



Financial Statements  
December 31, 2010

# City of Glyndon, Minnesota

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City of Glyndon, Minnesota  
Elected and Appointed Officials (Unaudited)  
December 31, 2010

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Council		
Cecil Johnson	Mayor	December 31, 2012
Carrie Smith	Council Member	December 31, 2010
Rodney Wirth	Council Member	December 31, 2010
Chris Jensen	Council Member	December 31, 2012
Joe Schreiber	Council Member	December 31, 2012
Officials		
Dave Pederson	Clerk Treasurer	
Michael Cline	Chief of Police	
Ken Norman	City Attorney	



## Independent Auditor's Report

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

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements and schedules are the responsibility of the City's management. 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 *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 opinion.

As described in Note 1, the aforementioned financial statements were prepared on the cash basis of accounting, a comprehensive basis of accounting other than U.S. generally accepted accounting principles, except for the Water Fund and Sewer Fund, which are presented in accordance with U.S. generally accepted accounting principles.

The City did not maintain adequate accounting records for its delinquent accounts receivable in the business type activities, Water Fund, and the Sewer 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, and Sewer Fund.

The City did not maintain adequate accounting records for its compensated absences payable in the business type activities, Water Fund, and the 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 City did not maintain adequate accounting records for its infrastructure assets placed in service prior to 2010 in the business type activities and the Sewer Fund. Accounting principles generally accepted in the United States of America require that infrastructure assets be recorded and depreciated over the useful life of the asset, which would increase the assets and net assets and change the expenses in the business-type activities and Sewer Fund.

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

In our opinion, except for the effects described in the preceding four paragraphs for the business-type activities, Water Fund, and Sewer Fund, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, Water Fund, and Sewer Fund of the City of Glyndon, Minnesota, as of December 31, 2010, and the respective changes in financial position, and cash flows thereof for the year then ended, on the cash basis of accounting, a comprehensive basis of accounting other than U.S. generally accepted accounting principles, except for the Water Fund and Sewer Fund, which are presented in accordance with U.S. generally accepted accounting principles.

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, the General Fund, Centennial Addition Fund, Sewer and Street Lights Fund, 2002 Economic Development Fund, Drainage Improvements Construction Fund, 2000 Economic Development Fund, Storm Water Utility Fund, and the aggregate remaining fund information of the City of Glyndon, Minnesota, as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, on the cash basis of accounting, a comprehensive basis of accounting other than U.S. generally accepted accounting principles, except for the Water Fund and Sewer Fund, which are presented in accordance with U.S. generally accepted accounting principles.

Prior to the year ended December 31, 2009, the City reported the Sewer Fund on the cash basis of accounting as allowed by the Minnesota Office of the State Auditor. As described in Note 9 to the financial statements, the net assets in the Sewer Fund as of December 31, 2009 have been restated in order to report the fund on the accrual basis, as required by the Minnesota Public Facilities Authority loan agreement.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2011, 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.

The budgetary comparison schedule is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Glyndon, Minnesota's basic financial statements. The listing of elected and appointed officials, combining and individual nonmajor fund financial schedules, and schedules of accounts receivable and accounts payable are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial schedules, schedules of accounts receivable and accounts payable, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The listing of elected and appointed officials has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The City of Glyndon has not presented a management's discussion and analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

Fargo, North Dakota  
May 9, 2011

City of Glyndon, Minnesota  
Statement of Net Assets  
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 526,165	\$ 106,099	\$ 632,264
Accounts receivable	-	36,429	36,429
Capital assets, net of accumulated depreciation	-	1,687,481	1,687,481
Total assets	\$ 526,165	\$ 1,830,009	\$ 2,356,174
 <b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ -	\$ 50,693	\$ 50,693
Accrued interest	-	10,912	10,912
Noncurrent liabilities			
Due within one year	-	134,746	134,746
Due in more than one year	-	1,448,811	1,448,811
Total liabilities	-	1,645,162	1,645,162
 <b>Net Assets</b>			
Invested in capital assets, net of related debt	-	111,483	111,483
Restricted	270,313	-	270,313
Unrestricted	255,852	73,364	329,216
Total net assets	526,165	184,847	711,012
Total liabilities and net assets	\$ 526,165	\$ 1,830,009	\$ 2,356,174

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities			
General government	\$ 148,110	\$ 86,198	\$ -
Public safety	303,524	58,320	17,074
Sanitation	68,914	89,837	-
Streets and highways	126,122	-	-
Culture and recreation	16,661	-	-
Debt service	304,770	-	-
Capital outlay	139,279	-	-
TIF repayments	120,274	-	-
Insurance	35,705	-	-
Recycling center	25,979	-	-
Total governmental activities	<u>1,289,338</u>	<u>234,355</u>	<u>17,074</u>
Business-type activities			
Water	176,373	219,830	-
Sewer	111,258	130,255	2,940
Storm water utility	47,016	43,270	-
Total business-type activities	<u>334,647</u>	<u>393,355</u>	<u>2,940</u>
Total Primary Government	<u>\$ 1,623,985</u>	<u>\$ 627,710</u>	<u>\$ 20,014</u>
General revenues			
Property taxes			
Licenses, permits, fines, and forfeitures			
Intergovernmental			
TIF increments			
Interest earnings			
Bond proceeds			
Miscellaneous			
Total general revenues			
Change in net assets			
Net assets - beginning of year, as previously reported			
Restatement - see Note 9			
Net assets - beginning of year, as restated			
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, 2010

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (61,912)	\$ -	\$ (61,912)
(228,130)	-	(228,130)
20,923	-	20,923
(126,122)	-	(126,122)
(16,661)	-	(16,661)
(304,770)	-	(304,770)
(139,279)	-	(139,279)
(120,274)	-	(120,274)
(35,705)	-	(35,705)
(25,979)	-	(25,979)
(1,037,909)	-	(1,037,909)
-	43,457	43,457
-	21,937	21,937
-	(3,746)	(3,746)
-	61,648	61,648
(1,037,909)	61,648	(976,261)
306,383	39,751	346,134
47,334	-	47,334
324,144	-	324,144
121,682	-	121,682
17,153	-	17,153
135,000	-	135,000
33,547	2,355	35,902
985,243	42,106	1,027,349
(52,666)	103,754	51,088
578,831	159,187	738,018
-	(78,094)	(78,094)
578,831	81,093	659,924
\$ 526,165	\$ 184,847	\$ 789,106

