

**CITY OF DANUBE  
DANUBE, MINNESOTA**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

CITY OF DANUBE, MINNESOTA  
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SECTION I

INTRODUCTORY SECTION

CITY OF DANUBE  
DANUBE, MINNESOTA  
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

MAYOR	Gene Alex
COUNCIL MEMBER	Ryan Bentley
COUNCIL MEMBER	Dave Maurice
COUNCIL MEMBER	Bob Simpson
COUNCIL MEMBER	Al Strunc
CITY CLERK	Sara Wilson
CITY ATTORNEY	Blair Younger

SECTION II

FINANCIAL SECTION

**OBERLOH & ASSOCIATES, LTD.**

**CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 186 • 530 WEST PARK ROAD  
REDWOOD FALLS, MN 56283**

**Telephone: (507) 644-6400  
Fax: (507) 644-6401**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the Council  
City of Danube  
Danube, Minnesota

We have audited the accompanying financial statements of each major fund and the discretely presented component units, of the City of Danube, Minnesota, as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of the City of Danube, Minnesota's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the City prepares its financial statements using accounting practices prescribed and permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective cash and unencumbered cash balances of each major fund and the discretely presented component units of the City of Danube, Minnesota as of December 31, 2011, and the receipts it received and disbursements it paid for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 our testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Danube, Minnesota's regulatory basis financial statements. The statements and schedules on pages 21 through 30 are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The statements and schedules on pages 21 through 28 have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole on the regulatory basis of accounting discussed in Note 1. The schedules on pages 29 and 30 noted as unaudited have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body and management of City of Danube, Minnesota, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Oberloh & Associates, Ltd.*  
Oberloh & Associates, Ltd.

March 14, 2012

CITY OF DANUBE, MINNESOTA  
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	<u>General Fund</u>	<u>School Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and Cash Investments	\$ <u>304,159</u>	\$ <u>135,409</u>	\$ <u>156,844</u>	\$ <u>75,303</u>	\$ <u>671,715</u>
<b>Total Assets</b>	<u>\$ 304,159</u>	<u>\$ 135,409</u>	<u>\$ 156,844</u>	<u>\$ 75,303</u>	<u>\$ 671,715</u>
<b>LIABILITIES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>CASH FUND BALANCES</b>					
Restricted	-	-	-	75,303	75,303
Assigned	-	135,409	156,844	-	292,253
Unassigned	<u>304,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,159</u>
<b>Total Cash Fund Balances</b>	<u>304,159</u>	<u>135,409</u>	<u>156,844</u>	<u>75,303</u>	<u>671,715</u>
<b>Total Liabilities and Cash Fund Balances</b>	<u>\$ 304,159</u>	<u>\$ 135,409</u>	<u>\$ 156,844</u>	<u>\$ 75,303</u>	<u>\$ 671,715</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DANUBE, MINNESOTA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	School Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
<b>RECEIPTS</b>					
Taxes	\$ 188,529	\$ -	\$ -	\$ 21,104	\$ 209,633
Licenses and Permits	2,550	-	-	-	2,550
Intergovernmental Revenue	167,808	-	-	-	167,808
Charges for Services	14,644	85,433	-	-	100,077
Fines and Forfeits	2,865	-	-	-	2,865
Interest Income	3,625	868	1,389	613	6,495
Miscellaneous	18,038	50,162	-	-	68,200
Total Receipts	398,059	136,463	1,389	21,717	557,628
<b>DISBURSEMENTS</b>					
<b>Current Operations:</b>					
General Government	62,884	-	-	-	62,884
Public Safety	113,654	-	-	-	113,654
Public Works	112,860	-	-	-	112,860
Culture and Recreation	2,782	-	-	-	2,782
Miscellaneous	26,523	70,742	-	-	97,265
<b>Debt Service:</b>					
Principal Payments	-	-	-	11,000	11,000
Interest Payments	-	-	-	5,000	5,000
Capital Outlay	337,828				337,828
Total Disbursements	656,531	70,742	-	16,000	743,273
<b>EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(258,472)	65,721	1,389	5,717	(185,645)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	16,061	-	-	-	16,061
Transfer Out	-	-	(16,061)	-	(16,061)
<b>NET CHANGE IN CASH FUND BALANCES</b>	(242,411)	65,721	(14,672)	5,717	(185,645)
<b>CASH FUND BALANCES - January 1</b>	546,570	69,688	171,516	69,586	857,360
<b>CASH FUND BALANCES - December 31</b>	\$ 304,159	\$ 135,409	\$ 156,844	\$ 75,303	\$ 671,715

