



Financial Statements
December 31, 2016

City of Glyndon, Minnesota

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City of Glyndon, Minnesota
Elected and Appointed Officials (Unaudited)
December 31, 2016

<u>Name</u>	<u>Position</u>	<u>Term Expires December 31,</u>
Council		
Cecil Johnson	Mayor	2016
Chris Jensen	Council Member	2016
Joe Olson	Council Member	2016
David Owings	Council Member	2018
Kimberly Savageau	Council Member	2018
Officials		
Wendy Affield	Clerk-Treasurer	
Michael Cline	Chief of Police	
Ken Norman	City Attorney	



Independent Auditor's Report

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

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, 2016, 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, 2016, 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, 2016, 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 12, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of a *Government Auditing Standards* audit in considering the City's internal control over financial reporting and compliance.

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

Fargo, North Dakota
May 12, 2017

City of Glyndon, Minnesota
Statement of Net Position
December 31, 2016

	Cash Basis Governmental Activities	Business-Type Activities
Assets		
Cash and investments	\$ 786,660	\$ 702,068
Accounts receivable	-	91,371
Special assessments receivable	-	68,203
	786,660	861,642
Capital assets		
Buildings and equipment	-	2,295,053
Land improvements	-	1,235,063
Less accumulated depreciation	-	(524,074)
Total capital assets, net of depreciation	-	3,006,042
Total assets	786,660	3,867,684
Liabilities		
Accounts payable	-	11,277
Accrued interest	-	22,491
Noncurrent liabilities		
Due within one year	-	176,482
Due in more than one year	-	2,247,237
Total liabilities	-	2,457,487
Net Position		
Net investment in capital assets	-	598,945
Restricted	246,821	-
Unrestricted	539,839	811,252
Total net position	\$ 786,660	\$ 1,410,197

City of Glyndon, Minnesota
Statement of Activities
Year Ended December 31, 2016

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
Primary Government					
Governmental activities - cash basis:					
General government	\$ 489,512	\$ 132,090	\$ -	\$ (357,422)	\$ -
Public safety	328,736	46,594	26,810	(255,332)	-
Sanitation	119,557	136,225	-	16,668	-
Streets and highways	79,032	-	-	(79,032)	-
Culture and recreation	18,245	-	-	(18,245)	-
Debt service	1,272,818	-	-	(1,272,818)	-
TIF repayments	252,065	-	-	(252,065)	-
Total governmental activities - cash basis	<u>2,559,965</u>	<u>314,909</u>	<u>26,810</u>	<u>(2,218,246)</u>	<u>-</u>
Business-type activities					
Water	317,374	338,683	-	-	21,309
Sewer	227,808	369,248	-	-	141,440
Total business-type activities	<u>545,182</u>	<u>707,931</u>	<u>-</u>	<u>-</u>	<u>162,749</u>
Total Primary Government	<u>\$ 3,105,147</u>	<u>\$ 1,022,840</u>	<u>\$ 26,810</u>	<u>(2,218,246)</u>	<u>162,749</u>
General revenues					
Property taxes				709,407	-
Licenses, permits, fines, and forfeitures				42,395	-
Intergovernmental				405,185	-
TIF increments				101,991	-
Interest earnings				2,106	-
Bond proceeds				164,000	-
Capital contributions				(47,400)	47,400
Miscellaneous				41,328	3,504
Total general revenues				<u>1,419,012</u>	<u>50,904</u>
Change in net position				(799,234)	213,653
Net position - beginning of year				<u>1,585,894</u>	<u>1,196,544</u>
Net position - end of year				<u>\$ 786,660</u>	<u>\$ 1,410,197</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2016