	<u>Capital Projects Funds</u>		
	<u>General</u>	<u>Centennial Addition</u>	<u>2002 Economic Development</u>
Assets			
Cash and investments (deficit)	\$ (171,624)	\$ 46,289	\$ 154,540
Fund Balance (Deficit)			
Unreserved, reported in			
General fund	\$ (171,624)	\$ -	\$ -
Special revenue funds	-	-	-
Capital projects	-	46,289	154,540
Reserved for debt service	-	-	-
Total fund balance (deficit)	<u>\$ (171,624)</u>	<u>\$ 46,289</u>	<u>\$ 154,540</u>

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

City of Glyndon, Minnesota  
 Balance Sheet – Cash Basis  
 Governmental Funds  
 December 31, 2010

Debt Service Funds			Other Governmental Funds	Total Governmental Funds
Sewer/Street Lights	Drainage Improvements Construction	2000 Economic Development		
\$ 240,152	\$ (43,501)	\$ 178,250	\$ 122,059	\$ 526,165
\$ -	\$ -	\$ -	\$ -	\$ (171,624)
-	-	-	113,494	113,494
-	-	-	113,153	313,982
240,152	(43,501)	178,250	(104,588)	270,313
\$ 240,152	\$ (43,501)	\$ 178,250	\$ 122,059	\$ 526,165

	Capital Projects Funds		
	General	Centennial Addition	2002 Economic Development
<b>Receipts</b>			
Property taxes	\$ 228,331	\$ -	\$ -
Special assessments	107	-	42,943
Licenses and permits	15,401	-	-
Intergovernmental	327,686	11,081	-
Charges for services	99,874	-	-
Fines and forfeits	31,933	-	-
TIF increments	8,817	112,760	-
Interest earnings	15,915	-	-
Miscellaneous	30,856	-	-
Total receipts	<u>758,920</u>	<u>123,841</u>	<u>42,943</u>
<b>Disbursements</b>			
Current			
General government	148,110	-	-
Public safety	256,956	-	-
Streets and highways	126,122	-	-
Sanitation	68,914	-	-
Culture and recreation	16,661	-	-
Insurance	35,705	-	-
Recycling center	25,979	-	-
Miscellaneous	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	31,671	-	40,000
Interest and other charges	240	-	16,665
TIF repayments	-	120,274	-
Total disbursements	<u>710,358</u>	<u>120,274</u>	<u>56,665</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	48,562	3,567	(13,722)
<b>Other Financing Sources</b>			
Bond proceeds	-	-	-
Net Change in Fund Balances	48,562	3,567	(13,722)
Fund Balances (Deficit) - Beginning	<u>(220,186)</u>	<u>42,722</u>	<u>168,262</u>
Fund Balances (Deficit) - Ending	<u>\$ (171,624)</u>	<u>\$ 46,289</u>	<u>\$ 154,540</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, 2010

Debt Service Funds			Other Governmental Funds	Total Governmental Funds
Sewer/Street Lights	Drainage Improvements Construction	2000 Economic Development		
\$ 30,967	\$ -	\$ -	\$ 47,085	\$ 306,383
-	-	21,066	22,082	86,198
-	-	-	-	15,401
968	-	-	1,483	341,218
-	-	-	48,283	148,157
-	-	-	-	31,933
-	-	105	-	121,682
-	-	-	1,238	17,153
-	-	-	2,691	33,547
<u>31,935</u>	<u>-</u>	<u>21,171</u>	<u>122,862</u>	<u>1,101,672</u>
-	-	-	-	148,110
-	-	-	46,568	303,524
-	-	-	-	126,122
-	-	-	-	68,914
-	-	-	-	16,661
-	-	-	-	35,705
-	-	-	-	25,979
-	-	-	-	-
-	120,977	-	18,302	139,279
25,488	-	12,000	89,848	199,007
875	1,126	4,200	82,657	105,763
-	-	-	-	120,274
<u>26,363</u>	<u>122,103</u>	<u>16,200</u>	<u>237,375</u>	<u>1,289,338</u>
5,572	(122,103)	4,971	(114,513)	(187,666)
<u>-</u>	<u>135,000</u>	<u>-</u>	<u>-</u>	<u>135,000</u>
5,572	12,897	4,971	(114,513)	(52,666)
<u>234,580</u>	<u>(56,398)</u>	<u>173,279</u>	<u>236,572</u>	<u>578,831</u>
<u>\$ 240,152</u>	<u>\$ (43,501)</u>	<u>\$ 178,250</u>	<u>\$ 122,059</u>	<u>\$ 526,165</u>

City of Glyndon, Minnesota  
Statement of Net Assets – Cash Basis –  
Storm Water Utility Proprietary Fund  
December 31, 2010

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	<u>Storm Water Utility</u>
Assets	
Cash and investments (deficit)	<u>\$ (9,621)</u>
Net Deficit	
Unrestricted	<u>\$ (9,621)</u>

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Net Assets – Cash Basis –  
Storm Water Utility Proprietary Fund  
Year Ended December 31, 2010

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	Storm Water Utility
Operating Receipts	
Utility collections	\$ 43,270
Net Operating Income	43,270
Nonoperating Receipts (Disbursements)	
General property tax	14,318
Market value credit	451
Special assessments paid to county	(47,016)
Total nonoperating receipts (disbursements)	(32,247)
Change in Net Assets	11,023
Net Deficit - Beginning	(20,644)
Net Deficit - Ending	\$ (9,621)

City of Glyndon, Minnesota  
Statement of Cash Flows – Cash Basis –  
Storm Water Utility Proprietary Fund  
Year Ended December 31, 2010

