



Financial Statements  
December 31, 2017

# City of Glyndon, Minnesota

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City of Glyndon, Minnesota  
Elected and Appointed Officials (Unaudited)  
December 31, 2017

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<u>Name</u>	<u>Position</u>	<u>Term Expires December 31,</u>
Council		
Cecil Johnson	Mayor	2020
David Owings	Council Member	2018
Justin Schreiber	Council Member	2020
Joseph Olson	Council Member	2020
Kimberly Savageau	Council Member	2018
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, 2017, 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.

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### **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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Other Matters**

#### *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 15, 2018, 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 15, 2018, 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 cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota  
May 15, 2018

City of Glyndon, Minnesota  
Statement of Net Position  
December 31, 2017

	Cash Basis	
	Governmental Activities	Business-Type Activities
<b>Assets</b>		
Cash	\$ 1,283,523	\$ 795,436
Accounts receivable	-	82,566
Special assessments receivable	-	59,924
	<u>1,283,523</u>	<u>937,926</u>
<b>Capital assets</b>		
Construction in progress	-	2,088,351
Buildings and equipment	-	2,295,053
Land improvements	-	1,235,063
Less accumulated depreciation	-	(611,868)
	<u>-</u>	<u>5,006,599</u>
Total capital assets, net of depreciation	<u>-</u>	<u>5,006,599</u>
Total assets	<u>1,283,523</u>	<u>5,944,525</u>
<b>Liabilities</b>		
Accounts payable	-	28,475
Due to other funds	-	-
Accrued interest	-	22,491
<b>Noncurrent liabilities</b>		
Due within one year	-	170,072
Due in more than one year	-	2,087,071
	<u>-</u>	<u>2,087,071</u>
Total liabilities	<u>-</u>	<u>2,308,109</u>
<b>Net Position</b>		
Net investment in capital assets	-	2,759,362
Restricted	594,807	-
Unrestricted	688,716	877,054
	<u>688,716</u>	<u>877,054</u>
Total net position	<u>\$ 1,283,523</u>	<u>\$ 3,636,416</u>

City of Glyndon, Minnesota  
Statement of Activities  
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	
				Cash Basis Governmental Activities	Business-Type Activities
<b>Primary Government</b>					
Governmental activities - cash basis:					
General government	\$ 1,209,374	\$ 73,835	\$ -	\$ (1,135,539)	\$ -
Public safety	439,084	40,442	72,202	(326,440)	-
Sanitation	141,752	156,083	-	14,331	-
Streets and highways	64,803	-	-	(64,803)	-
Culture and recreation	16,507	-	-	(16,507)	-
Debt service	408,747	-	-	(408,747)	-
TIF repayments	210,886	-	-	(210,886)	-
Total governmental activities - cash basis	<u>2,491,153</u>	<u>270,360</u>	<u>72,202</u>	<u>(2,148,591)</u>	<u>-</u>
Business-type activities					
Water	273,640	338,766	-	-	65,126
Sewer	222,737	370,516	-	-	147,779
Total business-type activities	<u>496,377</u>	<u>709,282</u>	<u>-</u>	<u>-</u>	<u>212,905</u>
Total Primary Government	<u>\$ 2,987,530</u>	<u>\$ 979,642</u>	<u>\$ 72,202</u>	<u>(2,148,591)</u>	<u>212,905</u>
General revenues					
Property taxes				665,864	-
Licenses, permits, fines, and forfeitures				37,463	-
Intergovernmental				430,111	-
TIF increments				165,970	-
Interest earnings				1,703	-
Bond proceeds				3,305,000	-
Net bond discount				(21,194)	-
Capital contributions				(2,007,007)	2,007,007
Miscellaneous				67,544	6,307
Total general revenues				<u>2,645,454</u>	<u>2,013,314</u>
Change in net position				496,863	2,226,219
Net position - beginning of year				<u>786,660</u>	<u>1,410,197</u>
Net position - end of year				<u>\$ 1,283,523</u>	<u>\$ 3,636,416</u>



City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Governmental Funds  
Year Ended December 31, 2017