	Debt Service Funds			Other Governmental Funds	Total Governmental Funds
	General	G.O. Refunding Bonds 2014A	G.O. Improvement Bonds of 2007		
Receipts					
Property taxes	\$ 285,656	\$ 80,722	\$ 343,029	\$ -	\$ 709,407
Special assessments	-	30,320	61,057	40,713	132,090
Licenses and permits	7,453	-	-	-	7,453
Intergovernmental	431,995	-	-	-	431,995
Charges for services	182,819	-	-	-	182,819
Fines and forfeits	34,942	-	-	-	34,942
TIF increments	-	-	-	101,991	101,991
Interest earnings	808	1,298	-	-	2,106
Miscellaneous	41,328	-	-	-	41,328
Total receipts	<u>985,001</u>	<u>112,340</u>	<u>404,086</u>	<u>142,704</u>	<u>1,644,131</u>
Disbursements					
Current					
General government	344,941	-	-	-	344,941
Public safety	328,736	-	-	-	328,736
Streets and highways	79,032	-	-	-	79,032
Sanitation	119,557	-	-	-	119,557
Culture and recreation	18,245	-	-	-	18,245
Debt service	-	-	-	-	-
Principal	7,030	120,000	85,000	30,000	242,030
Interest and other charges	837	51,470	22,070	6,411	80,788
Capital outlay	16,678	-	-	175,293	191,971
TIF repayments	-	-	109,264	142,801	252,065
Total disbursements	<u>915,056</u>	<u>171,470</u>	<u>216,334</u>	<u>354,505</u>	<u>1,657,365</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	69,945	(59,130)	187,752	(211,801)	(13,234)
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	164,000	164,000
Payment to refunded bond escrow agent	-	-	(950,000)	-	(950,000)
Transfers in	168,669	-	135,367	-	304,036
Transfers out	(135,367)	-	-	(168,669)	(304,036)
Total other financing sources (uses)	<u>33,302</u>	<u>-</u>	<u>(814,633)</u>	<u>(4,669)</u>	<u>(786,000)</u>
Net Change in Cash Basis Fund Balances	103,247	(59,130)	(626,881)	(216,470)	(799,234)
Cash Basis Fund Balances, Beginning	<u>436,592</u>	<u>140,641</u>	<u>626,881</u>	<u>381,780</u>	<u>1,585,894</u>
Cash Basis Fund Balances, Ending	<u>\$ 539,839</u>	<u>\$ 81,511</u>	<u>\$ -</u>	<u>\$ 165,310</u>	<u>\$ 786,660</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2016

	General	Debt Service Funds		Other Governmental Funds	Total Governmental Funds
		G.O. Refunding Bonds 2014A	G.O. Improvement Bonds of 2007		
Cash Basis Assets - End of Year					
Cash and investments	\$ 539,839	\$ 81,511	\$ -	\$ 165,310	\$ 786,660
Cash Basis Fund Balances					
Restricted for TIF repayments	\$ -	\$ -	\$ -	\$ 89,186	\$ 89,186
Restricted for capital projects	-	-	-	76,124	76,124
Restricted for debt service	-	81,511	-	-	81,511
Unassigned	539,839	-	-	-	539,839
	<u>\$ 539,839</u>	<u>\$ 81,511</u>	<u>\$ -</u>	<u>\$ 165,310</u>	<u>\$ 786,660</u>

City of Glyndon, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets			
Current Assets			
Cash and investments	\$ 202,158	\$ 499,910	\$ 702,068
Accounts receivable	44,852	46,519	91,371
Special assessments receivable, current portion	-	8,193	8,193
Total current assets	<u>247,010</u>	<u>554,622</u>	<u>801,632</u>
Noncurrent Assets			
Capital assets			
Buildings and equipment	2,282,040	13,013	2,295,053
Land improvements	-	1,235,063	1,235,063
Accumulated depreciation	(378,516)	(145,558)	(524,074)
Net capital assets	<u>1,903,524</u>	<u>1,102,518</u>	<u>3,006,042</u>
Other assets			
Special assessments receivable, net of current portion	-	60,010	60,010
Total assets	<u>2,150,534</u>	<u>1,717,150</u>	<u>3,867,684</u>
Liabilities			
Current Liabilities			
Accounts payable	11,065	212	11,277
Accrued interest	19,875	2,616	22,491
Current portion of long-term debt	105,930	53,930	159,860
Accrued compensated absences	8,311	8,311	16,622
Total current liabilities	<u>145,181</u>	<u>65,069</u>	<u>210,250</u>
Noncurrent Liabilities			
Long-term debt, net of current portion	<u>1,528,154</u>	<u>719,083</u>	<u>2,247,237</u>
Total liabilities	<u>1,673,335</u>	<u>784,152</u>	<u>2,457,487</u>
Net Position			
Net investment in capital assets	269,440	329,505	598,945
Unrestricted	207,759	603,493	811,252
Total net position	<u>\$ 477,199</u>	<u>\$ 932,998</u>	<u>\$ 1,410,197</u>