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	Storm Water Utility
Operating Activities	
Receipts from customers	\$ 43,270
Non-Capital Financing Activity	
Receipt of property taxes and market value credit	14,769
Capital and Related Financing Activities	
Payments on special assessments	(47,016)
Change in Cash and Investments	11,023
Cash and Investments Deficit, Beginning	(20,644)
Cash and Investments Deficit, Ending	\$ (9,621)

City of Glyndon, Minnesota  
Statement of Net Assets –  
Water and Sewer Proprietary Funds  
December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and investments	\$ -	\$ 115,720	\$ 115,720
Due from other fund	-	23,702	23,702
Accounts receivable	24,605	11,824	36,429
	<u>24,605</u>	<u>151,246</u>	<u>175,851</u>
Total current assets	24,605	151,246	175,851
<b>Noncurrent Assets</b>			
Water plant and tower	918,829	1,027,071	1,945,900
Accumulated depreciation	(254,995)	(3,424)	(258,419)
	<u>663,834</u>	<u>1,023,647</u>	<u>1,687,481</u>
Total noncurrent assets	663,834	1,023,647	1,687,481
Total assets	<u>\$ 688,439</u>	<u>\$ 1,174,893</u>	<u>\$ 1,863,332</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 5,881	\$ 44,812	\$ 50,693
Accrued interest	4,491	6,421	10,912
Due to other fund	23,702	-	23,702
Current portion of long-term debt	41,000	93,746	134,746
	<u>75,074</u>	<u>144,979</u>	<u>220,053</u>
Total current liabilities	75,074	144,979	220,053
<b>Noncurrent Liabilities</b>			
Accrued compensated absences	7,559	-	7,559
Long-term debt, net of current portion	525,071	916,181	1,441,252
	<u>532,630</u>	<u>916,181</u>	<u>1,448,811</u>
Total noncurrent liabilities	532,630	916,181	1,448,811
Total liabilities	<u>607,704</u>	<u>1,061,160</u>	<u>1,668,864</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	97,763	13,720	111,483
Unrestricted	(17,028)	100,013	82,985
	<u>80,735</u>	<u>113,733</u>	<u>194,468</u>
Total net assets	80,735	113,733	194,468
Total liabilities and net assets	<u>\$ 688,439</u>	<u>\$ 1,174,893</u>	<u>\$ 1,863,332</u>

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

City of Glyndon, Minnesota  
Statement of Changes in Net Assets –  
Water and Sewer Proprietary Funds  
Year Ended December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue			
Sales	\$ 219,830	\$ 130,255	\$ 350,085
Operating Expenses			
Cost of sales and services	75,662	22,726	98,388
Administration	77,841	78,076	155,917
Depreciation	18,378	3,424	21,802
Total operating expenses	<u>171,881</u>	<u>104,226</u>	<u>276,107</u>
Net Operating Income	<u>47,949</u>	<u>26,029</u>	<u>73,978</u>
Nonoperating Revenue (Expense)			
General property taxes	-	24,208	24,208
Market value credit	-	774	774
Special assessments received, including interest	-	2,940	2,940
Interest income	2,355	-	2,355
Interest expense	(4,492)	(7,032)	(11,524)
Total nonoperating revenue (expense)	<u>(2,137)</u>	<u>20,890</u>	<u>18,753</u>
Change in Net Assets	45,812	46,919	92,731
Net Assets - Beginning, as Previously Reported	34,923	144,908	179,831
Restatement - see Note 9	<u>-</u>	<u>(78,094)</u>	<u>(78,094)</u>
Net Assets - Beginning, as Restated	<u>34,923</u>	<u>66,814</u>	<u>101,737</u>
Net Assets - Ending	<u>\$ 80,735</u>	<u>\$ 113,733</u>	<u>\$ 194,468</u>

City of Glyndon, Minnesota  
Statement of Cash Flows –  
Water and Sewer Proprietary Funds  
Year Ended December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Activities</b>			
Receipts from customers	\$ 215,515	\$ 132,423	\$ 347,938
Payments to suppliers	(70,511)	22,086	(48,425)
Payments to employees	(77,841)	(78,076)	(155,917)
Net cash from operating activities	<u>67,163</u>	<u>76,433</u>	<u>143,596</u>
<b>Investing Activity</b>			
Purchase of property and equipment	-	(996,864)	(996,864)
<b>Non-Capital Financing Activities</b>			
Receipt of property taxes	-	24,208	24,208
Change in interfund balances	(14,069)	14,069	-
Net cash from (used for) non-capital financing activities	<u>(14,069)</u>	<u>38,277</u>	<u>24,208</u>
<b>Capital and Related Financing Activities</b>			
Principal payments on debt	(41,000)	(39,303)	(80,303)
Interest paid on debt	(14,449)	(2,352)	(16,801)
Proceeds from issuance of long-term debt	-	905,718	905,718
Market value credit received	-	774	774
Special assessments received	-	2,940	2,940
Interest received	2,355	-	2,355
Net cash from (used for) capital and related financing activities	<u>(53,094)</u>	<u>867,777</u>	<u>814,683</u>
Change in Cash and Investments	-	(14,377)	(14,377)
Cash and Investments Balance, Beginning	-	130,097	130,097
Cash and Investments Balance, Ending	<u>\$ -</u>	<u>\$ 115,720</u>	<u>\$ 115,720</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 47,949	\$ 26,029	\$ 73,978
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	18,378	3,424	21,802
Changes in assets and liabilities			
Accounts receivable	(4,315)	2,168	(2,147)
Accounts payable	5,151	44,812	49,963
Net cash from operating activities	<u>\$ 67,163</u>	<u>\$ 76,433</u>	<u>\$ 143,596</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**

Governmental funds and proprietary funds, with the exception of the water and sewer 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.

The water and sewer funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled water and sewer fund utility service receivables are recorded at year-end.

With respect to water and sewer funds, the City has adopted GASB statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements as well as private accounting standards, issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The City 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 to the City.

