



Financial Statements
December 31, 2018

City of Glyndon, Minnesota

Elected and Appointed Officials (Unaudited).....	1
Independent Auditor’s Report.....	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	5
Statement of Activities.....	6
Fund Financial Statements	
Government Funds	
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis	7
Proprietary Funds	
Statement of Net Position.....	9
Statement of Changes in Net Position	10
Statement of Cash Flows.....	11
Notes to Financial Statements	12
Other Supplementary Information	
Budgetary Comparison Schedule, General Fund – Cash Basis.....	23
Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis (Nonmajor Governmental Funds).....	24
Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis (General Fund by Department).....	26
Schedule of Accounts Receivable	27
Schedule of Accounts Payable	28
Additional Reports	
Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Minnesota Legal Compliance Independent Auditor’s Report	31
Schedule of Audit Findings	32

City of Glyndon, Minnesota
Elected and Appointed Officials (Unaudited)
December 31, 2018

<u>Name</u>	<u>Position</u>	<u>Term Expires December 31,</u>
Council		
Cecil Johnson	Mayor	2020
David Owings	Council Member	2022
Justin Schreiber	Council Member	2020
Kimberly Savageau	Council Member	2022
Joseph Olson	Council Member	2020
Officials		
Wendy Affield	Clerk-Treasurer	
Michael Cline	Chief of Police	
Ken Norman	City Attorney	



Independent Auditor's Report

To the Honorable Mayor,
City Council, and Clerk Treasurer
City of Glyndon, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Glyndon, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

www.eidebailly.com

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of financial reporting provisions permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City as of December 31, 2018, or changes in financial position and, where applicable, cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Emphasis of Matter

Restatement

As discussed in Note 8 to the financial statements, the City determined that the Sewer Fund and government-wide business type activities inaccurately included storm sewer expenses related to the 2017 Southview Addition project in construction in progress and contributed capital. This has resulted in a restatement of the net position of the Sewer Fund and business type activities as of January 1, 2018. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

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

The budgetary comparison schedule, cash basis – general fund; statement of receipts, disbursements, and changes in fund balances – cash basis (nonmajor governmental funds); statement of receipts, disbursements, changes in fund balance – cash basis (general fund, by department); schedule of accounts receivable, and schedule of accounts payable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 6, 2019, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the City’s internal control over financial reporting or on compliance. This report is an integral part of a *Government Auditing Standards* audit in considering the City’s internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated May 6, 2019, on our consideration of the City’s compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for Cities. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor’s Minnesota Legal Compliance Audit Guide for Cities in considering the City’s compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

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

Fargo, North Dakota
May 6, 2019

City of Glyndon, Minnesota
Statement of Net Position
December 31, 2018

	Cash Basis Governmental Activities	Business-Type Activities
Assets		
Cash	\$ 984,395	\$ 973,154
Accounts receivable	-	84,083
Special assessments receivable	-	511,761
	984,395	1,568,998
Capital assets		
Construction in progress	-	101,600
Buildings and equipment	-	2,291,551
Land improvements	-	2,787,385
Less accumulated depreciation	-	(708,231)
Total capital assets, net of depreciation	-	4,472,305
Total assets	984,395	6,041,303
Liabilities		
Accounts payable	-	20,468
Accrued interest	-	20,141
Noncurrent liabilities		
Due within one year	-	176,060
Due in more than one year	-	2,040,106
Total liabilities	-	2,256,775
Net Position		
Net investment in capital assets	-	2,270,199
Restricted	324,541	-
Unrestricted	659,854	1,514,329
Total net position	\$ 984,395	\$ 3,784,528