	General	G.O. Refunding Bonds 2014A	Southview Addition	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property taxes	\$ 335,367	\$ 306,397	\$ -	\$ 24,100	\$ 665,864
Special assessments	-	73,835	-	-	73,835
Licenses and permits	11,811	-	-	-	11,811
Intergovernmental	502,313	-	-	-	502,313
Charges for services	196,525	-	-	-	196,525
Fines and forfeits	25,652	-	-	-	25,652
TIF increments	-	-	-	165,970	165,970
Interest earnings	1,155	28	520	-	1,703
Miscellaneous	67,544	-	-	-	67,544
Total receipts	<u>1,140,367</u>	<u>380,260</u>	<u>520</u>	<u>190,070</u>	<u>1,711,217</u>
<b>Disbursements</b>					
<b>Current</b>					
General government	374,440	-	-	-	374,440
Public safety	439,084	-	-	-	439,084
Streets and highways	64,803	-	-	-	64,803
Sanitation	141,752	-	-	-	141,752
Culture and recreation	16,507	-	-	-	16,507
Debt service	-	-	-	-	-
Principal	7,868	230,000	-	-	237,868
Interest and other charges	508	169,220	-	1,151	170,879
Capital outlay	1,926	-	2,831,060	8,955	2,841,941
TIF repayments	-	-	-	210,886	210,886
Total disbursements	<u>1,046,888</u>	<u>399,220</u>	<u>2,831,060</u>	<u>220,992</u>	<u>4,498,160</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	93,479	(18,960)	(2,830,540)	(30,922)	(2,786,943)
<b>Other Financing Sources (Uses)</b>					
Bond proceeds	-	-	3,305,000	-	3,305,000
Net bond discount	-	-	(21,194)	-	(21,194)
Transfers in	55,501	-	-	-	55,501
Transfers out	-	-	-	(55,501)	(55,501)
Total other financing sources (uses)	<u>55,501</u>	<u>-</u>	<u>3,283,806</u>	<u>(55,501)</u>	<u>3,283,806</u>
Net Change in Cash Basis Fund Balances	148,980	(18,960)	453,266	(86,423)	496,863
Cash Basis Fund Balances, Beginning	<u>539,839</u>	<u>81,511</u>	<u>-</u>	<u>165,310</u>	<u>786,660</u>
Cash Basis Fund Balances, Ending	<u>\$ 688,819</u>	<u>\$ 62,551</u>	<u>\$ 453,266</u>	<u>\$ 78,887</u>	<u>\$ 1,283,523</u>

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis  
Governmental Funds  
Year Ended December 31, 2017

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	<u>General</u>	<u>G.O. Refunding Bonds 2014A</u>	<u>Southview Addition</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Basis Assets - End of Year					
Cash	\$ 688,819	\$ 62,551	\$ 453,266	\$ 78,887	\$ 1,283,523
	<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					
Restricted for TIF repayments	\$ -	\$ -	\$ -	\$ 43,222	\$ 43,222
Restricted for capital projects	-	-	453,266	35,768	489,034
Restricted for debt service	-	62,551	-	-	62,551
Unassigned	688,819	-	-	(103)	688,716
	<u>688,819</u>	<u>62,551</u>	<u>453,266</u>	<u>78,887</u>	<u>1,283,523</u>
	<u>\$ 688,819</u>	<u>\$ 62,551</u>	<u>\$ 453,266</u>	<u>\$ 78,887</u>	<u>\$ 1,283,523</u>

City of Glyndon, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 198,580	\$ 596,856	\$ 795,436
Accounts receivable	40,891	41,675	82,566
Special assessments receivable, current portion	-	8,278	8,278
Total current assets	<u>239,471</u>	<u>646,809</u>	<u>886,280</u>
<b>Noncurrent Assets</b>			
<b>Capital assets</b>			
Construction in progress	476,444	1,611,907	2,088,351
Buildings and equipment	2,282,040	13,013	2,295,053
Land improvements	-	1,235,063	1,235,063
Accumulated depreciation	(437,586)	(174,282)	(611,868)
Net capital assets	<u>2,320,898</u>	<u>2,685,701</u>	<u>5,006,599</u>
<b>Other assets</b>			
Special assessments receivable, net of current portion	-	51,646	51,646
Total assets	<u>2,560,369</u>	<u>3,384,156</u>	<u>5,944,525</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	9,718	18,757	28,475
Accrued interest	19,875	2,616	22,491
Current portion of long-term debt	106,083	54,083	160,166
Accrued compensated absences	4,953	4,953	9,906
Total current liabilities	<u>140,629</u>	<u>80,409</u>	<u>221,038</u>
<b>Noncurrent Liabilities</b>			
Long-term debt, net of current portion	<u>1,422,071</u>	<u>665,000</u>	<u>2,087,071</u>
Total liabilities	<u>1,562,700</u>	<u>745,409</u>	<u>2,308,109</u>
<b>Net Position</b>			
Net investment in capital assets	792,744	1,966,618	2,759,362
Unrestricted	204,925	672,129	877,054
Total net position	<u>\$ 997,669</u>	<u>\$ 2,638,747</u>	<u>\$ 3,636,416</u>