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DANUBE, MINNESOTA  
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Totals</u>	<u>Component</u> <u>Unit</u>
	<u>Water</u> <u>Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>		<u>EDA 4-Plex</u>
<b>ASSETS</b>					
Cash and Cash Investments	\$ <u>54,009</u>	\$ <u>92,613</u>	\$ <u>59,360</u>	\$ <u>205,982</u>	\$ <u>5,474</u>
<b>Total Assets</b>	<u>\$ 54,009</u>	<u>\$ 92,613</u>	<u>\$ 59,360</u>	<u>\$ 205,982</u>	<u>\$ 5,474</u>
<b>LIABILITIES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,260</u>
<b>NET CASH ASSETS</b>					
Unrestricted	<u>54,009</u>	<u>92,613</u>	<u>59,360</u>	<u>205,982</u>	<u>3,214</u>
Total Net Cash Assets	<u>54,009</u>	<u>92,613</u>	<u>59,360</u>	<u>205,982</u>	<u>3,214</u>
<b>Total Liabilities and Net Cash Assets</b>	<u>\$ 54,009</u>	<u>\$ 92,613</u>	<u>\$ 59,360</u>	<u>\$ 205,982</u>	<u>\$ 5,474</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DANUBE, MINNESOTA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN NET CASH ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Totals</u>	<u>Component</u> <u>Unit</u>
	<u>Water</u> <u>Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>		<u>EDA 4-Plex</u>
<b>OPERATING RECEIPTS</b>					
Charges for Services	\$ 30,088	\$ 29,260	\$ 19,643	\$ 78,991	\$ -
Rental Income	-	-	-	-	21,905
Total Operating Receipts	<u>30,088</u>	<u>29,260</u>	<u>19,643</u>	<u>78,991</u>	<u>21,905</u>
<b>OPERATING DISBURSEMENTS</b>					
Salaries	2,823	1,155	3,114	7,092	-
Contracted Services	-	20,989	-	20,989	-
Permits, Testing and Fees	2,340	-	2,078	4,418	-
Repairs and Maintenance	16,619	-	1,759	18,378	22,883
Supplies	2,914	196	313	3,423	235
Utilities	6,859	-	1,904	8,763	-
Miscellaneous	1,628	2,646	1,335	5,609	1,322
Total Operating Disbursements	<u>33,183</u>	<u>24,986</u>	<u>10,503</u>	<u>68,672</u>	<u>24,440</u>
NET OPERATING INCOME (LOSS)	<u>(3,095)</u>	<u>4,274</u>	<u>9,140</u>	<u>10,319</u>	<u>(2,535)</u>
<b>NON OPERATING RECEIPTS (DISBURSEMENTS)</b>					
Interest Income	463	764	504	1,731	(1)
Insurance Proceeds	-	-	-	-	18,529
Miscellaneous Income	1,455	-	-	1,455	-
Debt Principal	-	-	-	-	(5,412)
Interest Expense	-	-	-	-	(7,656)
Capital Outlay	-	-	(10,512)	(10,512)	-
Total Non Operating Receipts (Disbursements)	<u>1,918</u>	<u>764</u>	<u>(10,008)</u>	<u>(7,326)</u>	<u>5,460</u>
CHANGE IN NET CASH ASSETS	(1,177)	5,038	(868)	2,993	2,925
NET CASH ASSETS - January 1	<u>55,186</u>	<u>87,575</u>	<u>60,228</u>	<u>202,989</u>	<u>289</u>
NET CASH ASSETS - December 31	<u>\$ 54,009</u>	<u>\$ 92,613</u>	<u>\$ 59,360</u>	<u>\$ 205,982</u>	<u>\$ 3,214</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DANUBE, MINNESOTA  
STATEMENT OF CASH FLOWS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Total</u>	<u>Component</u> <u>Unit</u>
	<u>Water</u> <u>Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>		<u>EDA 4-Plex</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from Customers	\$ 30,088	\$ 29,260	\$ 19,643	\$ 78,991	\$ 21,905
Payments to Vendors	(30,360)	(23,831)	(7,389)	(61,580)	(24,440)
Payments to Employees	(2,823)	(1,155)	(3,114)	(7,092)	-
Other Receipts and Payments	<u>1,455</u>	<u>-</u>	<u>-</u>	<u>1,455</u>	<u>-</u>
Net Cash Provided (Used) By Operating Activities	<u>(1,640)</u>	<u>4,274</u>	<u>9,140</u>	<u>11,774</u>	<u>(2,535)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Change in Customer Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515</u>
Net Cash Provided By Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchases of Capital Outlay	-	-	(10,512)	(10,512)	-
Proceeds from Insurance	-	-	-	-	18,529
Principal Paid on Capital Debt	-	-	-	-	(5,413)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,656)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(10,512)</u>	<u>(10,512)</u>	<u>5,460</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest Received	<u>463</u>	<u>764</u>	<u>504</u>	<u>1,731</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>463</u>	<u>764</u>	<u>504</u>	<u>1,731</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,177)	5,038	(868)	2,993	3,440
<b>BALANCES - January 1</b>	<u>55,186</u>	<u>87,575</u>	<u>60,228</u>	<u>202,989</u>	<u>2,034</u>
<b>BALANCES - December 31</b>	<u>\$ 54,009</u>	<u>\$ 92,613</u>	<u>\$ 59,360</u>	<u>\$ 205,982</u>	<u>\$ 5,474</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The City of Danube, Minnesota has a mayor-council form of government. A mayor and four council members are elected by the voters of the City.