**Sewer and Street Lights** – The City accounts for cash receipts and disbursements relating to the City’s sewer and street lights.

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

**Drainage Improvements Construction** – The City accounts for cash receipts and disbursements related to the drainage improvements project of 2010 for the City of Glyndon.

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

The City reports the following major proprietary funds:

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

**Sewer Fund** – The City accounts for revenue 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 cash receipts and disbursements 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.

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.

#### **Capital Assets**

Capital assets of the water and sewer 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 water fund and sewer fund 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 water and sewer 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 Balance**

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Undesignated indicates the portion of fund balance that is available for appropriation in future periods.

### **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.

## **Note 2 - Compliance**

### **Deficit Fund Equity**

As of December 31, 2010, the following funds have deficit fund balances: General Fund \$171,624; Storm Water Utility Fund \$9,621; 1998 Street Improvements Fund \$236,989; and Drainage Improvements Construction Fund \$43,501. The deficit in the General Fund will be addressed during the 2012 budget planning process by budgeting receipts of \$763,869 over disbursements of \$726,912 to reduce the deficit fund balance. The remaining deficit will be addressed in future budget planning. Rates have been raised in the Storm Water Utility Fund to continue to address the deficit in that fund. To address the deficit in the 1998 Street Improvements Fund, the fund balance in the Sewer/Street Lights Fund will be transferred to the General Fund in 2011 when the bonds in that fund are paid off. At that time, the amount will be transferred from the General Fund to the 1998 Street Improvements Fund. To address the deficit in the Drainage Improvements Construction Fund, the City will be completing a sewer improvement in the summer of 2011. 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 December 31, 2010, deposits were not fully insured or collateralized by securities held by the City's agent in the City's name. The City was under-collateralized by approximately \$914,000 as of December 31, 2010.

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.

### **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 table presents the City's deposit and investment balances at December 31, 2010:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	< 1	1 - 5	5 - 10	+ 10
Asset backed securities	\$ 3,425	\$ -	\$ -	\$ -	\$ 2,646	\$ 779
Mutual funds	4,083	4,083	-	-	-	-
Preferred securities	9,346	-	-	-	-	9,346
Certificates of deposit	64,105	-	64,105	-	-	-
Money market	28,415	28,415	-	-	-	-
Deposits	522,890	522,890	-	-	-	-
	<u>\$ 632,264</u>	<u>\$ 555,388</u>	<u>\$ 64,105</u>	<u>\$ -</u>	<u>\$ 2,646</u>	<u>\$ 10,125</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, 2010, the City's investments do not consist of the aforementioned securities and are not rated.

### Note 4 - Capital Assets

	Balance 12/31/09	Additions	Retirements	Balance 12/31/10
Capital assets, being depreciated				
Sewer project	\$ 30,207	\$ 996,864	\$ -	\$ 1,027,071
Water plant and tower	918,829	-	-	918,829
Total capital assets, being depreciated	<u>949,036</u>	<u>996,864</u>	<u>-</u>	<u>1,945,900</u>
Less accumulated depreciation				
Sewer project	-	3,424	-	3,424
Water plant and tower	236,617	18,378	-	254,995
Total accumulated depreciation	<u>236,617</u>	<u>21,802</u>	<u>-</u>	<u>258,419</u>
Total capital assets, being depreciated, net	<u>\$ 712,419</u>	<u>\$ 975,062</u>	<u>\$ -</u>	<u>\$ 1,687,481</u>

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

Water	\$	18,378
Sewer		3,424
		<u>21,802</u>
	\$	<u>21,802</u>

**Note 5 - City Indebtedness**

Changes in long-term debt were as follows:

	Balance 12/31/09	Additions	Retired	Balance 12/31/10	Balance Due Within One Year
Governmental activities					
Notes payable	\$ 40,025	\$ -	\$ 24,151	\$ 15,874	\$ 7,594
Governmental lease/ purchase agreement	217,051	-	8,006	209,045	9,480
General obligation improvement bonds	1,870,000	135,000	40,000	1,965,000	130,000
Special assessment improvement bonds	645,809	-	126,850	518,959	132,397
Governmental activities long-term debt	<u>\$ 2,772,885</u>	<u>\$ 135,000</u>	<u>\$ 199,007</u>	<u>\$ 2,708,878</u>	<u>\$ 279,471</u>
Business-type activities					
General obligation revenue notes	\$ 750,583	\$ 905,718	\$ 80,303	\$ 1,575,998	\$ 134,746
Compensated absences	7,559	-	-	7,559	-
Business-type activities long-term debt	<u>\$ 758,142</u>	<u>\$ 905,718</u>	<u>\$ 80,303</u>	<u>\$ 1,583,557</u>	<u>\$ 134,746</u>

City of Glyndon, Minnesota  
Notes to Financial Statements  
December 31, 2010

The following is a summary of long-term debt as of December 31, 2010:

	Debt Service Fund	Original Amount	Maturity Date	Interest Rate	Balance 12/31/10
Governmental activities					
Notes payable					
Capital equipment	General	36,000	2012	5.90	<u>\$ 15,874</u>
Governmental lease/ purchase agreement	General	250,000	2025	5.25	<u>209,045</u>
General obligation improvement bonds					
2004A	2002 Economic Development	630,000	2019	1.85 - 4.15	415,000
2007	2007 Improvements	1,415,000	2025	3.85-4.45	1,415,000
2010	Drainage Improvements Construction	135,000	2016	0.80 - 2.50	<u>135,000</u>
Total general obligation improvement bonds					<u>1,965,000</u>
General obligation special assessment improvement bonds					
2005 refunding bonds	Sewer/Street Lights	180,000	2011	2.25 - 3.25	30,000
Centennial and sewer improvement	1998 Street Improvements	1,150,000	2014	4.10 - 4.90	395,000
Street improvements	2001 Economic Development	105,000	2013	5.50	32,959
Street and sewer improvements	2000 Economic Development	175,000	2016	5.50 - 6.00	<u>61,000</u>
Total assessment improvement bonds					<u>518,959</u>
Total governmental activities					<u>2,708,878</u>
Business-type activities					
General obligation revenue bonds					
Wastewater treatment facility	Sewer	671,323	2013	3.64	104,209
2009 wastewater project	Sewer	905,718	2030	1.089	905,718
Drinking water revolving fund	Water	851,262	2022	2.38	<u>566,071</u>
Total business-type activities					<u>1,575,998</u>
Total long-term debt					<u>\$ 4,284,876</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>
2011	\$ 279,471	\$ 109,385	\$ 134,746	\$ 30,413
2012	261,246	98,405	137,243	26,590
2013	284,115	86,732	118,220	23,470
2014	286,093	74,470	98,000	21,473
2015	171,689	65,095	100,000	19,837
2016 - 2020	763,582	224,861	529,000	73,282
2021 - 2025	662,682	74,046	406,071	30,938
2026 - 2030	-	-	52,718	10,433
	<u>\$ 2,708,878</u>	<u>\$ 732,994</u>	<u>\$ 1,575,998</u>	<u>\$ 236,436</u>