City of Glyndon, Minnesota
Statement of Changes in Net Position
Proprietary Funds
Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue			
Sales	\$ 338,683	\$ 345,224	\$ 683,907
Operating Expenses			
Cost of sales and services	122,337	78,517	200,854
Administration	115,042	114,911	229,953
Depreciation	30,923	25,865	56,788
Total operating expenses	<u>268,302</u>	<u>219,293</u>	<u>487,595</u>
Operating Income	70,381	125,931	196,312
Nonoperating Revenue (Expense)			
Special assessments interest received	-	24,024	24,024
Interest income	1,266	2,238	3,504
Interest expense	<u>(49,072)</u>	<u>(8,515)</u>	<u>(57,587)</u>
Total nonoperating revenue (expense)	<u>(47,806)</u>	<u>17,747</u>	<u>(30,059)</u>
Income Before Capital Contributions	22,575	143,678	166,253
Capital Contributions	<u>-</u>	<u>47,400</u>	<u>47,400</u>
Change in Net Position	22,575	191,078	213,653
Net Position, Beginning	<u>454,624</u>	<u>741,920</u>	<u>1,196,544</u>
Net Position, Ending	<u>\$ 477,199</u>	<u>\$ 932,998</u>	<u>\$ 1,410,197</u>

City of Glyndon, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Activities			
Receipts from customers	\$ 341,898	\$ 345,944	\$ 687,842
Payments to suppliers	(111,272)	(78,378)	(189,650)
Payments to employees	(111,424)	(111,293)	(222,717)
Net cash from operating activities	<u>119,202</u>	<u>156,273</u>	<u>275,475</u>
Investing Activity			
Purchase of property and equipment	<u>(528,730)</u>	<u>(4,430)</u>	<u>(533,160)</u>
Capital and Related Financing Activities			
Principal payments on debt	(94,712)	(53,712)	(148,424)
Interest paid on debt	(49,830)	(8,919)	(58,749)
Special assessments received	-	40,677	40,677
Interest received	<u>1,266</u>	<u>2,238</u>	<u>3,504</u>
Net cash used for capital and related financing activities	<u>(143,276)</u>	<u>(19,716)</u>	<u>(162,992)</u>
Change in Cash and Investments	(552,804)	132,127	(420,677)
Cash and Investments Balance, Beginning	<u>754,962</u>	<u>367,783</u>	<u>1,122,745</u>
Cash and Investments Balance, Ending	<u>\$ 202,158</u>	<u>\$ 499,910</u>	<u>\$ 702,068</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 70,381	\$ 125,931	\$ 196,312
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	30,923	25,865	56,788
Changes in assets and liabilities			
Accounts receivable	3,215	720	3,935
Accounts payable	11,065	139	11,204
Accrued compensated absences	<u>3,618</u>	<u>3,618</u>	<u>7,236</u>
Net cash from operating activities	<u>\$ 119,202</u>	<u>\$ 156,273</u>	<u>\$ 275,475</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.

G.O. Improvement Bonds of 2007 Fund – The City accounts for cash receipts and disbursements related to the debt service on these bonds, which were issued for the Stockwood development.

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, 2016.

Capital Assets

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

Depreciation is provided for the capital assets of the proprietary funds using the straight-line method over the estimated useful life of 50 years.

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

Compensated Absences

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

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

Fund Equity

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

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

Net Position

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

Property Taxes

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

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

Special Assessments

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

Budgets

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

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

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

Note 2 - Legal Compliance

Excess of Disbursements over Appropriations

For the year ended December 31, 2016, disbursements exceeded appropriations in the General Fund by \$52,709 before operating transfers. These over disbursements were funded by receipts that significantly exceeded budgeted amounts, available fund balance and transfers from other funds.

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, 2016, 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, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Not Applicable</u>	<u>< 1</u>
Deposits	\$ 1,488,728	\$ 1,488,728	\$ -

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, 2016, the City did not have any investments.