A. Financial Reporting Entity

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Based on this criteria, the City has included the EDA 4-Plex as a component unit.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared using the regulatory basis of accounting as described in the *Minnesota Office of the State Auditor's Reporting and Publishing Requirements for Cities under 2,500 in Population* published on September 21, 2004. Minnesota Statutes permit cities with populations under 2,500 to report on the regulatory basis of accounting although the modified accrual basis is recommended. Under the regulatory basis, receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from U.S. generally accepted accounting principles primarily because the City has not reported a management discussion and analysis, government-wide statement of net assets and government-wide statement of activities, and the City does not recognize revenues and expenditures in accordance with the modified accrual (governmental) or accrual (proprietary) basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

The City has the following fund types:

Governmental Fund Types

Governmental funds are used to account for the City's general government activities and are accounted for using the regulatory basis of accounting. Their revenue is recognized when received in cash and expenditures are recognized when paid in cash. The regulatory basis of accounting is a comprehensive basis of accounting other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

The City reports the following types of governmental funds:

General Fund - The General Fund is used to account for all financial transactions not properly includible in other funds. It is the primary operating fund of the City.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of the specific revenue source that are either legally restricted to expenditure for specific purpose or designated to finance particular functions or activities of the City.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of principal and interest of general long-term debt.

Capital Project Funds - The Capital Project Funds are used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

The City reports the following major governmental funds:

General Fund - This fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

School Fund - This fund is used to account for the revenues and expenses related to the operations of the old school building.

Debt Service Fund - This fund is used to accumulate funds to pay the debt service of the governmental bonds.

Capital Improvement Fund - This fund is used to accumulate funds for future capital improvement projects and pay for major capital improvements within the City.

Proprietary Fund Types

Proprietary funds include the City's Enterprise Funds. The Enterprise Funds are used to account for operations which provide goods or services to the general public in a manner similar to private enterprise. The intent is to recover the cost of providing goods and services through user charges.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

Proprietary Funds (Cont.)

Proprietary funds are accounted for using the regulatory basis of accounting. In the accompanying supplemental section the proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with the provisions of the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the City applies all applicable GASB pronouncements plus all FASB Statements and Interpretations, Accounting Principles Board opinion, and Account Research Bulletins issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The City reports the following major proprietary funds:

Water Fund - This fund is used to account for water treatment and distribution to the residential and commercial users of the City.

Garbage Fund - This fund is used to account for the garbage collection of the residential users of the City.

Sewer Fund - This fund is used to account for sewer treatment and distribution from the residential and commercial users of the City.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating receipts of the City's enterprise funds are charges to customers for sales and services. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

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

C. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts or other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City.

D. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Deposits and Investments (Cont.)

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received.

E. Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

F. Capital Assets

Regulatory basis financial statements - The City's regulatory basis of accounting reports capital assets resulting from cash transactions as capital outlay expenditures in its governmental and proprietary funds.

Supplementary proprietary fund financial statements - The City uses the accrual basis of accounting to report supplementary proprietary fund financial statements. Under the accrual basis of accounting capital assets are capitalized as assets and depreciated over the assets useful life. Depreciation of all capital assets is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Net Assets.

G. Long-Term Debt

Regulatory basis financial statements - Long-term debt arising from cash transactions is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and repayments of principal and interest are reported as expenditures.

Supplementary proprietary fund financial statements - The use of the accrual basis of accounting to present supplementary proprietary fund financial statements reports long-term debt as a liability in the Statement of Net Assets and only interest expense is reported as an expense in the Statement of Revenues, Expenses and Changes in Net Assets.

H. Fund Equity

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - Consists of amounts that are not in spendable form, such as prepaid items.

Restricted - Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Fund Equity

Committed - Consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned - Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management.

Unassigned - The residual classification for the general fund and also reflects negative residual amounts in other funds

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

1. Invested in Capital Assets, Net of Related Debt - Consists of net assets invested in capital assets less the related debt obligations issued to fund the capital assets.
2. Restricted Net Assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
3. Unrestricted Net Assets - All other net assets that do not meet the definition of "restricted."

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Previous year and current year data is reviewed by the City Clerk to determine the next year's budget.
2. The proposed budget is submitted by September to the Mayor and City Council for their review or modification.
3. Once the budget modifications have been made, the City Council adopts the budget by resolution no later than December of each year. The budget is set forth at the function level for the general fund.
4. Formal budget integration is not employed for Debt Service or Special Revenue Funds. Debt Service Funds budgetary control is alternatively achieved through bond indenture provisions. Special Revenue Funds budgetary control is achieved using effective project provisions as they are executed during the year.
5. Budgets for the general fund are adopted on a basis consistent with the regulatory basis of accounting.
6. Budget appropriations lapse at the end of the City's fiscal year.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont.)