City of Glyndon, Minnesota
Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Cash Basis Governmental Activities	Business-Type Activities
Primary Government						
Governmental activities - cash basis:						
General government	\$ 732,424	\$ 177,774	\$ -	\$ -	\$ (554,650)	\$ -
Public safety	472,431	29,775	50,139	-	(392,517)	-
Sanitation	143,085	156,977	-	-	13,892	-
Streets and highways	96,153	-	-	-	(96,153)	-
Culture and recreation	13,149	-	-	-	(13,149)	-
Debt service	392,200	244,402	-	-	(147,798)	-
TIF repayments	107,000	159,976	-	-	52,976	-
Total governmental activities - cash basis	1,956,442	768,904	50,139	-	(1,137,399)	-
Business-type activities						
Water	334,207	376,946	-	428,000	-	470,739
Sewer	207,614	844,971	-	-	-	637,357
Total business-type activities	541,821	1,221,917	-	428,000	-	1,108,096
Total Primary Government	\$ 2,498,263	\$ 1,990,821	\$ 50,139	\$ 428,000	(1,137,399)	1,108,096
General revenues						
Property taxes					243,733	-
Licenses, permits, fines, and forfeitures					43,641	-
Intergovernmental					549,446	-
Interest earnings					1,443	-
Capital contributions					(60,694)	60,694
Miscellaneous					60,702	1,759
Total general revenues					838,271	62,453
Change in net position					(299,128)	1,170,549
Net position - beginning of year, as restated (Note 8)					1,283,523	2,613,979
Net position - end of year					\$ 984,395	\$ 3,784,528

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2018

	General	G.O. Refunding Bonds 2014A	Southview Addition	Other Governmental Funds	Total Governmental Funds
Receipts					
Property taxes	\$ 243,733	\$ 219,184	\$ -	\$ 25,218	\$ 488,135
Special assessments	97,317	62,672	-	17,785	177,774
Licenses and permits	11,585	-	-	-	11,585
Intergovernmental	599,585	-	-	-	599,585
Charges for services	186,752	-	-	-	186,752
Fines and forfeits	32,056	-	-	-	32,056
TIF increments	-	-	-	159,976	159,976
Interest earnings	1,190	25	228	-	1,443
Miscellaneous	30,804	24,306	5,592	-	60,702
Total receipts	<u>1,203,022</u>	<u>306,187</u>	<u>5,820</u>	<u>202,979</u>	<u>1,718,008</u>
Disbursements					
Current					
General government	490,980	-	-	-	490,980
Public safety	472,431	-	-	-	472,431
Streets and highways	96,153	-	-	-	96,153
Sanitation	143,085	-	-	-	143,085
Culture and recreation	13,149	-	-	-	13,149
Debt service					
Principal	6,074	225,000	-	21,000	252,074
Interest and other charges	-	36,260	-	103,866	140,126
Capital outlay	10,115	-	292,023	-	302,138
TIF repayments	-	-	-	107,000	107,000
Total disbursements	<u>1,231,987</u>	<u>261,260</u>	<u>292,023</u>	<u>231,866</u>	<u>2,017,136</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(28,965)	44,927	(286,203)	(28,887)	(299,128)
Other Financing Sources (Uses)					
Transfers in	-	-	-	167,063	167,063
Transfers out	-	-	(167,063)	-	(167,063)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(167,063)</u>	<u>167,063</u>	<u>-</u>
Net Change in Cash Basis Fund Balances	(28,965)	44,927	(453,266)	138,176	(299,128)
Cash Basis Fund Balances, Beginning	<u>688,819</u>	<u>62,551</u>	<u>453,266</u>	<u>78,887</u>	<u>1,283,523</u>
Cash Basis Fund Balances, Ending	<u>\$ 659,854</u>	<u>\$ 107,478</u>	<u>\$ -</u>	<u>\$ 217,063</u>	<u>\$ 984,395</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2018

