing Activities</b>				
Receipt of property taxes	12,385	12,455	13,705	38,545
Change in interfund balances	(23,702)	23,702	-	-
Net cash from (used for) non-capital financing activities	<u>(11,317)</u>	<u>36,157</u>	<u>13,705</u>	<u>38,545</u>
<b>Capital and Related Financing Activities</b>				
Principal payments on debt	(41,000)	(93,746)	-	(134,746)
Interest paid on debt	(13,474)	(6,627)	-	(20,101)
Proceeds from issuance of long-term debt	-	160,694	-	160,694
Special assessments received	-	348	-	348
Interest received	-	8,532	-	8,532
Net cash from (used for) capital and related financing activities	<u>(54,474)</u>	<u>69,201</u>	<u>-</u>	<u>14,727</u>
Change in Cash and Investments	16,518	(37,896)	12,183	(9,195)
Cash and Investments Balance, Beginning	-	115,720	(9,621)	106,099
Cash and Investments Balance, Ending	<u>\$ 16,518</u>	<u>\$ 77,824</u>	<u>\$ 2,562</u>	<u>\$ 96,904</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities</b>				
Operating income (loss)	\$ 66,970	\$ (1,456)	\$ (1,052)	\$ 64,462
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities				
Depreciation	18,377	20,541	-	38,918
Changes in assets and liabilities				
Accounts receivable	924	(2,839)	(470)	(2,385)
Accounts payable	(3,962)	1,092	-	(2,870)
Net cash from (used for) operating activities	<u>\$ 82,309</u>	<u>\$ 17,338</u>	<u>\$ (1,522)</u>	<u>\$ 98,125</u>

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



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

### **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 assets 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**

The City has changed accounting policies due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement redefines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds.

Governmental fund 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 fund's schedules of accounts receivable and accounts payable are displayed separately.

The proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 improvements debt service.

**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.

**Sewer and Street Lights** – The City accounts for cash receipts and disbursements relating to the City's sewer and street lights 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 assessment payment to the County each year relating to improvements that the County made to the storm water system.

With respect to the proprietary fund activities, 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-sector pronouncements, 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-sector pronouncements issued after November 30, 1989.

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 proprietary fund is charges to customers for sales and services. Operating expenses for the proprietary fund includes 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.

## **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, 2011.

### **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**

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

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.

### **Net Assets**

Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bond or debt that are attributable to the acquisition, construction, or improvements of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

### **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, 2011, the following funds have deficit fund balances: General Fund \$9,807; Stockwood Improvements Fund \$12,529; 1998 Street Improvements Fund \$25,457; and Drainage Improvements Fund \$52,165. The deficit in the General Fund will be addressed during the 2012 budget planning process by budgeting receipts of \$867,846 over disbursements of \$824,259 to reduce the deficit fund balance. The remaining deficit 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 a continued effort to collect adequate property taxes will be enacted. To address the deficit in the Drainage Improvements Construction Fund, the City will be completing a sewer improvement in the summer of 2012. At that time special assessments will be adopted to service the debt and the sewer rate 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 depository banks and brokerages authorized by the City Council, all of which are covered by Federal Depository Insurance.

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of the collateral pledged must be equal to or greater than 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 various times throughout the year, deposits were not fully insured or collateralized. At December 31, 2011, deposits were fully insured or collateralized by securities held by the City's agent in the City's name.

### **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.

The following are considered the most significant risks associated with deposits and investments:

- 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.

The following table presents the City's deposit and investment balances at December 31, 2011:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	5 - 10	+ 10
Asset backed securities	\$ 2,713	\$ -	\$ -	\$ -	\$ 1,999	\$ 714
Mutual funds	5,555	5,555	-	-	-	-
Preferred securities	9,277	-	-	-	-	9,277
Certificates of deposit	64,113	-	64,113	-	-	-
Money market	28,425	28,425	-	-	-	-
Deposits	451,733	451,733	-	-	-	-
	<u>\$ 561,816</u>	<u>\$ 485,713</u>	<u>\$ 64,113</u>	<u>\$ -</u>	<u>\$ 1,999</u>	<u>\$ 9,991</u>

### Credit Risk – Investments

State statutes authorize investments in U.S. treasuries, U.S. agencies, state and municipal bonds, 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. The City has no investment policy that would further limit its investment choices. As of December 31, 2011, the City's investments do not consist of the aforementioned securities and are not rated.