City of Glyndon, Minnesota  
Statement of Changes in Net Position  
Proprietary Funds  
Year Ended December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue			
Sales	\$ 338,766	\$ 335,431	\$ 674,197
Operating Expenses			
Cost of sales and services	53,012	71,760	124,772
Administration	114,346	113,889	228,235
Depreciation	59,070	28,724	87,794
Total operating expenses	<u>226,428</u>	<u>214,373</u>	<u>440,801</u>
Operating Income	112,338	121,058	233,396
Nonoperating Revenue (Expense)			
Special assessments interest received	-	35,085	35,085
Interest income	14	2,467	2,481
Miscellaneous revenue	3,826	-	3,826
Interest expense	(47,212)	(8,364)	(55,576)
Total nonoperating revenue (expense)	<u>(43,372)</u>	<u>29,188</u>	<u>(14,184)</u>
Income Before Capital Contributions	68,966	150,246	219,212
Capital Contributions	<u>451,504</u>	<u>1,555,503</u>	<u>2,007,007</u>
Change in Net Position	520,470	1,705,749	2,226,219
Net Position, Beginning	<u>477,199</u>	<u>932,998</u>	<u>1,410,197</u>
Net Position, Ending	<u>\$ 997,669</u>	<u>\$ 2,638,747</u>	<u>\$ 3,636,416</u>

City of Glyndon, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Activities</b>			
Receipts from customers	\$ 342,727	\$ 348,554	\$ 691,281
Payments to suppliers	(54,359)	(53,215)	(107,574)
Payments to employees	(117,704)	(117,247)	(234,951)
Net cash from operating activities	<u>170,664</u>	<u>178,092</u>	<u>348,756</u>
<b>Investing Activity</b>			
Purchase of property and equipment	<u>(24,940)</u>	<u>(56,404)</u>	<u>(81,344)</u>
<b>Capital and Related Financing Activities</b>			
Principal payments on debt	(105,930)	(53,930)	(159,860)
Interest paid on debt	(47,212)	(8,364)	(55,576)
Special assessments received	-	35,085	35,085
Interest received	14	2,467	2,481
Other	3,826	-	3,826
Net cash used for capital and related financing activities	<u>(149,302)</u>	<u>(24,742)</u>	<u>(174,044)</u>
Change in Cash	(3,578)	96,946	93,368
Cash Balance, Beginning	<u>202,158</u>	<u>499,910</u>	<u>702,068</u>
Cash Balance, Ending	<u>\$ 198,580</u>	<u>\$ 596,856</u>	<u>\$ 795,436</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 112,338	\$ 121,058	\$ 233,396
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	59,070	28,724	87,794
Changes in assets and liabilities			
Accounts receivable	3,961	4,844	8,805
Special assessment receivable	-	8,279	8,279
Accounts payable	(1,347)	18,545	17,198
Accrued compensated absences	(3,358)	(3,358)	(6,716)
Net cash from operating activities	<u>\$ 170,664</u>	<u>\$ 178,092</u>	<u>\$ 348,756</u>
<b>Schedule of Noncash Capital and Related Financing Activity:</b>			
Contributions of capital assets	<u>\$ 451,504</u>	<u>\$ 1,555,503</u>	<u>\$ 2,007,007</u>

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

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

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

### **Reporting Entity**

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

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

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

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

There are no component units reported within these financial statements.

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

**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 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, 2017.

### 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 - Legal Compliance**

The cash basis fund balance of the TIF District special revenue fund has a deficit balance at December 31, 2017 of \$103. The City plans to eliminate the deficit through future collections of TIF increments or a transfer from the General Fund.

**Note 3 - Deposits and Investments**

**Deposits**

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

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

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

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

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit.

Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2017, all deposits were insured or collateralized by securities held by the City’s agent in the City’s name.