	General	G.O. Refunding Bonds 2014A	Other Governmental Funds	Total Governmental Funds
Cash Basis Assets - End of Year				
Cash	\$ 659,854	\$ 107,478	\$ 217,063	\$ 984,395
Cash Basis Fund Balances				
Restricted for TIF repayments	\$ -	\$ -	\$ 94,943	\$ 94,943
Restricted for debt service	-	107,478	122,120	229,598
Unassigned	659,854	-	-	659,854
	\$ 659,854	\$ 107,478	\$ 217,063	\$ 984,395

City of Glyndon, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
Current Assets			
Cash	\$ 225,363	\$ 747,791	\$ 973,154
Accounts receivable	43,558	40,525	84,083
Special assessments receivable, current portion	-	37,382	37,382
Total current assets	<u>268,921</u>	<u>825,698</u>	<u>1,094,619</u>
Noncurrent Assets			
Capital assets			
Construction in progress	25,938	75,662	101,600
Buildings and equipment	2,279,383	12,168	2,291,551
Land improvements	991,662	1,795,723	2,787,385
Accumulated depreciation	(501,605)	(206,626)	(708,231)
Net capital assets	<u>2,795,378</u>	<u>1,676,927</u>	<u>4,472,305</u>
Other assets			
Special assessments receivable, net of current portion	-	474,379	474,379
Total assets	<u>3,064,299</u>	<u>2,977,004</u>	<u>6,041,303</u>
Liabilities			
Current Liabilities			
Accounts payable	998	19,470	20,468
Accrued interest	17,525	2,616	20,141
Current portion of long-term debt	110,000	52,000	162,000
Accrued compensated absences	7,030	7,030	14,060
Total current liabilities	<u>135,553</u>	<u>81,116</u>	<u>216,669</u>
Noncurrent Liabilities			
Long-term debt, net of current portion	<u>1,427,106</u>	<u>613,000</u>	<u>2,040,106</u>
Total liabilities	<u>1,562,659</u>	<u>694,116</u>	<u>2,256,775</u>
Net Position			
Net investment in capital assets	1,258,272	1,011,927	2,270,199
Unrestricted	<u>243,368</u>	<u>1,270,961</u>	<u>1,514,329</u>
Total net position	<u>\$ 1,501,640</u>	<u>\$ 2,282,888</u>	<u>\$ 3,784,528</u>

City of Glyndon, Minnesota
Statement of Changes in Net Position
Proprietary Funds
Year Ended December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue			
Sales	\$ 376,946	\$ 349,241	\$ 726,187
Operating Expenses			
Cost of sales and services	102,194	43,867	146,061
Administration	122,644	122,709	245,353
Depreciation	66,805	33,230	100,035
Total operating expenses	<u>291,643</u>	<u>199,806</u>	<u>491,449</u>
Operating Income	85,303	149,435	234,738
Nonoperating Revenue (Expense)			
Special assessments	-	495,730	495,730
Intergovernmental	428,000	-	428,000
Interest income	-	1,627	1,627
Miscellaneous revenue	132	-	132
Interest expense	(42,564)	(7,808)	(50,372)
Total nonoperating revenue	<u>385,568</u>	<u>489,549</u>	<u>875,117</u>
Income Before Capital Contributions	470,871	638,984	1,109,855
Capital Contributions	<u>33,100</u>	<u>27,594</u>	<u>60,694</u>
Change in Net Position	503,971	666,578	1,170,549
Net Position - Beginning, as restated (Note 8)	<u>997,669</u>	<u>1,616,310</u>	<u>2,613,979</u>
Net Position - Ending	<u>\$ 1,501,640</u>	<u>\$ 2,282,888</u>	<u>\$ 3,784,528</u>