### Note 4 - Capital Assets

	Balance 12/31/10	Additions	Retirements	Balance 12/31/11
Capital assets, being depreciated				
Sewer project	\$ 1,027,071	\$ 160,592	\$ -	\$ 1,187,663
Water plant and tower	918,829	-	-	918,829
Total capital assets, being depreciated	<u>1,945,900</u>	<u>160,592</u>	<u>-</u>	<u>2,106,492</u>
Less accumulated depreciation				
Sewer project	3,424	20,541	-	23,965
Water plant and tower	254,995	18,377	-	273,372
Total accumulated depreciation	<u>258,419</u>	<u>38,918</u>	<u>-</u>	<u>297,337</u>
Total capital assets, being depreciated, net	<u>\$ 1,687,481</u>	<u>\$ 121,674</u>	<u>\$ -</u>	<u>\$ 1,809,155</u>

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

Water	\$ 18,377
Sewer	20,541
	<u>\$ 38,918</u>

**Note 5 - City Indebtedness**

Changes in long-term debt were as follows:

	Balance 12/31/10	Additions	Retired	Balance 12/31/11	Balance Due Within One Year
<b>Governmental activities</b>					
Notes payable	\$ 15,874	\$ -	\$ 7,594	\$ 8,280	\$ 8,280
Governmental lease/ purchase agreement	209,045	-	10,905	198,140	9,990
General obligation improvement bonds	1,965,000	-	130,000	1,835,000	135,000
Special assessment improvement bonds	518,959	-	127,135	391,824	107,976
Governmental activities long-term debt	<u>\$ 2,708,878</u>	<u>\$ -</u>	<u>\$ 275,634</u>	<u>\$ 2,433,244</u>	<u>\$ 261,246</u>
<b>Business-type activities</b>					
General obligation revenue notes	\$ 1,575,998	\$ 160,694	\$ 134,746	\$ 1,601,946	\$ 137,243
Compensated absences	7,559	-	-	7,559	-
Business-type activities long-term debt	<u>\$ 1,583,557</u>	<u>\$ 160,694</u>	<u>\$ 134,746</u>	<u>\$ 1,609,505</u>	<u>\$ 137,243</u>

The following is a summary of long-term debt as of December 31, 2011:

	Debt Service Fund	Original Amount	Maturity Date	Interest Rate	Balance 12/31/11
<b>Governmental activities</b>					
Notes payable					
Capital equipment	General	\$ 36,000	2012	5.90	<u>\$ 8,280</u>
Governmental lease/purchase agreement	General	250,000	2025	5.25	<u>198,140</u>
<b>General obligation improvement bonds</b>					
2004A	2002 Economic Development	630,000	2019	1.85 - 4.15	375,000
2007	Improvements Drainage	1,415,000	2025	3.85-4.45	1,345,000
2010	Improvements	135,000	2016	0.80 - 2.50	115,000
Total general obligation improvement bonds					<u>1,835,000</u>
<b>General obligation special assessment improvement bonds</b>					
Centennial and sewer improvement	1998 Street Improvements	1,150,000	2014	4.10 - 4.90	315,000
Street improvements	2001 Economic Development	105,000	2013	5.50	27,824
Street and sewer improvements	2000 Economic Development	175,000	2016	5.50 - 6.00	49,000
Total assessment improvement bonds					<u>391,824</u>
Total governmental activities					<u>\$ 2,433,244</u>