B. Expenditures Over Appropriations

By its nature, a local government unit, the City is subject to various federal, state and local laws and contracted regulations. The following sub-function of the general fund had expenditures in excess of appropriations for the year ended December 31, 2011.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 125,793	\$ 146,238	\$ (20,445)
Public Works	\$ 95,138	\$ 416,322	\$ (321,184)
Miscellaneous	\$ 28,000	\$ 28,305	\$ (305)

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

**Custodial Credit Risk - Custodial Credit Risk** for deposits and investments is the risk that in the event of a bank failure the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, the City maintains deposits at the depository banks, which are authorized by the City Council and are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (140% in the case of mortgage notes pledged).

Authorized collateral includes legal investments authorized by Minnesota statutes, as well as certain first mortgage notes, and certain other state and local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

At year end, the City's carrying amount of deposits was \$883,171 and the bank balance was \$887,681, including certificates of deposit of \$151,083. Of the bank balance \$505,463 was covered by federal depository insurance, \$151,083 was covered by securities investor protection corporation insurance and \$231,135 was covered by pledged securities.

B. Investments

The City maintains no investment accounts.

C. Cash and Investments Summary

A reconciliation of cash and investments as shown on the statements for the City follows:

Cash and Cash Investments	
Governmental Funds	\$ 671,715
Enterprise Funds	205,982
Component Unit	<u>5,474</u>
Total Cash and Cash Investments	<u>\$ 883,171</u>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

4. PROPERTY TAXES

Property tax is levied each December on the tax capacity listed as of the prior January 1 for all real property located in the City. Property taxes are due in two payments, May 15 and October 15 of each year. Renville County is the collection agent for the levy and remits the collections to the City three times a year. Property tax revenue includes amounts collected by the County during the year and remitted to the City. Portions of the tax levy paid by the state in the form of Local Government Aids and Credits are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue.

5. VACATION PAY/SICK LEAVE

Any contingent liability for unused vacation pay is immaterial and not recognized in the financial statements.

6. CHANGES IN CAPITAL ASSETS

Proprietary Fund Capital Assets - The following is a summary of proprietary fund type capital assets at December 31, 2011

	<u>Balance January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance December 31</u>
Not Being Depreciated:				
Land	\$ <u>12,617</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>12,617</u>
Subtotal	<u>12,617</u>	<u>-</u>	<u>-</u>	<u>12,617</u>
Other Capital Assets:				
Plant and Equipment	<u>1,099,651</u>	<u>10,512</u>	<u>-</u>	<u>1,110,163</u>
Subtotal	<u>1,099,651</u>	<u>10,512</u>	<u>-</u>	<u>1,110,163</u>
Less: Accumulated				
Depreciation				
Plant and Equipment	<u>796,475</u>	<u>23,432</u>	<u>-</u>	<u>819,907</u>
Subtotal	<u>796,475</u>	<u>23,432</u>	<u>-</u>	<u>819,907</u>
Net Other Capital Assets	<u>303,176</u>	<u>(12,920)</u>	<u>-</u>	<u>290,256</u>
Net Capital Assets	<u>\$ 315,793</u>	<u>\$ (12,920)</u>	<u>\$ -</u>	<u>\$ 302,873</u>

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2011

	<u>Balance January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance December 31</u>
Not Being Depreciated:				
Land	\$ <u>5,170</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,170</u>
Subtotal	<u>5,170</u>	<u>-</u>	<u>-</u>	<u>5,170</u>
Other Capital Assets:				
Buildings	<u>228,748</u>	<u>-</u>	<u>-</u>	<u>228,748</u>
Subtotal	<u>228,748</u>	<u>-</u>	<u>-</u>	<u>228,748</u>
Less: Accumulated				
Depreciation				
Buildings	<u>74,888</u>	<u>5,376</u>	<u>-</u>	<u>80,264</u>
Subtotal	<u>74,888</u>	<u>5,376</u>	<u>-</u>	<u>69,252</u>
Net Capital Assets	<u>\$ 159,030</u>	<u>\$ (5,376)</u>	<u>\$ -</u>	<u>\$ 164,666</u>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN FIXED ASSETS (Cont.)

Depreciation expense was charged to the funds of the City as follows:

Enterprise Funds:	
Water Fund	\$ 10,214
Sewer Fund	<u>13,218</u>
Total Depreciation Expense - Enterprise Funds	<u>\$ 23,432</u>
Component Unit	
EDA 4-Plex	<u>\$ 5,676</u>
Total Depreciation Expense - Component Unit	<u>\$ 5,676</u>

7. TRANSFERS

Transfers to and from other funds at December 31, 2011, follows:

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund	\$ -	\$ 16,061
Capital Improvement Fund	<u>16,061</u>	<u>-</u>
	<u>\$ 16,061</u>	<u>\$ 16,061</u>

- The Capital Improvement Fund transferred \$16,061 to the General Fund for the amount the General Fund disbursed over 2011 budget for Capital Outlays.