City of Glyndon, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Activities			
Receipts from customers	\$ 374,279	\$ 350,391	\$ 724,670
Payments to suppliers	(110,914)	(43,154)	(154,068)
Payments to employees	(120,567)	(120,632)	(241,199)
Net cash from operating activities	<u>142,798</u>	<u>186,605</u>	<u>329,403</u>
Investing Activity			
Purchase of property and equipment	<u>(508,185)</u>	<u>(19,299)</u>	<u>(527,484)</u>
Capital and Related Financing Activities			
Principal payments on debt and capital lease	(106,083)	(54,083)	(160,166)
Proceeds on debt	115,035	-	115,035
Interest paid on debt	(44,914)	(7,808)	(52,722)
Special assessments received	-	43,893	43,893
Interest received	-	1,627	1,627
Grants received	428,000	-	428,000
Other	132	-	132
Net cash from (used for) capital and related financing activities	<u>392,170</u>	<u>(16,371)</u>	<u>375,799</u>
Change in Cash	26,783	150,935	177,718
Cash Balance, Beginning	<u>198,580</u>	<u>596,856</u>	<u>795,436</u>
Cash Balance, Ending	<u>\$ 225,363</u>	<u>\$ 747,791</u>	<u>\$ 973,154</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 85,303	\$ 149,435	\$ 234,738
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	66,805	33,230	100,035
Changes in assets and liabilities			
Accounts receivable	(2,667)	1,150	(1,517)
Accounts payable	(8,720)	713	(8,007)
Accrued compensated absences	2,077	2,077	4,154
Net cash from operating activities	<u>\$ 142,798</u>	<u>\$ 186,605</u>	<u>\$ 329,403</u>

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

There are no component units reported within these financial statements.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

The City reports the following major governmental funds:

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

G.O. Refunding Bonds 2014A Fund – The City accounts for cash receipts and disbursements related to the debt service on these bonds, which were issued for the refunding of the 2004A and 2007 bonds.

Southview Addition Fund – The City accounts for cash receipts and disbursements related to the Southview Addition capital project. The construction for this project was completed during 2018 and the remaining fund balance was transferred to the GO Bond 2017A debt service fund.

The City reports the following major proprietary funds:

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

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

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

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

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

Other Significant Accounting Policies

Cash and Investments

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

Receivables

All receivables are shown net of any allowance for uncollectibles, if applicable. There were no allowances recorded in the proprietary funds as of December 31, 2018.

Capital Assets

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

Depreciation is provided for the capital assets of the proprietary funds using the straight-line method over the following estimated useful lives:

Improvements other than buildings	20 – 50 years
Machinery and equipment	5 – 50 years
Buildings	50 years

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

Compensated Absences

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

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

Fund Equity

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

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

Net Position

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

Property Taxes

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

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

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties. Special assessments are generally collected by county and remitted to the City at the same time property tax settlements are made.

Budgets

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

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

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

Note 2 - Deposits and Investments

Deposits

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

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

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

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

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

At December 31, 2018, the City’s deposits were undercollateralized by \$145,567.

The following table presents the City's deposit and investment balances at December 31, 2018:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Not Applicable	< 1
Deposits	\$ 1,957,549	\$ 1,957,549	\$ -

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. As of and during the year ended December 31, 2018, the City did not have any investments.

Note 3 - Capital Assets

	Balance 12/31/17 (Restated)	Additions	Retirements	Balance 12/31/18
Capital assets not being depreciated				
Construction in progress	\$ 1,065,914	\$ 80,950	\$ 1,045,264	\$ 101,600
Capital assets being depreciated				
Buildings and equipment	2,295,053	14,858	18,360	2,291,551
Land improvements	1,235,063	1,552,322	-	2,787,385
Total capital assets, being depreciated	<u>3,530,116</u>	<u>1,567,180</u>	<u>18,360</u>	<u>5,078,936</u>
Less: accumulated depreciation				
Buildings and equipment	437,586	67,691	3,672	501,605
Land improvements	174,282	32,344	-	206,626
Total accumulated depreciation	<u>611,868</u>	<u>100,035</u>	<u>3,672</u>	<u>708,231</u>
Total capital assets, being depreciated, net	<u>2,918,248</u>	<u>1,467,145</u>	<u>14,688</u>	<u>4,370,705</u>
Total capital assets, net	<u>\$ 3,984,162</u>	<u>\$ 1,548,095</u>	<u>\$ 1,059,952</u>	<u>\$ 4,472,305</u>