City of Glyndon, Minnesota  
Notes to Financial Statements  
December 31, 2011

	Debt Service Fund	Original Amount	Maturity Date	Interest Rate	Balance 12/31/11
Business-type activities					
General obligation revenue bonds					
Wastewater treatment facility	Sewer	\$ 671,323	2013	3.64	\$ 63,463
Clean water revolving fund	Sewer	1,170,000	2030	1.089	1,013,412
Drinking water revolving fund	Water	867,071	2022	2.38	<u>525,071</u>
Total business-type activities					<u>\$ 1,601,946</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>
2012	\$ 261,246	\$ 98,405	\$ 137,243	\$ 33,922
2013	289,384	87,497	118,220	23,470
2014	286,093	74,470	98,000	21,473
2015	171,689	65,095	100,000	19,837
2016	177,318	58,115	103,000	18,167
2017 - 2021	707,271	193,761	485,000	61,834
2022 - 2026	540,243	47,030	409,071	27,671
2027 - 2030	-	-	151,412	27,671
	<u>\$ 2,433,244</u>	<u>\$ 624,373</u>	<u>\$ 1,601,946</u>	<u>\$ 234,045</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 October 20, 2011 with a value of \$200,000 at an interest rate of 2.0 percent. The certificates were repaid in full as of December 31, 2011. Interest and fiscal charges on the aid anticipation certificates for the year ended December 31, 2011 in the General Fund totaled \$789.

Balance 12/31/10	Additions	Deletions	Balance 12/31/11
\$ -	\$ 200,000	\$ 200,000	\$ -

**Note 7 - Interfund Transfers**

During the year ended December 31, 2011, the bonds were paid off in the Sewer/Street Lights fund and the remaining cash basis fund balance of \$211,188 was transferred to the General Fund. The General Fund then transferred \$211,188 to the 1998 Street Improvements Fund to partially address the deficit in that fund. These transfers were done in accordance with the City Council's plan to address the deficit approved in May 2011.

**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 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. 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, 2011, 2010, and 2009 were \$32,168, \$32,361, and \$31,488, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**Note 9 - Restatement of Fund Balances and Net Assets**

The beginning fund balances of the General Fund, Rescue Squad Fund, and Fire Fund have been restated in order to reflect the reclassification of certain funds from the Special Revenue fund type in accordance with the revised definitions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The effect on beginning fund balance presented is as follows:

	General	Rescue Squad	Fire
Beginning of year cash basis fund balances, as previously reported	\$ (171,624)	\$ 17,483	\$ 96,011
Reclassification of funds	113,494	(17,483)	(96,011)
Beginning of year cash basis fund balances, as restated	\$ (58,130)	\$ -	\$ -

The beginning net assets in the Storm Water Utility Fund have been restated in order to reflect the change from cash to accrual basis. The effect on beginning net assets presented is as follows:

	Storm Water Utility
Beginning of year net assets, as previously reported	\$ (9,621)
Restatement effect	4,348
Beginning of year net assets, as restated	\$ (5,273)

**Note 10 - 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 11 - Subsequent Events**

The City entered into a capital lease arrangement for a vehicle on January 4, 2012. The lease agreement calls for five annual payments of \$6,885 with the first payment being made in January 2012.

On March 13, 2012, 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 October 1, 2012.



Other Supplementary Information  
December 31, 2011

## City of Glyndon, Minnesota

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule, General Fund – Cash Basis  
 Year Ended December 31, 2011

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Receipts</b>			
Property taxes	\$ 242,906	\$ 217,409	\$ 25,497
Special assessments	11,000	18,021	(7,021)
Licenses and permits	14,710	17,814	(3,104)
Intergovernmental	355,598	332,768	22,830
Charges for services	116,420	142,270	(25,850)
Interest earnings	12,000	14,779	(2,779)
Fines and forfeits	30,000	31,184	(1,184)
Miscellaneous	19,981	24,947	(4,966)
Total receipts	<u>802,615</u>	<u>799,192</u>	<u>3,423</u>
<b>Disbursements</b>			
General government	144,063	167,480	(23,417)
Public safety	247,433	273,527	(26,094)
Highways and streets	137,327	130,872	6,455
Sanitation	81,468	69,881	11,587
Culture and recreation	27,350	16,770	10,580
Insurance	43,500	42,018	1,482
Recycling center	47,080	23,605	23,475
Debt service:			
Principal	17,075	18,506	(1,431)
Interest and fees	936	1,718	(782)
Capital outlay	13,992	6,492	7,500
Total disbursements	<u>760,224</u>	<u>750,869</u>	<u>9,355</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	42,391	48,323	(5,932)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	211,188	211,188
Transfers out	-	(211,188)	(211,188)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash Basis Fund Balances	<u>\$ 42,391</u>	48,323	<u>\$ (5,932)</u>
Cash Basis Fund Deficit - Beginning		<u>(58,130)</u>	
Cash Basis Fund Deficit - Ending		<u>\$ (9,807)</u>	