### Notes Payable

In 1999 and 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 - 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 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. 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% for Coordinated Plan PERF members, 14.1% 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, 2010, 2009, and 2008 were \$32,361, \$31,488, and \$28,568, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**Note 7 - Interfund Receivables and Payables**

Interfund receivables/payables are used to record accrued obligations between funds. As of December 31, 2010, the City had the following Due from/to other funds:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Sewer	Water	\$ 23,702

**Note 8 - Reserved and Designated Fund Balances and Restricted Net Assets**

Certain portions of fund balances are reserved because they are not available for appropriation.

As of December 31, 2010, the City had restricted net assets of \$270,313, which represents amounts required to be restricted for debt service.

**Note 9 - Restatement of Fund**

The net assets in the sewer fund as of December 31, 2009 have been decreased by \$78,094 to restate the fund on the accrual basis, as required by the Minnesota Public Facilities Authority loan agreement dated June 28, 2010 for the Clean Water Revolving Fund note payable.

**Note 10 - Construction Commitment**

As of December 31, 2010, the City has \$193,342 in construction commitments to the contractor working on the sewer upgrade project due to remaining work to be completed.

**Note 11 - 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.



Required Supplementary Information  
December 31, 2010

# City of Glyndon, Minnesota

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule – Cash Basis –  
 General Fund  
 Year Ended December 31, 2010  
 (With Comparative Totals for 2009)

	2010		Variance with Final Budget	2009	
	Original and Final Budget	Actual		Actual	Actual
<b>Receipts</b>					
Taxes - general property	\$ 243,029	\$ 228,331	\$ (14,698)	\$ 236,457	
Special assessments	1,200	107	(1,093)	1,163	
Licenses and permits					
Liquor license	4,400	5,410	1,010	4,350	
Building permits	12,000	3,746	(8,254)	15,288	
Non-business - other	6,357	6,245	(112)	6,046	
	<u>22,757</u>	<u>15,401</u>	<u>(7,356)</u>	<u>25,684</u>	
Intergovernmental receipts					
Local government aid	259,159	271,792	12,633	279,860	
Market value credit	6,830	7,072	242	22,651	
County highway aid	5,500	5,447	(53)	5,475	
Sales tax	12,180	11,284	(896)	11,574	
Police relief aid	10,754	17,074	6,320	15,345	
Fire relief aid	12,426	-	(12,426)	9,629	
Federal aid	37,450	-	(37,450)	22,213	
Clay County - recycling money	15,000	15,017	17	11,316	
	<u>359,299</u>	<u>327,686</u>	<u>(31,613)</u>	<u>378,063</u>	
Charges for services					
Garbage collections	92,340	89,837	(2,503)	89,132	
Public safety	5,000	6,479	1,479	7,230	
Other	41,980	3,558	(38,422)	3,366	
	<u>139,320</u>	<u>99,874</u>	<u>(39,446)</u>	<u>99,728</u>	
Fines and forfeits	<u>30,000</u>	<u>31,933</u>	<u>1,933</u>	<u>33,131</u>	
TIF increments	<u>11,000</u>	<u>8,817</u>	<u>(2,183)</u>	<u>11,473</u>	
Miscellaneous					
Interest	11,800	15,915	4,115	14,426	
Community hall rental	3,600	3,868	268	2,982	
Administrative citations	-	225	225	-	
Insurance reimbursement	-	-	-	4,249	
Donations	-	3,572	3,572	-	
Other	16,158	23,191	7,033	8,007	
	<u>31,558</u>	<u>46,771</u>	<u>15,213</u>	<u>29,664</u>	
Total receipts	<u>838,163</u>	<u>758,920</u>	<u>(79,243)</u>	<u>815,363</u>	

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule – Cash Basis –  
 General Fund  
 Year Ended December 31, 2010  
 (With Comparative Totals for 2009)

	2010		Variance with Final Budget	2009
	Original and Final Budget	Actual		Actual
<b>Disbursements</b>				
General government				
Mayor and council				
Salary and benefits	23,387	19,548	3,839	21,567
Other current charges	7,550	3,422	4,128	8,255
	<u>30,937</u>	<u>22,970</u>	<u>7,967</u>	<u>29,822</u>
Finance				
Salary and benefits	33,000	33,026	(26)	32,380
Supplies and telephone	8,400	8,403	(3)	7,794
Other current charges	15,150	12,396	2,754	11,747
	<u>56,550</u>	<u>53,825</u>	<u>2,725</u>	<u>51,921</u>
Assessor	2,200	2,167	33	2,167
Audit and accounting	11,000	10,900	100	10,930
Legal	26,000	36,428	(10,428)	33,543
Debt service	11,220	12,149	(929)	14,303
Contracted service	2,700	5,671	(2,971)	6,415
City hall capital outlay	6,000	-	6,000	-
Other - city hall	3,000	4,000	(1,000)	2,223
	<u>62,120</u>	<u>71,315</u>	<u>(9,195)</u>	<u>69,581</u>
Total general government	<u>149,607</u>	<u>148,110</u>	<u>1,497</u>	<u>151,324</u>
Public safety				
Police protection				
Salary and benefits	137,960	148,702	(10,742)	142,258
Supplies and telephone	8,000	9,682	(1,682)	8,316
Other current charges	63,520	62,702	818	69,653
Capital outlay	2,000	23,564	(21,564)	-
	<u>211,480</u>	<u>244,650</u>	<u>(33,170)</u>	<u>220,227</u>
Miscellaneous public safety				
Personal services	12,426	10,691	1,735	14,375
Fire relief	-	-	-	9,629
Other current charges	-	1,615	(1,615)	393
	<u>12,426</u>	<u>12,306</u>	<u>120</u>	<u>24,397</u>
Total public safety	<u>223,906</u>	<u>256,956</u>	<u>(33,050)</u>	<u>244,624</u>