The following table presents the City’s deposit and investment balances at December 31, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Not Applicable</u>	<u>&lt; 1</u>
Deposits	\$ 2,078,959	\$ 2,078,959	\$ -

**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, 2017, the City did not have any investments.

**Note 4 - Capital Assets**

	Balance 12/31/16	Additions	Retirements	Balance 12/31/17
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 2,088,351	\$ -	\$ 2,088,351
Capital assets being depreciated				
Buildings and equipment	2,295,053	-	-	2,295,053
Land improvements	1,235,063	-	-	1,235,063
Total capital assets, being depreciated	3,530,116	-	-	3,530,116
Less: accumulated depreciation				
Buildings and equipment	378,516	59,070	-	437,586
Land improvements	145,558	28,724	-	174,282
Total accumulated depreciation	524,074	87,794	-	611,868
Total capital assets, being depreciated, net	3,006,042	(87,794)	-	2,918,248
Total capital assets, net	\$ 3,006,042	\$ 2,000,557	\$ -	\$ 5,006,599

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

Water	\$ 59,070
Sewer	28,724
	\$ 87,794

**Note 5 - City Indebtedness**

Changes in long-term debt were as follows:

	Balance 12/31/16	Additions	Retired	Balance 12/31/17	Balance Due Within One Year
Governmental activities					
Notes payable	\$ 13,942	\$ -	\$ 7,868	\$ 6,074	\$ 6,074
General obligation bonds	1,979,000	3,305,000	230,000	5,054,000	246,000
Governmental activities long-term debt	<u>\$ 1,992,942</u>	<u>\$ 3,305,000</u>	<u>\$ 237,868</u>	<u>\$ 5,060,074</u>	<u>\$ 252,074</u>
Business-type activities					
General obligation revenue bonds	\$ 1,325,000	\$ -	\$ 55,000	\$ 1,270,000	\$ 55,000
Notes payable	1,072,071	-	99,000	973,071	101,000
Capital lease	10,027	-	5,861	4,166	4,166
Compensated absences	16,622	-	6,716	9,906	9,906
Business-type activities long-term debt	<u>\$ 2,423,720</u>	<u>\$ -</u>	<u>\$ 166,577</u>	<u>\$ 2,257,143</u>	<u>\$ 170,072</u>

The following is a summary of long-term debt as of December 31, 2017:

Type	Authorized and Issued	Final Year of Maturity	Interest Rate	Outstanding
Governmental activities				
Notes payable				
Capital equipment	\$ 35,137	2018	4.50%	\$ 6,074
General obligation bonds				
2014A refunding bond	1,995,000	2025	2.00% - 3.00%	1,585,000
2016A tax abatement note	164,000	2024	2.25%	164,000
2017A improvement bond	3,305,000	2039	2.00% - 3.75%	3,305,000
				<u>5,054,000</u>
Total governmental activities				<u>\$ 5,060,074</u>
Business-Type Activities				
General obligation revenue bonds				
2014B water revenue bonds	\$ 1,370,000	2035	3.00% - 3.25%	\$ 1,270,000
Notes payable				
Clean water revolving fund	1,170,000	2030	1.09%	717,000
Drinking water revolving fund	867,071	2022	2.38%	256,071
				<u>973,071</u>
Capital lease				
Truck lease	17,166	2018	2%	4,166
Total business-type activities				<u>\$ 2,247,237</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>
2018	\$ 252,074	\$ 96,374	\$ 160,166	\$ 52,349
2019	257,000	125,458	162,000	48,770
2020	343,000	120,575	164,000	45,214
2021	348,000	113,454	165,000	41,622
2022	359,000	105,723	168,071	38,008
2023 - 2027	1,336,000	411,525	613,000	145,511
2028 - 2032	815,000	292,405	555,000	76,923
2033 - 2037	935,000	163,218	260,000	12,838
2038 - 2039	415,000	21,093	-	-
	<u>\$ 5,060,074</u>	<u>\$ 1,449,825</u>	<u>\$ 2,247,237</u>	<u>\$ 461,235</u>

### Notes Payable

In 2013, the City issued capital equipment notes for purchasing equipment. It is a five year note, has a fixed rate at December 31, 2017 of 4.5% and has monthly payments of \$656.

### 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.

During 2017, the City issued \$3,305,000 in general obligation improvement bonds with interest rates ranging between 2.00-3.75%. The issuance of the bond was for the Southview Addition project.