Note 4 - Capital Assets

	Balance 12/31/15	Additions	Retirements	Balance 12/31/16
Capital assets not being depreciated				
Construction in progress	\$ 825,898	\$ -	\$ 825,898	\$ -
Capital assets being depreciated				
Buildings and equipment	935,995	1,359,058	-	2,295,053
Land improvements	1,187,663	47,400	-	1,235,063
Total capital assets, being depreciated	2,123,658	1,406,458	-	3,530,116
Less: accumulated depreciation				
Buildings and equipment	348,308	30,208	-	378,516
Land improvements	118,978	26,580	-	145,558
Total accumulated depreciation	467,286	56,788	-	524,074
Total capital assets, being depreciated, net	1,656,372	1,349,670	-	3,006,042
Total capital assets, net	\$ 2,482,270	\$ 1,349,670	\$ 825,898	\$ 3,006,042

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

Water	\$ 30,923
Sewer	25,865
	\$ 56,788

Note 5 - City Indebtedness

Changes in long-term debt were as follows:

	Balance 12/31/15	Additions	Retired	Balance 12/31/16	Balance Due Within One Year
Governmental activities					
Notes payable	\$ 20,972	\$ -	\$ 7,030	\$ 13,942	\$ 7,360
General obligation bonds	2,995,000	164,000	1,180,000	1,979,000	230,000
General obligation improvement bonds	5,000	-	5,000	-	-
Governmental activities long-term debt	\$ 3,020,972	\$ 164,000	\$ 1,192,030	\$ 1,992,942	\$ 237,360
Business-type activities					
General obligation revenue notes	\$ 2,540,070	\$ -	\$ 143,000	\$ 2,397,070	\$ 154,000
Capital lease	15,451	-	5,424	10,027	5,860
Compensated absences	9,386	16,622	9,386	16,622	16,622
Business-type activities long-term debt	\$ 2,564,907	\$ 16,622	\$ 157,810	\$ 2,423,719	\$ 176,482

The following is a summary of long-term debt as of December 31, 2016:

Type	Authorized and Issued	Final Year of Maturity	Interest Rate	Outstanding
Governmental activities				
Notes Payable				
Capital equipment	\$ 35,137	2018	4.50	\$ 13,942
General obligation bonds				
2014A Refunding Bond	1,995,000	2025	2.00 - 3.00	1,815,000
2016A Tax Abatement Note	164,000	2024	2.25	164,000
				<u>1,979,000</u>
Total governmental activities				\$ 1,992,942
Business-Type Activities				
General obligation revenue bonds				
Clean water revolving fund	\$ 1,170,000	2030	1.09	\$ 768,000
Drinking water revolving fund	867,071	2022	2.38	304,070
2014B Water Revenue bonds	1,370,000	2035	3.00 - 3.25	1,325,000
				<u>2,397,070</u>
Capital lease				
Truck Lease	17,166	2018	2.49	10,027
Total business-type activities				\$ 2,407,097

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>
2017	\$ 237,360	\$ 83,912	\$ 159,860	\$ 56,148
2018	252,582	78,289	160,166	52,349
2019	257,000	65,548	162,000	48,770
2020	208,000	56,569	164,000	45,214
2021	213,000	47,791	165,000	41,622
2022 - 2026	825,000	88,059	654,071	159,693
2027 - 2031	-	-	602,000	90,999
2032 - 2035	-	-	340,000	22,588
	<u>\$ 1,992,942</u>	<u>\$ 420,168</u>	<u>\$ 2,407,097</u>	<u>\$ 517,383</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, 2016 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 2016 the City issued \$164,000 in general obligation tax abatement bonds with an interest rate of 2.25%. The issuance of the bond was for extended electric services and the realignment of sanitary sewer pipes.

During 2016, \$950,000 of cash with fiscal agent was used to pay off the 2007 General Obligation Bonds on the crossover refunding date.

General Obligation Revenue Bonds

General obligation revenue bonds are payable from utility revenues and, if required, by ad valorem tax levies. The City issued \$1,370,000 in general obligation utility revenue bonds with interest rates ranging between 2-3.25%.

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, 2016 of \$4,864.

Note 6 - Operating Leases

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

Years Ending December 31,	Principal
2017	\$ 5,247
2018	5,571
2019	5,895
2020	5,151
	\$ 21,864

The City made copier lease payments of \$4,923 in the year ended December 31, 2016.

Note 7 - Interfund Transactions

During the year ended December 31, 2016, the City made the following interfund transfers:

Transfer In	Transfer Out	
	General	G.O. Improvement Bonds of 2000
General Fund	\$ -	\$ 168,669
G.O. Improvement Bonds of 2007	135,367	-
	\$ 135,367	\$ 168,669

Transfers were made to move remaining funds of the G.O. Improvement Bonds of 2000 Fund due to the bonds being paid off and to alleviate a deficit cash fund balances in the G.O. Improvement Bonds of 2007 Fund.