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

Water	\$ 66,805
Sewer	<u>33,230</u>
	<u>\$ 100,035</u>

Note 4 - City Indebtedness

Changes in long-term debt were as follows:

	Balance 12/31/17	Additions	Retired	Balance 12/31/18	Balance Due Within One Year
Governmental activities					
Notes payable	\$ 6,074	\$ -	\$ 6,074	\$ -	\$ -
General obligation bonds	<u>5,054,000</u>	<u>-</u>	<u>246,000</u>	<u>4,808,000</u>	<u>257,000</u>
Governmental activities long-term debt	<u>\$ 5,060,074</u>	<u>\$ -</u>	<u>\$ 252,074</u>	<u>\$ 4,808,000</u>	<u>\$ 257,000</u>
Business-type activities					
General obligation revenue bonds	\$ 1,270,000	\$ -	\$ 55,000	\$ 1,215,000	\$ 60,000
Notes payable	973,071	115,035	101,000	987,106	102,000
Capital lease	4,166	-	4,166	-	-
Compensated absences	<u>9,906</u>	<u>12,369</u>	<u>8,215</u>	<u>14,060</u>	<u>14,060</u>
Business-type activities long-term debt	<u>\$ 2,257,143</u>	<u>\$ 127,404</u>	<u>\$ 168,381</u>	<u>\$ 2,216,166</u>	<u>\$ 176,060</u>

The following is a summary of long-term debt as of December 31, 2018:

Type	Authorized and Issued	Final Year of Maturity	Interest Rate	Outstanding
Governmental activities				
General obligation bonds				
2014A refunding bond	\$ 1,995,000	2025	2.00% - 3.00%	\$ 1,360,000
2016A tax abatement note	164,000	2024	2.25%	143,000
2017A improvement bond	3,305,000	2039	2.00% - 3.75%	<u>3,305,000</u>
Total governmental activities				<u>\$ 4,808,000</u>
Business-Type Activities				
General obligation revenue bonds				
2014B water revenue bonds	\$ 1,370,000	2035	3.00% - 3.25%	<u>\$ 1,215,000</u>
Notes payable				
Clean water revolving fund	1,170,000	2030	1.09%	665,000
Drinking water revolving fund	867,071	2022	2.38%	207,071
Drinking water revolving fund 2018A	115,035	2037	1.00%	115,035
Total business-type activities				<u>\$ 2,202,106</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>
2019	\$ 257,000	\$ 125,799	\$ 162,000	\$ 50,495
2020	208,000	121,093	170,000	50,753
2021	348,000	113,985	171,000	43,422
2022	354,000	106,274	174,071	39,608
2023	345,000	97,785	125,000	36,133
2024 - 2028	1,131,000	382,037	652,000	142,484
2029 - 2033	815,000	268,730	542,000	75,017
2034 - 2038	935,000	133,468	206,035	12,838
2039	415,000	7,088	-	-
	<u>\$ 4,808,000</u>	<u>\$ 1,356,259</u>	<u>\$ 2,202,106</u>	<u>\$ 450,750</u>

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.

Notes Payable

Notes payable are payable from utility revenues and, if required, by ad valorem tax levies.

During 2018, the City issued \$115,035 in Drinking Water Revenue Bonds with an interest rate of 1.00%. The issuance of the note was for construction of water main looping in two areas of the city.

Note 5 - Operating Leases

The City has an agreement in place for leasing copier equipment. Future lease payments are as follows:

Years Ending December 31,	Principal
2019	\$ 5,895
2020	5,151
	\$ 11,046

The City made copier lease payments of \$5,571 in the year ended December 31, 2018.