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule – Cash Basis –  
 General Fund  
 Year Ended December 31, 2010  
 (With Comparative Totals for 2009)

	2010		Variance with Final Budget	2009
	Original and Final Budget	Actual		Actual
Streets and highways				
Maintenance				
Salary and benefits	41,497	44,813	(3,316)	43,378
Other services and charges	74,700	61,528	13,172	129,185
Street lighting	17,000	19,781	(2,781)	20,148
	<u>133,197</u>	<u>126,122</u>	<u>7,075</u>	<u>192,711</u>
Community center				
Electricity and fuel	12,150	10,272	1,878	12,265
Other current charges	7,000	3,790	3,210	7,916
	<u>19,150</u>	<u>14,062</u>	<u>5,088</u>	<u>20,181</u>
Parks and recreation				
Community ed programs	-	-	-	1,908
Other current charges	8,200	2,599	5,601	2,580
	<u>8,200</u>	<u>2,599</u>	<u>5,601</u>	<u>4,488</u>
Sanitation and waste removal	<u>81,468</u>	<u>68,914</u>	<u>12,554</u>	<u>81,678</u>
Miscellaneous				
Insurance	45,620	35,705	9,915	45,641
Bond principal	33,147	31,671	1,476	30,962
Interest expense	2,079	240	1,839	1,175
Recycling center	47,080	25,979	21,101	24,975
	<u>127,926</u>	<u>93,595</u>	<u>34,331</u>	<u>102,753</u>
Total disbursements	<u>743,454</u>	<u>710,358</u>	<u>33,096</u>	<u>797,759</u>
Excess of Receipts over Disbursements	94,709	48,562	(46,147)	17,604
Other Financing Sources (Uses)				
Transfers in (out)	16,158	-	(16,158)	(15,940)
Net Change in Fund Balance (Deficit)	110,867	48,562	(62,305)	1,664
Fund Deficit, Beginning of Year	<u>(220,186)</u>	<u>(220,186)</u>	<u>-</u>	<u>(221,850)</u>
Fund Deficit, End of Year	<u>\$ (109,319)</u>	<u>\$ (171,624)</u>	<u>\$ (62,305)</u>	<u>\$ (220,186)</u>

**Budgets**

Annual budgets are adopted for the general fund, fire protection fund, and rescue 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.



Other Supplementary Information  
December 31, 2010

# City of Glyndon, Minnesota

City of Glyndon, Minnesota  
Balance Sheet – Cash Basis  
Nonmajor Governmental Funds  
December 31, 2010

	<u>Stockwood Improvements</u>	<u>1998 Street Improvements</u>	<u>Rescue Squad</u>	<u>2001 Economic Development</u>	<u>Fire</u>	<u>Total Other Governmental Funds</u>
<b>Assets</b>						
Cash and investments (deficit)	<u>\$ 113,153</u>	<u>\$ (236,989)</u>	<u>\$ 17,483</u>	<u>\$ 132,401</u>	<u>\$ 96,011</u>	<u>\$ 122,059</u>
<b>Fund Balance (Deficit)</b>						
Unreserved, reported in						
Special revenue funds	\$ -	\$ -	\$ 17,483	\$ -	\$ 96,011	\$ 113,494
Capital project funds	113,153	-	-	-	-	113,153
Reserved for debt service	<u>-</u>	<u>(236,989)</u>	<u>-</u>	<u>132,401</u>	<u>-</u>	<u>(104,588)</u>
<b>Total fund balance (deficit)</b>	<u>\$ 113,153</u>	<u>\$ (236,989)</u>	<u>\$ 17,483</u>	<u>\$ 132,401</u>	<u>\$ 96,011</u>	<u>\$ 122,059</u>

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Nonmajor Governmental Funds  
Year Ended December 31, 2010

	Stockwood Improvements	1998 Street Improvements	Rescue Squad	2001 Economic Development	Fire	Total Other Governmental Funds
<b>Receipts</b>						
Property taxes	\$ -	\$ 31,726	\$ 5,354	\$ -	\$ 10,005	\$ 47,085
Special assessments	-	5,814	-	16,268	-	22,082
Intergovernmental	-	989	172	-	322	1,483
Interest earnings	1,238	-	-	-	-	1,238
Charges for services	-	-	15,738	-	32,545	48,283
Miscellaneous	-	-	-	-	2,691	2,691
Total receipts	<u>1,238</u>	<u>38,529</u>	<u>21,264</u>	<u>16,268</u>	<u>45,563</u>	<u>122,862</u>
<b>Disbursements</b>						
Current						
Public safety	-	-	19,002	-	27,566	46,568
Capital outlay	-	-	-	-	18,302	18,302
Debt service						
Principal	-	80,000	-	9,848	-	89,848
Interest and other charges	59,361	21,075	-	2,221	-	82,657
Total disbursements	<u>59,361</u>	<u>101,075</u>	<u>19,002</u>	<u>12,069</u>	<u>45,868</u>	<u>237,375</u>
Net Change in Fund Balance	(58,123)	(62,546)	2,262	4,199	(305)	(114,513)
Fund Balance (Deficit)						
Beginning of Year	<u>171,276</u>	<u>(174,443)</u>	<u>15,221</u>	<u>128,202</u>	<u>96,316</u>	<u>236,572</u>
Fund Balance (Deficit)						
End of Year	<u>\$ 113,153</u>	<u>\$ (236,989)</u>	<u>\$ 17,483</u>	<u>\$ 132,401</u>	<u>\$ 96,011</u>	<u>\$ 122,059</u>