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.

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. GERS 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, 2016, 2015, and 2014 were \$36,790, \$39,830, and \$37,905, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 9 - Construction Commitments

The City has committed to a road construction project as of December 31, 2016 for \$10,854. The project relates to road construction on Highway 10. The project is anticipated to begin in May 2017.

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.



Other Supplementary Information
December 31, 2016

City of Glyndon, Minnesota

City of Glyndon, Minnesota
 Budgetary Comparison Schedule, General Fund – Cash Basis
 Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Receipts			
Property taxes	\$ 276,081	\$ 285,656	\$ 9,575
Licenses and permits	6,000	7,453	1,453
Intergovernmental	409,626	431,995	22,369
Charges for services	170,710	182,819	12,109
Interest earnings	1,250	808	(442)
Fines and forfeits	33,000	34,942	1,942
Miscellaneous	28,184	41,328	13,144
Total receipts	<u>924,851</u>	<u>985,001</u>	<u>60,150</u>
Disbursements			
General government	344,938	344,941	(3)
Public safety	305,635	328,736	(23,101)
Streets and parks	76,894	79,032	(2,138)
Sanitation	104,178	119,557	(15,379)
Community center	21,000	18,245	2,755
Debt service:			
Principal	-	7,030	(7,030)
Interest and fees	-	837	(837)
Capital outlay	9,700	16,678	(6,978)
Total disbursements	<u>862,345</u>	<u>915,056</u>	<u>(52,711)</u>
Excess of Receipts Over Disbursements	62,506	69,945	7,439
Other Financing Sources (Uses)			
Insurance reimbursement	10,328	-	(10,328)
Transfers in	10,000	168,669	158,669
Transfers out	-	(135,367)	(135,367)
Total other financing sources (uses)	<u>20,328</u>	<u>33,302</u>	<u>12,974</u>
Net Change in Cash Basis Fund Balances	<u>\$ 82,834</u>	103,247	<u>\$ 20,413</u>
Cash Basis Fund Balance - Beginning		<u>436,592</u>	
Cash Basis Fund Balance - Ending		<u>\$ 539,839</u>	

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue Fund	Capital Projects Funds		Debt Service Funds		Total Other Governmental Funds
	Centennial Addition	Street Improvements	Stockwood	G.O. Improvement Bonds of 2000	G.O. Improvement Bonds of 2010	
Receipts						
Special assessments	\$ -	\$ -	\$ -	\$ 15,493	\$ 25,220	\$ 40,713
TIF increments	101,991	-	-	-	-	101,991
Total receipts	<u>101,991</u>	<u>-</u>	<u>-</u>	<u>15,493</u>	<u>25,220</u>	<u>142,704</u>
Disbursements						
TIF repayments	142,801	-	-	-	-	142,801
Debt service						
Principal	-	-	-	5,000	25,000	30,000
Interest and other charges	-	-	4,800	1,302	309	6,411
Capital outlay	-	36,716	138,577	-	-	175,293
Total disbursements	<u>142,801</u>	<u>36,716</u>	<u>143,377</u>	<u>6,302</u>	<u>25,309</u>	<u>354,505</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(40,810)	(36,716)	(143,377)	9,191	(89)	(211,801)
Other Financing Sources (Uses)						
Bond proceeds	-	-	164,000	-	-	164,000
Transfers out	-	-	-	(168,669)	-	(168,669)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>164,000</u>	<u>(168,669)</u>	<u>-</u>	<u>(4,669)</u>
Net Change in Cash Basis Fund Balance	(40,810)	(36,716)	20,623	(159,478)	(89)	(216,470)
Cash Basis Fund Balance, Beginning	<u>129,996</u>	<u>92,217</u>	<u>-</u>	<u>159,478</u>	<u>89</u>	<u>381,780</u>
Cash Basis Fund Balance, Ending	<u>\$ 89,186</u>	<u>\$ 55,501</u>	<u>\$ 20,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,310</u>

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue Fund	Capital Projects Funds		Debt Service Funds		Total Other Governmental Funds
	Centennial Addition	Street Improvements	Stockwood	G.O. Improvement Bonds of 2000	G.O. Improvement Bonds of 2010	
Cash Basis Assets - End of Year						
Cash and investments	\$ 89,186	\$ 55,501	\$ 20,623	\$ -	\$ -	\$ 165,310
Cash Basis Fund Balance						
Restricted for TIF repayments	\$ 89,186	\$ -	\$ -	\$ -	\$ -	\$ 89,186
Restricted for capital projects	-	55,501	20,623	-	-	76,124
	\$ 89,186	\$ 55,501	\$ 20,623	\$ -	\$ -	\$ 165,310