8. FUND BALANCE

A. Classifications

	<u>General Fund</u>	<u>School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Total</u>
Restricted for:					
Debt Service	\$ -	\$ -	\$ 75,303	\$ -	\$ 75,303
Total Restricted	<u>-</u>	<u>-</u>	<u>75,303</u>	<u>-</u>	<u>75,303</u>
Assigned to:					
School Building					
Disbursements	-	135,408	-	-	135,408
Capital Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,844</u>	<u>156,844</u>
Total Assigned	<u>-</u>	<u>135,408</u>	<u>-</u>	<u>156,844</u>	<u>292,252</u>
Unassigned	<u>304,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,167</u>
Total	<u>\$ 304,167</u>	<u>\$ 135,408</u>	<u>\$ 75,303</u>	<u>\$ 156,844</u>	<u>\$ 671,722</u>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

8. FUND BALANCE

B. Minimum Unassigned Fund Balance Policy

The City Council has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year - June and December. As such, it is the City's goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs in the range of 35-50% of the subsequent year's budgeted expenditures. At December 31, 2011, the unassigned fund balance of the General Fund was 98.1% of the subsequent year's budgeted expenditures.

9. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2011.

	Balance <u>January 1</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
G.O. Bonds	\$ 100,000	\$ -	\$ 11,000	\$ 89,000	\$ 11,000
EDA Bonds	<u>193,784</u>	<u>-</u>	<u>5,412</u>	<u>188,372</u>	<u>5,623</u>
Totals	<u>\$ 293,784</u>	<u>\$ -</u>	<u>\$ 16,412</u>	<u>\$ 277,372</u>	<u>\$ 16,623</u>

Bonds outstanding at December 31, 2011 are comprised of the following issues:

\$350,000 General Obligation Special Assessment Bonds, due in annual installments of \$6,000 to \$14,000 through January, 2018 plus interest at 5.0%.	\$ 89,000
General Obligation Essential Function Housing Bonds, due in monthly installments of \$1,220 through May, 2020 including interest at 4.0%.	<u>188,372</u>
<b>Total Long-Term Debt</b>	<b><u>\$ 277,372</u></b>

	G.O. Improvement Bonds Governmental Funds			EDA Bonds Component Unit		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 11,000	\$ 4,450	\$ 15,450	\$ 5,623	\$ 7,445	\$ 13,068
2013	12,000	3,900	15,900	5,853	7,215	13,068
2014	12,000	3,300	15,300	6,092	6,976	13,068
2015	13,000	2,700	15,700	6,341	6,727	13,068
2016	13,000	2,050	15,050	6,599	6,469	13,068
2017-2021	28,000	2,100	30,100	37,264	28,076	65,340
2022-2026	-	-	-	45,464	19,826	65,290
2027-2031	-	-	-	55,589	9,751	65,340
2032-2036	-	-	-	19,547	641	20,188
<b>Total</b>	<b><u>\$ 89,000</u></b>	<b><u>\$ 18,500</u></b>	<b><u>\$ 107,500</u></b>	<b><u>\$ 188,372</u></b>	<b><u>\$ 93,126</u></b>	<b><u>\$ 281,498</u></b>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Danube, Minnesota are covered by defined benefit pension 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 a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan Member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for 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 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.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

A. Plan Description (Cont.)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, MN, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. 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 the state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.60% of their annual covered salary in 2011. In 2011, the City of Danube, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.40% for PEPFF members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$4,465, \$4,344 and \$3,414, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, 2009 were \$10,298, \$10,239, and \$9,382, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

All members of the Danube Fire Department (the Department) are covered by a Defined Benefit Plan (the Plan) administered by the Danube Firefighters' Relief Association (the Association). The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, chapter 69.

The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report. The report may be obtained by writing to Danube Firefighters' Relief Association, Danube, Minnesota 56230.

12. OTHER POST EMPLOYMENT BENEFITS

Any contingent liability for other post employment benefits is considered immaterial and not recognized in the financial statements.

13. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2011.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

14. COMMITMENTS AND CONTINGENCIES

A. Risk Management

The city is exposed to various risk of loss related to torts, thefts of, damage to or destruction of assets, business interruption, errors and omissions, employee injuries and illness, and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Claims and Judgments

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

15. SUBSEQUENT EVENTS

Management evaluated all activity of City of Danube through March 14, 2012 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

16. THEFT LOSS - EDA FUND

The Danube Economic Development Authority experienced a loss from the misappropriation of assets. The losses occurred between September 2009 and January 2011 in the amount of \$21,940. The matter was turned over to the Yellow Medicine County Attorney and has been settled. Restitution will be paid to the City.