City of Glyndon, Minnesota  
 Schedule of Accounts Receivable  
 December 31, 2010

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Clay County Treasurer	December distribution	\$ 5,294
State of Minnesota	December court fines	1,978
State of Minnesota	Fire state aid 2010	11,348
The Nature Conservatory	Fire call	2,150
Utility Customers	Utilities	8,440
		<u>29,210</u>
Storm Water Utility Fund		
Utility Customers	Utilities	4,100
		<u>4,100</u>
Total all funds		<u>\$ 33,310</u>

City of Glyndon, Minnesota  
Schedule of Accounts Payable  
December 31, 2010

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Fuchs Sanitation	December usage	\$ 6,206
Miller, Norman, & Associates	Legal services	1,933
Cardmember Services	Office supplies	2,312
Fargo Moorhead Animal Hospital	Animal control	757
Petro Serve USA	Fuel	2,444
Oasis C-Store	Fuel	664
Fire Department	Fire state aid 2010	11,348
Red River Valley Co-op Power	Power	516
		<hr/>
Total general fund		\$ 26,180
		<hr/> <hr/>

City of Glyndon, Minnesota  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2010

	<u>Agency or Pass Through Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Environmental Protection Agency Passed through the MN Public Facilities Authority Capitalization Grants for Clean Water State Revolving Funds	N/A	66.458	\$ 980,970
Department of Homeland Security Passed through the Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N/A	97.036	<u>12,633</u>
Total expenditures of federal awards			<u>\$ 993,603</u>

**Notes to Schedule of Expenditures of Federal Awards**

**Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

**Note 2 - Agency or Pass-Through Number**

The pass-through entity has not provided us with the identifying number; therefore, it is not included in this schedule.



Additional Reports  
December 31, 2010

# City of Glyndon, Minnesota



**Independent Auditor’s 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, 2010, and have issued our report thereon dated May 9, 2011, 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, and Sewer Fund because of the lack of adequate accounting records for its delinquent accounts receivable in the business type activities, Water Fund, and the Sewer Fund; for its compensated absences payable in the business type activities, Water Fund, and the Sewer Fund; and for its infrastructure assets placed in service prior to 2010 in the business type activities and the 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 findings and questioned costs, 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 10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, and 10-8 described in the accompanying schedule of findings and questioned costs 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 10-9, 10-10, 10-11, 10-12, 10-13, and 10-14 described in the accompanying schedule of findings and questioned costs 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 10-10 in the accompanying schedule of findings and questioned costs, 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 findings and questioned costs. 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 9, 2011



**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

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

**Compliance**

We have audited the compliance of the City of Glyndon, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2010. The City's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

## Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

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.

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

Fargo, North Dakota  
May 9, 2011

City of Glyndon, Minnesota  
Schedule of Prior Findings and Questioned Costs  
Year Ended December 31, 2010

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There were no findings in the prior year in relation to the major federal award programs audit.

**Summary of Audit Results**

*Financial Statements*

Type of auditor's report issued:

Unqualified - Governmental activities, General fund, Centennial Addition major fund, Sewer and Street Lights major fund, 2002 Economic Development major fund, Drainage Improvements Construction major fund, 2000 Economic Development major fund, Storm Water Utility major fund, and aggregate remaining fund information

Qualified - Business-type activities, Water major fund, and Sewer major fund

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiency(ies) identified?	<u>  X  </u> yes	<u>      </u> none reported

Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no
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*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  X  </u> none reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u>      </u> yes	<u>  X  </u> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as low-risk auditee?	<u>      </u> yes	<u>  X  </u> no
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**B. Findings – Financial Statement Audit**

**Material Weakness**

**10-1 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. As an additional service, Eide Bailly has a Forensic Department that can assist in a review of the City’s internal controls to find ways to mitigate the lack of segregation of duties to a higher degree.

**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

### 10-2 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. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

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

## Material Weakness

### 10-3 Material Journal Entries

**Condition** – The City does not have an internal control system designed to provide for the preparation of the adjusting journal entries, including adjusting the water and sewer funds from cash to accrual basis of accounting. 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** – 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 of other considerations. A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit.

**Management’s Response** – Due to cost constraints, the City will continue to have the auditors prepare the adjusting journal entries to convert the water and sewer funds from the cash to accrual basis of accounting. The City will make an effort to review and reconcile all accounts in future years to avoid additional audit adjustments.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – Due to cost constraints, the City will continue to have the auditors prepare the adjusting journal entries to convert the water and sewer funds from the cash to accrual basis of accounting. The City will make an effort to review and reconcile all accounts in future years to avoid additional audit adjustments.
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

### 10-4 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, we noted outstanding items that were actually voided checks. 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 will make an effort to investigate and resolve differences on the 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 – December 31, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 10-5 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. One employee that quit during the year was still included in the payroll system with approximately 50 hours of vacation accrued and 285 hours of sick time accrued. One employee that took vacation in December 2010 did not have those hours accurately deducted from the hours being tracked in the payroll software, resulting in an overstatement of vacation hours. One employee took sick time in December 2010 but the hours were not deducted in the payroll software. One employee took 8 hours of vacation time in December 2010 but did not get paid for it and the hours were not deducted in the payroll software.

**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 will make an effort to compile 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 – December 31, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 10-6 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, 2010 could not be compiled based on the utility software. At least one inactive account with a material balance was being included on the listing. There were other inactive accounts that should not have been included on the listing.

**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, 2010, the accrual for delinquent accounts receivable in the water and sewer 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** – The City will make an effort to compile an accurate amount of delinquent accounts receivable for the proprietary funds.