City of Glyndon, Minnesota
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
General Fund by Department
Year Ended December 31, 2016

	General Operations Department	Rescue Squad Department	Fire Department	Total General Fund
Receipts				
Property taxes	\$ 263,443	\$ 9,882	\$ 12,331	\$ 285,656
Licenses and permits	7,453	-	-	7,453
Intergovernmental	403,529	-	28,466	431,995
Interest earnings	808	-	-	808
Charges for services	175,377	-	7,442	182,819
Fine and forfeits	34,942	-	-	34,942
Miscellaneous	39,248	2,080	-	41,328
Total receipts	<u>924,800</u>	<u>11,962</u>	<u>48,239</u>	<u>985,001</u>
Disbursements				
Current				
General government	344,941	-	-	344,941
Public safety	278,090	5,552	45,094	328,736
Streets and parks	79,032	-	-	79,032
Sanitation	119,557	-	-	119,557
Community center	18,245	-	-	18,245
Debt service				
Principal	7,030	-	-	7,030
Interest and other charges	837	-	-	837
Capital outlay	16,678	-	-	16,678
Total disbursements	<u>864,410</u>	<u>5,552</u>	<u>45,094</u>	<u>915,056</u>
Excess of Receipts				
Over Disbursements	60,390	6,410	3,145	69,945
Other Financing Sources (Uses)				
Transfers in	168,669	-	-	168,669
Transfers out	(135,367)	-	-	(135,367)
Total other financing sources (uses)	<u>33,302</u>	<u>-</u>	<u>-</u>	<u>33,302</u>
Net Change in Cash				
Basis Fund Balances	93,692	6,410	3,145	103,247
Cash Basis Fund Balances,				
Beginning	<u>268,167</u>	<u>39,785</u>	<u>128,640</u>	<u>436,592</u>
Cash Basis Fund Balances,				
Ending	<u>\$ 361,859</u>	<u>\$ 46,195</u>	<u>\$ 131,785</u>	<u>\$ 539,839</u>

City of Glyndon, Minnesota
Schedule of Accounts Receivable
December 31, 2016

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Clay County	Special Assessments and Taxes	\$ 49,185
Utility Customers	Utilities	41,362
State of Minnesota	Fire State Aid	24,342
Clay County	Recycling Reimbursement	5,280
		<hr/>
		\$ 120,169
		<hr/> <hr/>

City of Glyndon, Minnesota
Schedule of Accounts Payable
December 31, 2016

<u>Fund and Source</u>	<u>Purpose</u>	<u>Amount</u>
General Fund		
Glyndon Firefighter Relief	State Aid	\$ 24,342
Miller Norman & Associates	Legal Fees	2,313
		<hr/>
		\$ 26,655
		<hr/> <hr/>



Additional Reports
December 31, 2016

City of Glyndon, Minnesota



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds of the City of Glyndon, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2017.

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 2016-A, 2016-B, and 2016-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 12, 2017



Minnesota Legal Compliance Independent Auditor's Report

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2017.

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 that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the schedule of findings as item 2016-D. 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 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 12, 2017

Section I – Financial Statement Findings

**2016-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.

**2016-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.

2016-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.

Section II – Minnesota Legal Compliance Findings

2016-D Bidding Process

Criteria: A good system of internal control contemplates an adequate system for monitoring the requirements regarding the process of bidding.

Condition: Minnesota statute 471.342 subd. 4 requires that all contracts estimated to exceed \$25,000 may be made either upon sealed bids or by obtaining two or more quotations for the purchase. All quotations obtained shall be kept on file for a period of at least one year after the receipt thereof. Minnesota statute 383B.145 subd. 7 requires all bids estimated to cost \$10,000 or more that are obtained through sealed bids shall have specifications publically advertised through publications. The City's bid process did not meet these requirements.

Cause: The City does not have an internal control system designed to properly monitor the requirements regarding the process of bidding.

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

Recommendation: The City needs to periodically review its bidding documentation to ensure compliance.

Views of Responsible Officials: The City will ensure the bidding process includes public advertising on sealed bids and the City will retain all bidding documentation for at least one year.