SECTION III

SUPPLEMENTAL SECTION

CITY OF DANUBE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Beginning Budgetary Fund Balance - January 1	\$ 546,570	\$ 546,570	\$ 546,570	\$ -
<b>RECEIPTS:</b>				
<b>TAXES:</b>				
General Property Taxes	140,271	140,271	137,335	(2,936)
Special Assessments	<u>1,330</u>	<u>1,330</u>	<u>51,194</u>	<u>49,864</u>
Total Taxes	<u>141,601</u>	<u>141,601</u>	<u>188,529</u>	<u>46,928</u>
 LICENSES AND PERMITS	 <u>2,700</u>	 <u>2,700</u>	 <u>2,550</u>	 <u>(150)</u>
<b>INTERGOVERNMENTAL REVENUE:</b>				
Local Government Aid	133,480	133,480	133,480	-
Market Value Credit	-	-	17,952	17,952
PERA Rate Increase Aid	354	354	354	-
State Police Aid	8,000	8,000	8,167	167
State Fire Aid	<u>7,000</u>	<u>7,000</u>	<u>7,855</u>	<u>855</u>
Total Intergovernmental Revenue	<u>148,834</u>	<u>148,834</u>	<u>167,808</u>	<u>18,974</u>
<b>CHARGES FOR SERVICES:</b>				
General Government	-	-	3,290	3,290
Public Safety	<u>11,137</u>	<u>11,137</u>	<u>11,354</u>	<u>217</u>
Total Charges for Services	<u>11,137</u>	<u>11,137</u>	<u>14,644</u>	<u>3,507</u>
 FINES AND FORFEITS	 <u>3,000</u>	 <u>3,000</u>	 <u>2,865</u>	 <u>(135)</u>
 INTEREST INCOME	 <u>10,000</u>	 <u>10,000</u>	 <u>3,625</u>	 <u>(6,375)</u>
<b>MISCELLANEOUS:</b>				
Donations	750	750	1,755	1,005
Miscellaneous Income	<u>6,500</u>	<u>6,500</u>	<u>16,283</u>	<u>9,783</u>
Total Miscellaneous	<u>7,250</u>	<u>7,250</u>	<u>18,038</u>	<u>10,788</u>
 TOTAL RECEIPTS	 <u>324,522</u>	 <u>324,522</u>	 <u>398,059</u>	 <u>73,537</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfer In	<u>-</u>	<u>-</u>	<u>16,061</u>	<u>16,061</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u>324,522</u>	 <u>324,522</u>	 <u>414,120</u>	 <u>89,598</u>
 AMOUNT AVAILABLE FOR APPROPRIATION	 <u>\$ 871,092</u>	 <u>\$ 871,092</u>	 <u>\$ 960,690</u>	 <u>\$ 89,598</u>

CITY OF DANUBE, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>DISBURSEMENTS:</b>				
<b>GENERAL GOVERNMENT:</b>				
Mayor and Council:				
Personnel Services	\$ 7,000	\$ 7,000	\$ 7,117	\$ (117)
Other Current Expenditures	20	20	20	-
Election:				
Current Expenditures	-	-	82	(82)
Administrative and Finance:				
Personnel Services	28,020	28,020	21,802	6,218
Other Current Expenditures	2,000	2,000	1,298	702
Other General Government:				
Personnel Services	5,168	5,168	4,881	287
Other Current Expenditures	16,382	16,382	19,818	(3,436)
Assessor Fees:				
Current Expenditures	2,690	2,690	2,690	-
Independent Auditing:				
Current Expenditures	<u>3,800</u>	<u>3,800</u>	<u>5,176</u>	<u>(1,376)</u>
Total General Government	<u>65,080</u>	<u>65,080</u>	<u>62,884</u>	<u>2,196</u>
<b>PUBLIC SAFETY:</b>				
Police Protection:				
Personnel Services	83,959	83,959	81,042	2,917
Other Current Expenditures	12,250	12,250	11,643	607
Capital Outlay	4,000	4,000	32,584	(28,584)
First Responders:				
Personnel Services	2,000	2,000	2,095	(95)
Other Current Expenditures	2,950	2,950	2,817	133
Fire Protection:				
Personnel Services	3,000	3,000	6,568	(3,568)
Other Current Expenditures	8,634	8,634	9,489	(855)
Capital Outlay	<u>9,000</u>	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Total Public Safety	<u>125,793</u>	<u>125,793</u>	<u>146,238</u>	<u>(20,445)</u>

CITY OF DANUBE, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>DISBURSEMENTS:</b>				
<b>PUBLIC WORKS:</b>				
Highways and Streets:				
Personnel Services	\$ 43,413	\$ 43,413	\$ 38,107	\$ 5,306
Other Current Expenditures	25,075	25,075	54,401	(29,326)
Capital Outlay	6,000	6,000	303,462	(297,462)
Ice and Snow Removal:				
Personnel Services	650	650	1,090	(440)
Other Current Expenditures	5,000	5,000	4,695	305
Street Lighting:				
Current Expenditures	<u>15,000</u>	<u>15,000</u>	<u>14,567</u>	<u>433</u>
Total Public Works	<u>95,138</u>	<u>95,138</u>	<u>416,322</u>	<u>(321,184)</u>
<b>CULTURE AND RECREATION:</b>				
Parks:				
Current Expenditures	<u>3,435</u>	<u>3,435</u>	<u>2,782</u>	<u>653</u>
Total Culture and Recreation	<u>3,435</u>	<u>3,435</u>	<u>2,782</u>	<u>653</u>
<b>MISCELLANEOUS:</b>				
Salaries	-	-	548	(548)
Insurance	22,000	22,000	22,567	(567)
Other Current Expenditures	-	-	3,408	(3,408)
Capital Outlay	<u>6,000</u>	<u>6,000</u>	<u>1,782</u>	<u>4,218</u>
Total Miscellaneous	<u>28,000</u>	<u>28,000</u>	<u>28,305</u>	<u>(305)</u>
<b>TOTAL DISBURSEMENTS</b>	<u>317,446</u>	<u>317,446</u>	<u>656,531</u>	<u>(339,085)</u>
Ending Budgetary Fund Balance - December 31	<u>\$ 553,646</u>	<u>\$ 553,646</u>	<u>\$ 304,159</u>	<u>\$ (249,487)</u>