Note 6 - Defined Benefit Pension Plans - Statewide

Plan Description

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

General Employees Plan 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, firefighters and peace officers who qualify for membership by statute are covered by the Police and Fire Plan.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for members of the General Employees Plan vest after five years of credited service. Benefits for the Police and Fire Plan vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years. The defined benefit retirement plan benefits are based on a member's highest average salary for any 5 years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

For all General Employee Plan 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. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

Normal retirement age is 55 for Police and Fire plan 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 with an actuarial reduction in the member's benefit.

A full unreduced pension is earned when Police and Fire plan members meet the following conditions: age 55 and vested or age plus years of service total at least 90 if first hired prior to July 1, 1989.

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 before retirement benefits begin.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees, Police and Fire, and Correctional plans. That report may be obtained on the PERA's website at www.mnpera.org.

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. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.8 percent of their annual covered salary in 2018. In 2018, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.5 percent for Coordinated Plan members, and 16.2 percent for Police and Fire Plan members..

The City's contributions to the General Employees Fund for the years ending December 31, 2018, 2017 and 2016, were \$51,473, \$41,330, and \$36,790, respectively.

Note 7 - Construction Commitments

As of December 31, 2018, the city had incurred costs of \$101,600 related to the Parke Avenue project. The project is expected to be completed during 2019 at an additional cost of approximately \$6,511,543.

Note 8 - Restatement of Beginning Net Position

During 2018, the City determined the Sewer Fund construction in progress and net position were overstated due to the storm sewer disbursements related to the 2017 Southview Addition project being included within the Sewer Fund through contributed capital. Beginning net position was restated as a result for the Sewer Fund and the business-type activities, as follows:

	Sewer Fund	Business-Type Activities
Net Position - December 31, 2017, as previously reported	\$ 2,638,747	\$ 3,636,416
Restatement due to storm sewer construction in progress reported in sewer fund	(1,022,437)	(1,022,437)
Net Position - January 1, 2018, as restated	\$ 1,616,310	\$ 2,613,979

Note 9 - Interfund Transfers

A summary of the City's interfund transfer is as follows:

Transfer In	Transfer Out Capital Projects - Southview Addition
Debt Service - GO Bond 2017A	\$ 167,063

The transfer was made due to excess bond proceeds when the capital project was completed.

Note 10 - Statement of Orders Issued

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

Note 11 - Subsequent Events

Subsequent to year end, the entered into a capital lease for machinery in the amount of \$29,969.

In addition, the city issued a 2019A General Obligation Bond totaling \$4,660,000 which will be used to finance the Parke Avenue Project.



Other Supplementary Information
December 31, 2018

City of Glyndon, Minnesota

City of Glyndon, Minnesota
 Budgetary Comparison Schedule, General Fund – Cash Basis
 Year Ended December 31, 2018

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts			
Property taxes	\$ 379,785	\$ 243,733	\$ (136,052)
Special assessments	-	97,317	97,317
Licenses and permits	11,222	11,585	363
Intergovernmental	579,767	599,585	19,818
Charges for services	172,400	186,752	14,352
Interest earnings	700	1,190	490
Fines and forfeits	30,000	32,056	2,056
Miscellaneous	4,375	30,804	26,429
Total receipts	<u>1,178,249</u>	<u>1,203,022</u>	<u>24,773</u>
Disbursements			
General government	520,419	490,980	29,439
Public safety	364,376	472,431	(108,055)
Streets and parks	102,500	96,153	6,347
Sanitation	144,000	143,085	915
Community center	13,000	13,149	(149)
Debt service:			
Principal	7,300	6,074	1,226
Capital outlay	1,500	10,115	(8,615)
Total disbursements	<u>1,153,095</u>	<u>1,231,987</u>	<u>(78,892)</u>
Net Change in Cash Basis Fund Balances	<u>\$ 25,154</u>	(28,965)	<u>\$ (54,119)</u>
Cash Basis Fund Balance - Beginning		<u>688,819</u>	
Cash Basis Fund Balance - Ending		<u>\$ 659,854</u>	