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Nonmajor Governmental Funds  
Year Ended December 31, 2011

	Debt Service Funds		Total Other Governmental Funds
	1998 Street Improvements	Drainage Improvements	
Receipts			
Property taxes	\$ 87,903	\$ -	\$ 87,903
Special assessments	3,631	13,940	17,571
Intergovernmental	6,065	-	6,065
Total receipts	<u>97,599</u>	<u>13,940</u>	<u>111,539</u>
Disbursements			
Debt service			
Principal	80,000	20,000	100,000
Interest and other charges	17,255	2,604	19,859
Total disbursements	<u>97,255</u>	<u>22,604</u>	<u>119,859</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	344	(8,664)	(8,320)
Other Financing Sources			
Transfers in	211,188	-	211,188
Net Change in Cash Basis Fund Deficit	211,532	(8,664)	202,868
Cash Basis Fund Deficit - Beginning	<u>(236,989)</u>	<u>(43,501)</u>	<u>(280,490)</u>
Cash Basis Fund Deficit - Ending	<u>\$ (25,457)</u>	<u>\$ (52,165)</u>	<u>\$ (77,622)</u>
Cash Basis Assets - End of Year			
Cash and investments (deficit)	<u>\$ (25,457)</u>	<u>\$ (52,165)</u>	<u>\$ (77,622)</u>
Cash Basis Fund Deficit Unassigned	<u>\$ (25,457)</u>	<u>\$ (52,165)</u>	<u>\$ (77,622)</u>

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
General Fund by Department  
Year Ended December 31, 2011

	General Operations Department	Rescue Squad Department	Fire Department	Total General Fund
<b>Receipts</b>				
Property taxes	\$ 207,740	\$ 5,173	\$ 4,496	\$ 217,409
Special assessments	18,021	-	-	18,021
Licenses and permits	17,814	-	-	17,814
Intergovernmental	331,362	299	1,107	332,768
Interest earnings	14,774	-	5	14,779
Charges for services	98,048	4,080	40,142	142,270
Fine and forfeits	31,184	-	-	31,184
Miscellaneous	23,098	1,160	689	24,947
Total receipts	<u>742,041</u>	<u>10,712</u>	<u>46,439</u>	<u>799,192</u>
<b>Disbursements</b>				
Current				
General government	167,480	-	-	167,480
Public safety	243,932	3,829	25,766	273,527
Streets and highways	130,872	-	-	130,872
Sanitation	69,881	-	-	69,881
Culture and recreation	16,770	-	-	16,770
Insurance	42,018	-	-	42,018
Recycling center	23,605	-	-	23,605
Capital outlay	5,411	-	1,081	6,492
Debt service				
Principal	18,506	-	-	18,506
Interest and other charges	1,718	-	-	1,718
Total disbursements	<u>720,193</u>	<u>3,829</u>	<u>26,847</u>	<u>750,869</u>
Excess of Receipts Over Disbursements	21,848	6,883	19,592	48,323
<b>Other Financing Sources (Uses)</b>				
Transfers in	211,188	-	-	211,188
Transfers out	(211,188)	-	-	(211,188)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Cash</b>				
Basis Fund Balances	21,848	6,883	19,592	48,323
Cash Basis Fund Balance (Deficit) - Beginning	<u>(171,624)</u>	<u>17,483</u>	<u>96,011</u>	<u>(58,130)</u>
Cash Basis Fund Balance (Deficit) - Ending	<u>\$ (149,776)</u>	<u>\$ 24,366</u>	<u>\$ 115,603</u>	<u>\$ (9,807)</u>



City of Glyndon, Minnesota  
Schedule of Accounts Receivable  
December 31, 2011

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Clay County Treasurer	2011 Street allotment	\$ 5,163
State of Minnesota	General property taxes	1,932
Utility Customers	Utilities	<u>8,407</u>
		<u>\$ 15,502</u>