CITY OF DANUBE, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Component Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and Cash Investments	\$ 54,009	\$ 92,613	\$ 59,360	\$ 205,982	\$ 5,474
Accounts Receivable	<u>7,571</u>	<u>7,887</u>	<u>4,892</u>	<u>20,350</u>	<u>-</u>
Total Current Assets	<u>61,580</u>	<u>100,500</u>	<u>64,252</u>	<u>226,332</u>	<u>5,474</u>
<b>NONCURRENT ASSETS</b>					
<b>Capital Assets:</b>					
Land	11,184	-	1,433	12,617	5,170
Buildings	-	-	-	-	228,748
Plant	<u>477,744</u>	<u>-</u>	<u>632,418</u>	<u>1,110,162</u>	<u>-</u>
Total Capital Assets	488,928	-	633,851	1,122,779	233,918
Less: Accumulated Depreciation	<u>379,319</u>	<u>-</u>	<u>440,588</u>	<u>819,907</u>	<u>80,563</u>
Net Capital Assets	109,609	-	193,263	302,872	153,355
Bond Issuance Costs - Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,150</u>
Total Noncurrent Assets	<u>109,609</u>	<u>-</u>	<u>193,263</u>	<u>302,872</u>	<u>157,505</u>
<b>Total Assets</b>	<b><u>\$ 171,189</u></b>	<b><u>\$ 100,500</u></b>	<b><u>\$ 257,515</u></b>	<b><u>\$ 529,204</u></b>	<b><u>\$ 162,979</u></b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$ 638	\$ 840	\$ 4	\$ 1,482	\$ 7,323
Deposits	825	-	-	825	2,260
Current Amount of Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,623</u>
Total Current Liabilities	<u>1,463</u>	<u>840</u>	<u>4</u>	<u>2,307</u>	<u>15,206</u>
<b>LONG-TERM LIABILITIES</b>					
Bonds and Notes Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,749</u>
<b>Total Liabilities</b>	<b><u>1,463</u></b>	<b><u>840</u></b>	<b><u>4</u></b>	<b><u>2,307</u></b>	<b><u>197,955</u></b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	109,609	-	193,263	302,872	(30,867)
Unrestricted (Deficit)	<u>60,117</u>	<u>99,660</u>	<u>64,248</u>	<u>224,025</u>	<u>(4,109)</u>
Total Net Assets (Deficit)	<u>169,726</u>	<u>99,660</u>	<u>257,511</u>	<u>526,897</u>	<u>(34,976)</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 171,189</u></b>	<b><u>\$ 100,500</u></b>	<b><u>\$ 257,515</u></b>	<b><u>\$ 529,204</u></b>	<b><u>\$ 162,979</u></b>

CITY OF DANUBE, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Component</u> <u>Unit</u>
	<u>Water</u> <u>Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>		<u>EDA 4-Plex</u>
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 29,962	\$ 29,142	\$ 19,797	\$ 78,901	\$ -
Rental Income	-	-	-	-	21,905
Total Operating Revenues	<u>29,962</u>	<u>29,142</u>	<u>19,797</u>	<u>78,901</u>	<u>21,905</u>
<b>OPERATING EXPENSES</b>					
Salaries	2,823	1,155	3,114	7,092	-
Depreciation and Amortization	10,214	-	13,218	23,432	5,915
Contracted Services	-	19,814	-	19,814	-
Insurance	-	-	-	-	2,225
Permits, Testing and Fees	2,340	-	2,078	4,418	-
Repairs and Maintenance	16,935	-	1,384	18,319	22,060
Supplies	2,914	196	313	3,423	235
Utilities	6,044	-	1,765	7,809	-
Miscellaneous	1,628	2,646	1,338	5,612	1,322
Total Operating Expenses	<u>42,898</u>	<u>23,811</u>	<u>23,210</u>	<u>89,919</u>	<u>31,757</u>
Net Operating Income (Loss)	<u>(12,936)</u>	<u>5,331</u>	<u>(3,413)</u>	<u>(11,018)</u>	<u>(9,852)</u>
<b>NON OPERATING REVENUE</b> <b>(EXPENSE)</b>					
Interest Income	464	762	504	1,730	(1)
Insurance Proceeds	-	-	-	-	18,529
Miscellaneous Income	1,455	-	-	1,455	-
Interest Expense	-	-	-	-	(7,656)
Total Non Operating Revenue (Expense)	<u>1,919</u>	<u>762</u>	<u>504</u>	<u>3,185</u>	<u>10,872</u>
<b>CHANGE IN NET ASSETS</b>	(11,017)	6,093	(2,909)	(7,833)	1,020
<b>NET ASSETS (DEFICIT) - January 1</b>	<u>180,743</u>	<u>93,567</u>	<u>260,420</u>	<u>534,730</u>	<u>(35,996)</u>
<b>NET ASSETS (DEFICIT) - December 31</b>	<u>\$ 169,726</u>	<u>\$ 99,660</u>	<u>\$ 257,511</u>	<u>\$ 526,897</u>	<u>\$ (34,976)</u>