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Special Revenue Funds		Debt Service Funds		Total Other Governmental Funds
	Centennial Addition	TIF District	G.O. Bond 2017A	Stockwood	
Receipts					
Property taxes	\$ -	\$ -	\$ -	\$ 25,218	\$ 25,218
Special assessments	-	-	-	17,785	17,785
TIF increments	116,193	43,783	-	-	159,976
Total receipts	<u>116,193</u>	<u>43,783</u>	<u>-</u>	<u>43,003</u>	<u>202,979</u>
Disbursements					
TIF repayments	107,000	-	-	-	107,000
Debt service					
Principal	-	-	-	21,000	21,000
Interest and other charges	-	1,152	99,261	3,453	103,866
Total disbursements	<u>107,000</u>	<u>1,152</u>	<u>99,261</u>	<u>24,453</u>	<u>231,866</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	9,193	42,631	(99,261)	18,550	(28,887)
Other Financing Sources					
Transfers in	-	-	167,063	-	167,063
Net Change in Cash Basis Fund Balance	9,193	42,631	67,802	18,550	138,176
Cash Basis Fund Balance, Beginning	<u>43,222</u>	<u>(103)</u>	<u>-</u>	<u>35,768</u>	<u>78,887</u>
Cash Basis Fund Balance, Ending	<u>\$ 52,415</u>	<u>\$ 42,528</u>	<u>\$ 67,802</u>	<u>\$ 54,318</u>	<u>\$ 217,063</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Special Revenue Funds		Debt Service Funds		Total Other Governmental Funds
	Centennial Addition	TIF District	G.O. Bond 2017A	Stockwood	
Cash Basis Assets - End of Year Cash	\$ 52,415	\$ 42,528	\$ 67,802	\$ 54,318	\$ 217,063
Cash Basis Fund Balance					
Restricted for TIF repayments	\$ 52,415	\$ 42,528	\$ -	\$ -	\$ 94,943
Restricted for debt service	-	-	67,802	54,318	122,120
	<u>\$ 52,415</u>	<u>\$ 42,528</u>	<u>\$ 67,802</u>	<u>\$ 54,318</u>	<u>\$ 217,063</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
General Fund by Department
Year Ended December 31, 2018

	General Operations Department	Rescue Squad Department	Fire Department	Total General Fund
Receipts				
Property taxes	\$ 222,266	\$ 8,045	\$ 13,422	\$ 243,733
Special assessments	97,317	-	-	97,317
Licenses and permits	11,585	-	-	11,585
Intergovernmental	452,387	-	147,198	599,585
Interest earnings	1,190	-	-	1,190
Charges for services	176,470	-	10,282	186,752
Fine and forfeits	32,056	-	-	32,056
Miscellaneous	29,100	704	1,000	30,804
Total receipts	<u>1,022,371</u>	<u>8,749</u>	<u>171,902</u>	<u>1,203,022</u>
Disbursements				
Current				
General government	490,980	-	-	490,980
Public safety	305,130	5,672	161,629	472,431
Streets and parks	96,153	-	-	96,153
Sanitation	143,085	-	-	143,085
Community center	13,149	-	-	13,149
Debt service				
Principal	6,074	-	-	6,074
Interest and other charges	-	-	-	-
Capital outlay	10,115	-	-	10,115
Total disbursements	<u>1,064,686</u>	<u>5,672</u>	<u>161,629</u>	<u>1,231,987</u>
Net Change in Cash				
Basis Fund Balances	(42,315)	3,077	10,273	(28,965)
Cash Basis Fund Balances,				
Beginning	<u>597,924</u>	<u>23,246</u>	<u>67,649</u>	<u>688,819</u>
Cash Basis Fund Balances,				
Ending	<u>\$ 555,609</u>	<u>\$ 26,323</u>	<u>\$ 77,922</u>	<u>\$ 659,854</u>