City of Glyndon, Minnesota  
Schedule of Accounts Payable  
December 31, 2011

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Bob's repair	Repairs	\$ 1,507
Fuchs Sanitation	December usage	6,219
Miller, Norman & Associates	Legal fees	3,765
MN Association of small cities	Membership	777
Xcel Energy	December usage	3,578
League of MN Cities	Membership	1,343
Eide Bailly	Audit fees	3,500
		<hr/>
		\$ 20,689
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Additional Reports  
December 31, 2011

# 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 the financial statements of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 15, 2012, which included an explanatory paragraph describing the other comprehensive basis of accounting used by the City. In our report, we qualified opinions for the business-type activities, Water Fund, Sewer Fund, and Storm Water Utility Fund because of the lack of adequate accounting records for its delinquent accounts receivable in the business-type activities, Water Fund, Sewer Fund, and Storm Water Utility Fund; and for its compensated absences payable in the business-type activities, Water Fund, Sewer Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audits, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of audit findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and deficiencies that we consider to be significant deficiencies.

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 deficiencies 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, and 11-7 described in the accompanying schedule of audit 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 deficiencies 11-8, 11-9, and 11-10 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 of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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. Except as reported as finding 11-10 in the accompanying schedule of audit findings, the results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

The City's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



Fargo, North Dakota  
May 15, 2012

## Material Weakness

### 11-1 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

### 11-2 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

### 11-3 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 contemplates an adequate system for recording and processing entries material to the financial statements.

**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** – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

**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 will make an effort to review and reconcile all accounts in future years.
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.



## Material Weakness

### 11-4 Bank Reconciliation Differences

**Condition** – During the course of our engagement, we noted that bank reconciliations had significant differences when compared to the financial statements. In addition, there were several months in which bank reconciliations had not been attempted. This finding has been reported in the past and has not been corrected.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for reconciling material balances to the financial statements.

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not investigating the outstanding items means that errors or other problems might not be recognized and resolved on a timely basis.

**Cause** – The City does not have an internal control system designed to investigate differences between the bank reconciliation and the financial statements.

**Recommendation** – A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors. All differences between the reconciliation and the financial statements should be investigated and resolved on a timely basis.

**Management's Response** – The City created a new database for 2012 with Banyon Accounting Software and are using the software to complete the monthly bank reconciliation.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Management will make an effort to review, reconcile, and investigate any differences in the reconciliation of the cash accounts monthly and in a timely manner.
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 – Implemented effective January 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 11-5 Compensated Absences

**Condition** – During the course of our engagement, we noted that vacation and sick hours in the payroll software were not being tracked appropriately. This finding has been reported in the past and has not been corrected.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for tracking the compensated absences hours of employees.

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not investigating the outstanding hours accrual means that errors or other problems might not be recognized and resolved on a timely basis. Employees that leave the employment of the City could be paid more or less than they are entitled to for vacation hours and severance pay. Without monitoring the accuracy of the compensated absences balance, an employee could accrue more vacation than they are entitled to. The severity of these discrepancies caused us to modify our opinion on the financial statements.

**Cause** – The City does not have an internal control system designed to track the hours for compensated absences of each employee. The payroll software that is used to track vacation hours and sick hours was not being used correctly.

**Recommendation** – All differences between the employee's timesheets and the amount of hours accrued in the payroll software should be investigated and resolved on a timely basis. Management should make an effort to compile an accurate amount of vacation hours and sick hours for each employee. Management should review procedures for reviewing timesheets and recording hours in the payroll software and ensure these procedures are being followed.

**Management's Response** – The City created a new database for 2012 with Banyon Accounting Software and are using the software to record an accurate amount of vacation hours and sick hours for each employee.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to compile an accurate amount of vacation hours and sick hours for each employee.
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 – Implemented effective January 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 11-6 Delinquent Accounts Receivable

**Condition** – During the course of our engagement, we noted that delinquent accounts receivable in the utility software were not being tracked appropriately for the proprietary funds. An accurate listing of delinquent accounts receivable as of December 31, 2011 could not be compiled based on the utility software. This finding has been reported in the past and has not been corrected.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for tracking the delinquent accounts receivable in the proprietary funds.