### General Obligation Revenue Bonds

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

### Capital Lease Payable

The capital lease of a vehicle is payable from utility revenues and has a maturity date of August 6, 2018. The vehicle has a value of \$17,166 and accumulated depreciation as of December 31, 2017 of \$8,296.

**Note 6 - Interfund Transfers**

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

<u>Transfer In</u>	<u>Transfer Out</u> <u>Capital Projects -</u> <u>Street Improvements</u>
General Fund	\$ 55,501

Transfers are made for funding various projects.

**Note 7 - Operating Leases**

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

<u>Years Ending December 31,</u>	<u>Principal</u>
2018	\$ 5,571
2019	5,895
2020	5,151
	\$ 16,617

The City made copier lease payments of \$5,247 in the year ended December 31, 2017.

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

**Plan Description**

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

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

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 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 of each year of service. For all PEPFF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF 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 General Employees, Police and Fire, and Correctional plans. The report may be obtained on the PERA's website at [www.mnpera.org](http://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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in 2015. PEPFF members were required to contribute 10.8% of their annual covered salary in 2015. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 16.2% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2017, 2016, and 2015 were \$41,330, \$36,790, and \$39,830, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.



**Note 9 - Construction Commitments**

As of December 31, 2017, the city had incurred costs of \$154,938 related to the Parke Ave and 7<sup>th</sup> Street improvement projects. The projects are expected to be completed during 2018 at an additional cost of approximately \$2,914,000. The city also incurred costs of \$2,882,138 related to the Southview Addition project. The project is expected to be completed during 2018 at an additional cost of \$416,862.

**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 city received \$80,919 from Minnesota Public Facilities Authority for reimbursement of the water looping project.



Other Supplementary Information  
December 31, 2017

## City of Glyndon, Minnesota

City of Glyndon, Minnesota  
 Budgetary Comparison Schedule, General Fund – Cash Basis  
 Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Receipts</b>			
Property taxes	\$ 280,596	\$ 335,367	\$ 54,771
Licenses and permits	10,285	11,811	1,526
Intergovernmental	459,065	502,313	43,248
Charges for services	184,248	196,525	12,277
Interest earnings	750	1,155	405
Fines and forfeits	35,000	25,652	(9,348)
Miscellaneous	19,000	67,544	48,544
Total receipts	<u>988,944</u>	<u>1,140,367</u>	<u>151,423</u>
<b>Disbursements</b>			
General government	422,655	374,440	48,215
Public safety	408,321	439,084	(30,763)
Streets and parks	117,153	64,803	52,350
Sanitation	141,036	141,752	(716)
Community center	17,500	16,507	993
Debt service:			
Principal	7,300	7,868	(568)
Interest and fees	-	508	(508)
Capital outlay	8,000	1,926	6,074
Total disbursements	<u>1,121,965</u>	<u>1,046,888</u>	<u>75,077</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(133,021)	93,479	226,500
<b>Other Financing Sources</b>			
Transfers in	<u>-</u>	<u>55,501</u>	<u>55,501</u>
Net Change in Cash Basis Fund Balances	<u>\$ (133,021)</u>	148,980	<u>\$ 282,001</u>
Cash Basis Fund Balance - Beginning		<u>539,839</u>	
Cash Basis Fund Balance - Ending		<u>\$ 688,819</u>	

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Nonmajor Governmental Funds  
Year Ended December 31, 2017

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Centennial Addition</u>	<u>TIF District</u>	<u>Street Improvements</u>	<u>Stockwood</u>	
Receipts					
Property taxes	\$ -	\$ -	\$ -	\$ 24,100	\$ 24,100
TIF increments	106,224	59,746	-	-	165,970
Total receipts	<u>106,224</u>	<u>59,746</u>	<u>-</u>	<u>24,100</u>	<u>190,070</u>
Disbursements					
TIF repayments	152,188	58,698	-	-	210,886
Debt service					
Interest and other charges	-	1,151	-	-	1,151
Capital outlay	-	-	-	8,955	8,955
Total disbursements	<u>152,188</u>	<u>59,849</u>	<u>-</u>	<u>8,955</u>	<u>220,992</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(45,964)	(103)	-	15,145	(30,922)
Other Financing Sources					
Transfers out	-	-	(55,501)	-	(55,501)
Net Change in Cash Basis Fund Balance	(45,964)	(103)	(55,501)	15,145	(86,423)
Cash Basis Fund Balance, Beginning	<u>89,186</u>	<u>-</u>	<u>55,501</u>	<u>20,623</u>	<u>165,310</u>
Cash Basis Fund Balance, Ending	<u>\$ 43,222</u>	<u>\$ (103)</u>	<u>\$ -</u>	<u>\$ 35,768</u>	<u>\$ 78,887</u>