City of Glyndon, Minnesota
 Schedule of Accounts Receivable
 December 31, 2018

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Clay County	Property taxes	\$ 3,558
Utility Customers	Garbage collection	23,085
Clay County	Special Assessments - current portion	224,180
State of Minnesota	State Aid - Street Repairs	5,237
		<u>256,060</u>
		<u>\$ 256,060</u>

City of Glyndon, Minnesota
Schedule of Accounts Payable
December 31, 2018

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Ford of Hibbing	Capital outlay	\$ 27,588
Fuchs Sanitation Inc.	Refuse/Garbage Disposal	<u>18,775</u>
		<u>\$ 46,363</u>



Additional Reports
December 31, 2018

City of Glyndon, Minnesota



Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor,
City Council and Clerk Treasurer
City of Glyndon, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as findings 2018-001, 2018-002, 2018-003, and 2018-004 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

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

Fargo, North Dakota

May 6, 2019



Minnesota Legal Compliance Independent Auditor's Report

To the Honorable Mayor,
City Council and Clerk Treasurer
City of Glyndon, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 6, 2019.

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

In connection with our audit, one item came to our attention that caused us to believe the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. See finding 2018-005 in the attached schedule of findings. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City's response to the finding identified in our audit is described in the separately issued corrective action plan and the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Fargo, North Dakota
May 6, 2019

Section I – Financial Statement Findings

**2018-001 Segregation of Duties
Material Weakness**

Criteria: 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.

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

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

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.

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.

Views of Responsible Officials: Due to cost constraints, there will be no further administrative employees added.

**2018-002 Material Journal Entries Including Prior Period Restatement
Material Weakness**

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

Condition: During the course of our engagement, we proposed numerous material audit adjustments and a prior period restatement 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.

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

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

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

Views of Responsible Officials: The City will make an effort to review and reconcile all accounts in future years.

**2018-003 Preparation of Financial Statements
Material Weakness**

Criteria: A good system of internal accounting control contemplates the ability to internally prepare their financial statements.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City's financial statements and accompanying notes to the financial statements.

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

Effect: The financial disclosures in the financial statements could be incomplete.

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.

Views of Responsible Officials: Due to cost constraints, the City will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

**2018-004 Failure to comply with City Policy Manual Surrounding Vacation and Compensatory Time
Material Weakness**

Criteria: A good system of internal accounting control ensures that each city employee does not exceed 225 vacation hours and 40 compensatory time hours at the end of a fiscal year.

Condition: The City does not have an internal control system designed to ensure the maximum vacation and compensatory time hours set forth in the city's policy manual are followed.

Cause: The City does not have an internal control system designed to ensure that vacation and compensatory time hours are in compliance with the requirements set forth in the city's policy manual. One employee had excess vacation hours and one employee had excess compensatory time hours at the end of the fiscal year.

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

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 or other considerations.

Views of Responsible Officials: The City will make an effort to monitor vacation and compensatory hours for each employee in future years.

Section II – Minnesota Legal Compliance Findings

2018-005 Pledged Collateral

Criteria: A good system of internal accounting control contemplates an adequate system for monitoring the requirements of pledged collateral.

Condition: Minnesota Statue 118A.03 subd. 3 requires 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 security bonds. The City's pledged collateral did not meet this requirement at December 31, 2018, for Northwestern Bank. The City was under collateralized at Northwestern Bank by \$145,567.

Cause: The City does not have an internal control system designed to properly monitor the requirements of pledged collateral.

Effect: The City was not in compliance with Minnesota Statue 118A.03 subd. 3. Noncompliance increases the custodial risk of the City.

Recommendation: The City needs to periodically review the pledged collateral to ensure compliance.

Views of Responsible Officials: There is no disagreement with the audit finding.