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not investigating the delinquent accounts receivable means that errors or other problems might not be recognized and resolved on a timely basis. Without an accurate amount of delinquent accounts as of December 31, 2011, the accrual for delinquent accounts receivable in the proprietary funds cannot be recorded. The severity of these discrepancies caused us to modify our opinion on the financial statements.

**Cause** – The City does not have an internal control system designed to track the delinquent accounts receivable in the proprietary funds. The utility software that is used to track delinquent accounts was not being used correctly.

**Recommendation** – Management should make an effort to compile a listing of delinquent accounts receivable. Inactive accounts should be removed from the listing and from the utility software to avoid late fees being charged on inactive accounts. Management should review procedures for reviewing delinquent accounts receivable and recording delinquent accounts in the utility software and ensure these procedures are being followed.

**Management's Response** – Beginning in 2012 the City is using the utility software correctly. A penalty fee of 10% is added to the utility bill if not paid on time. Delinquent accounts are sent to a collection agency or the County Auditor to be added on the owner's property tax statement. Water meters are being read correctly and consistently resulting in an increase in water revenue.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to compile an accurate amount of delinquent accounts receivable for the proprietary funds.
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 – Implemented effective January 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 11-7 ACH Transactions

**Condition** – During the course of our audit, it was noted that several material ACH transactions were not being recorded in the general ledger.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for reconciling material balances to the financial statements.

**Effect** – This failure to properly record transactions caused material omissions of receipts and disbursements from the financial statements for the period ended December 31, 2011. The severity of the omission caused us to modify our opinion on the financial statements.

**Cause** – The City does not have an internal control system designed to perform effective bank reconciliations.

**Recommendation** – A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover ACH transactions. All differences between the reconciliation and the financial statements should be investigated and resolved on a timely basis.

**Management's Response** – The City created a new database for 2012 with Banyon Accounting Software and are using the software to complete the monthly bank reconciliation and to identify ACH transactions.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Management will make an effort to review, reconcile, and investigate any differences in the reconciliation of the cash accounts monthly and in a timely manner.
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 – Implemented effective January 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 11-8 Deficit and Excess Cash Balances of Debt Service Funds

**Condition** – The City has four general obligation special assessment improvement bonds. One of the bonds has 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 2012 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

### 11-9 Payroll Liability Accounts

**Condition** – During the course of our engagement, we noted that the payroll liability accounts were not an accurate representation of the amount owed. Having an inaccurate payroll function means that errors or other problems with payroll might not be recognized and resolved on a timely basis. This finding has been reported in the past and has not been corrected.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for recording payroll liabilities.

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

**Cause** – The City does not have an internal control system designed to account for payroll liabilities.

**Recommendation** – Management should review procedures for paying payroll liabilities and lowering the resulting payable in the general ledger. Management should perform a proper bank reconciliation as of each bank statement date to ensure that all errors are discovered in a timely manner.

**Management's Response** – The City created a new database for 2012 with Banyon Accounting Software and are using the software to record an accurate amount of payroll liabilities. This is supported by the use of the software to complete the monthly bank reconciliation.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to properly account for payroll liabilities and perform a proper bank reconciliation of each bank statement date.
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 – Implemented effective January 2012.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 11-10 Pledged Collateral

**Condition** – 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. The City's deposits were under collateralized at Northwestern Bank by approximately \$65,145 at June 30, 2011.

**Criteria or Specific Requirement** – A good system of internal accounting control contemplates an adequate system for monitoring the requirements of pledged collateral.

**Effect** – The City was not in compliance with Minnesota statutes. Additionally, the noncompliance increases the custodial risk of the City.

**Cause** – As of June 30, 2011, the City's deposits in Northwestern Bank exceeded the FDIC limit and the collateral being held was not adequate to cover the full balance of the deposits.

**Recommendation** – The City needs to periodically review its pledged collateral to ensure compliance.

**Management's Response** – The City will ensure pledged collateral exceeds 110% of deposits not covered by insurance or bonds during the year.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Management will make an effort to review the pledged collateral periodically.
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 pledged collateral.