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
Nonmajor Governmental Funds  
Year Ended December 31, 2017

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	Special Revenue Funds		Capital Projects Fund	Total Other Governmental Funds
	Centennial Addition	TIF District	Stockwood	
Cash Basis Assets - End of Year				
Cash	\$ 43,222	\$ (103)	\$ 35,768	\$ 78,887
Cash Basis Fund Balance				
Restricted for TIF repayments	\$ 43,222	\$ -	\$ -	\$ 43,222
Restricted for capital projects	-	-	35,768	35,768
Unassigned	-	(103)	-	(103)
	\$ 43,222	\$ (103)	\$ 35,768	\$ 78,887

City of Glyndon, Minnesota  
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis  
General Fund by Department  
Year Ended December 31, 2017

	General Operations Department	Rescue Squad Department	Fire Department	Total General Fund
<b>Receipts</b>				
Property taxes	\$ 312,098	\$ 10,487	\$ 12,782	\$ 335,367
Licenses and permits	11,811	-	-	11,811
Intergovernmental	429,809	-	72,504	502,313
Interest earnings	1,155	-	-	1,155
Charges for services	182,029	-	14,496	196,525
Fine and forfeits	25,652	-	-	25,652
Miscellaneous	65,569	1,475	500	67,544
Total receipts	<u>1,028,123</u>	<u>11,962</u>	<u>100,282</u>	<u>1,140,367</u>
<b>Disbursements</b>				
Current				
General government	374,440	-	-	374,440
Public safety	239,755	34,911	164,418	439,084
Streets and parks	64,803	-	-	64,803
Sanitation	141,752	-	-	141,752
Community center	16,507	-	-	16,507
Debt service				
Principal	7,868	-	-	7,868
Interest and other charges	508	-	-	508
Capital outlay	1,926	-	-	1,926
Total disbursements	<u>847,559</u>	<u>34,911</u>	<u>164,418</u>	<u>1,046,888</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	180,564	(22,949)	(64,136)	93,479
<b>Other Financing Sources</b>				
Transfers in	<u>55,501</u>	<u>-</u>	<u>-</u>	<u>55,501</u>
Net Change in Cash Basis Fund Balances	236,065	(22,949)	(64,136)	148,980
Cash Basis Fund Balances, Beginning	<u>361,859</u>	<u>46,195</u>	<u>131,785</u>	<u>539,839</u>
Cash Basis Fund Balances, Ending	<u>\$ 597,924</u>	<u>\$ 23,246</u>	<u>\$ 67,649</u>	<u>\$ 688,819</u>

City of Glyndon, Minnesota  
Schedule of Accounts Receivable  
December 31, 2017

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<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Clay County	Special Assessments and Taxes	\$ 12,790
Utility Customers	Utilities	17,706
State of Minnesota	State Aid - Street Repairs	4,775
Clay County	Recycling Reimbursement	6,966
		<hr/>
		\$ 42,237
		<hr/> <hr/>

City of Glyndon, Minnesota  
 Schedule of Accounts Payable  
 December 31, 2017

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Midwest Regional Development LLC	TIF payment	\$ 52,601
Clay County Highway Department	Engineering Fees	27,731
Fuchs Sanitation Inc.	Refuse/Garbage Disposal	18,775
Ulteig Engineering	Professional Services	14,462
Miller Norman & Associates	Legal Fees	1,178
		<u>114,746</u>
		<u>\$ 114,746</u>
Southview Addition Fund		
LJA	Southview addition	\$ 30,789
		<u>30,789</u>





Additional Reports  
December 31, 2017

# 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, 2017, 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 15, 2018.

**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 District's internal control. 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 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 and 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 the deficiencies 2017-A, 2017-B, and 2017-C described in the accompanying schedule of findings to be material weaknesses.

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

### **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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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 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 cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
May 15, 2018



## 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, 2017, 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 15, 2018.

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, nothing came to our attention that caused us to believe the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota  
May 15, 2018

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**Section I – Financial Statement Findings**

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**2017-A            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.

**2017-B            Material Journal Entries  
                         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 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.

**2017-C            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.

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**Section II – Minnesota Legal Compliance Findings**

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None