### 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 – December 31, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 10-7 Voided Checks

**Condition** – During the course of our engagement, we noted two instances of a check being voided twice in the general ledger and three instances of a check not being properly voided in the general ledger. Of these five instances, three of them were also inaccurately showing up as an outstanding item on the bank reconciliation as of December 31, 2010.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for properly recording voided checks.

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not investigating the general ledger treatment of voided checks 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 track the general ledger treatment of voided checks.

**Recommendation** – Management should review the accounting treatment for voided checks to ensure that the cash and related expense account is recorded properly in the general ledger. Management should review procedures for properly recording voided checks and ensure these procedures are being followed. 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 will make an effort to accurately account for voided checks in the general ledger. The City will make an effort to perform an accurate bank reconciliation each month.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to accurately account for voided checks in the general ledger. The City will make an effort to perform an accurate bank reconciliation each month.
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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Material Weakness

### 10-8 Preparation of Schedule of Expenditures of Federal Awards

**Condition** – During the course of our engagement, we assisted with the preparation of the Schedule of Expenditures of Federal Awards as the City did not properly include all federal expenditures, CFDA numbers, and additional pass through agency federal expenditures.

**Criteria of Specific Requirement** – As described in §\_\_\_.310(b)(3) of OMB Circular A-133, auditees must complete the Schedule of Expenditures of Federal Awards and include Catalog of Federal Domestic Assistance (CFDA) title and numbers provided in Federal awards/subawards and associated expenditures.

**Effect** – There were additional federal expenditures that were not properly identified in the Schedule of Expenditures of Federal Awards. This control deficiency could result in a misstatement to the Schedule of Expenditures of Federal Awards that would not be prevented or detected.

**Cause** – Lack of proper communication between management and pass-through agencies regarding the federal funding identification.

**Recommendation** – Develop a system in identifying and tracking the following information for each contract: pass-through agency, Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, and name of the federal agency.

**Management's Response** – The City will review the Schedule of Expenditures of Federal Awards and determine the necessary training to ensure completeness of the schedule going forward.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will review the Schedule of Expenditures of Federal Awards and determine the necessary training to ensure completeness of the schedule going forward.
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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the training needs to ensure completion of action plan by December 31, 2011.

## Significant Deficiency

### 10-9 Deficit and Excess Cash Balances of Debt Service Funds

**Condition** – The City has four general obligation special assessment improving bonds. Three of the bonds have cash in excess of the outstanding debt and the remaining bond is in cash deficit. The City has developed an action plan to account for the excess cash balances and deficit cash balance but has not implemented the plan. This finding has been reported in the past and has not been corrected.

**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** – The City will determine the requirements of the excess cash balances and ensure excess cash is accounted for according to the legal bond documents. The City will ensure the proper amount of specials are being assessed for bonds in cash deficit balance.

### 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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 10-10 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 pledged collateral did not meet this requirement at December 31, 2010 for Northwestern Bank. The City's deposits were under collateralized at Northwestern Bank by approximately \$914,000 at December 31, 2010.

**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 December 31, 2010, 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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the review of pledged collateral.

## Significant Deficiency

### 10-11 Check Numbers

**Condition** – During the course of our engagement, we noted 12 instances of checks being inaccurately tracked in the general ledger. The check numbers listed in the general ledger did not match the check numbers that cleared the bank statement.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for properly tracking check numbers.

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not properly tracking check numbers could result in an inaccurate bank reconciliation.

**Cause** – The City does not have an internal control system designed to accurately track check numbers. The error was caused by printing issues with payroll check stock.

**Recommendation** – Management should ensure the general ledger has the accurate check number for payroll and accounts payable checks. Management should review procedures for properly tracking check numbers in the accounting software and ensure these procedures are being followed. 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 will make an effort to accurately record check numbers in the general ledger. The City will make an effort to perform an accurate bank reconciliation each month.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to accurately record check numbers in the general ledger. The City will make an effort to perform an accurate bank reconciliation each month.
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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 10-12 Customer Credits

**Condition** – During the course of our engagement, we noted customer credits for utility bills were not being approved by the City Council. There were a significant amount of customer credits issued in 2010. The approval of customer credits by the City Council was verbally recommended by the auditors in the prior year but has not been implemented.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for the approval of customer credits

**Effect** – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. Not approving customer credits could result in less utility revenue being collected by the City than it has earned.

**Cause** – The City does not have an internal control system designed to approve credit memos.

**Recommendation** – Management should review procedures for issuing and approving customer credits and ensure these procedures are being followed.

**Management's Response** – The City will make an effort to have City Council approve customer credits.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to have City Council approve customer credits.
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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 10-13 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.

**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 will make an effort to properly account for payroll liabilities and perform a proper bank reconciliation of each bank statement date.

### 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 – December 31, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## Significant Deficiency

### 10-14 Maximum Vacation Accruals

**Condition** – During the course of our engagement, we noted that two employees had accrued more vacation hours than the maximum allowed of 225 hours.

**Criteria of Specific Requirement** – A good system of internal accounting control contemplates an adequate system for monitoring the maximum accrual of vacation hours.

**Effect** – This control deficiency results in a violation of the City’s employment policy regarding maximum vacation accruals. 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 monitor the maximum accrual of vacation hours.

**Recommendation** – Management should review procedures for monitoring the maximum accrual of vacation hours throughout the year. Management should perform a review of vacation accruals at least monthly to ensure that employees are aware that they could lose vacation hours if they accrue more than the maximum amount.

**Management’s Response** – The City will make an effort to monitor the maximum accrual of vacation hours throughout the year.

### Corrective Action Plan (CAP)

1. Action Planned in Response to the Finding – The City will make an effort to monitor the maximum accrual of vacation hours throughout the year.
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, 2011.
5. Plan to Monitor Completion of Corrective Action – The City Council will monitor the accounting function.

## C. Findings – *Minnesota Legal Compliance*

Finding 10-10

## D. Findings – Major Federal Awards Programs – None