CITY OF DANUBE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Component</u> <u>Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from Customers	\$ 30,088	\$ 29,260	\$ 19,643	\$ 78,991	\$ 21,905
Payments to Vendors	(30,360)	(23,831)	(7,389)	(61,580)	(24,440)
Payments to Employees	(2,823)	(1,155)	(3,114)	(7,092)	-
Other Receipts and Payments	<u>1,455</u>	<u>-</u>	<u>-</u>	<u>1,455</u>	<u>-</u>
Net Cash Provided (Used) By Operating Activities	<u>(1,640)</u>	<u>4,274</u>	<u>9,140</u>	<u>11,774</u>	<u>(2,535)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Change in Customer Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515</u>
Net Cash Provided By Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of Capital Assets	-	-	(10,512)	(10,512)	-
Proceeds from Insurance	-	-	-	-	18,529
Principal Paid on Capital Debt	-	-	-	-	(5,412)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,657)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(10,512)</u>	<u>(10,512)</u>	<u>5,460</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest Received	<u>463</u>	<u>764</u>	<u>504</u>	<u>1,731</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>463</u>	<u>764</u>	<u>504</u>	<u>1,731</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS - January 1</b>	<u>(1,177)</u>	<u>5,038</u>	<u>(868)</u>	<u>2,993</u>	<u>3,440</u>
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>55,186</u>	<u>87,575</u>	<u>60,228</u>	<u>202,989</u>	<u>2,034</u>
<b>CASH AND CASH EQUIVALENTS - December 31</b>	<u>\$ 54,009</u>	<u>\$ 92,613</u>	<u>\$ 59,360</u>	<u>\$ 205,982</u>	<u>\$ 5,474</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities</b>					
Net Operating Income (Loss)	\$ (12,936)	\$ 5,331	\$ (3,413)	\$ (11,018)	\$ (9,852)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities					
Depreciation	10,214	-	13,218	23,432	5,915
Changes in Assets and Liabilities					
Accounts Receivable	126	118	(154)	90	-
Accounts Payable	(499)	(1,175)	(511)	(2,185)	1,402
Other Receipts and Payments	<u>1,455</u>	<u>-</u>	<u>-</u>	<u>1,455</u>	<u>-</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (1,640)</u>	<u>\$ 4,274</u>	<u>\$ 9,140</u>	<u>\$ 11,774</u>	<u>\$ (2,535)</u>

CITY OF DANUBE, MINNESOTA  
 SCHEDULE OF CITY INDEBTEDNESS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Bonded Indebtedness</u>	<u>Interest</u>	<u>Issue</u>	<u>Maturity</u>	<u>Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Balance</u>	<u>Current</u>
	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>January 1</u>	<u>in 2011</u>	<u>in 2011</u>	<u>December 31</u>	<u>Amount Due</u>
GO Bonds								
Community Center Bond	5.0%	12/13/96	01/01/18	\$ 100,000	-	\$ 11,000	\$ 89,000	\$ 11,000
Economic Development Authority								
EDA 4-Plex Bonds	4.0%	10/08/98	07/01/29	<u>193,784</u>	-	<u>5,412</u>	<u>188,372</u>	<u>5,623</u>
<b>Total City Indebtedness</b>				<b>\$ <u>293,784</u></b>	<b>\$ -</b>	<b>\$ <u>16,412</u></b>	<b>\$ <u>277,372</u></b>	<b>\$ <u>16,623</u></b>

CITY OF DANUBE, MINNESOTA  
SUMMARY FINANCIAL REPORT

RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

The purpose of this report is to provide a summary of financial information concerning the City of Danube to interested citizens. The complete financial statements may be examined at the City Hall, PO Box 397 Danube, MN Questions about this report should be directed to Sara Wilson, City Clerk, at 320-826-2563.

	Total <u>2011</u>	Total <u>2010</u>	Percent Increase <u>(Decrease)</u>
<b>RECEIPTS:</b>			
Taxes and Assessments	\$ 209,633	\$ 62,315	236.41 %
Licenses and Permits	2,550	2,715	(6.08)%
Intergovernmental	167,808	173,901	(3.50)%
Charges for Services	100,077	85,918	16.48 %
Fines	2,865	4,648	(38.36)%
Investment Earnings	6,508	11,913	(45.37)%
Miscellaneous	68,200	20,773	228.31 %
Transfer In	<u>16,061</u>	<u>-</u>	<u>100.00 %</u>
Total Receipts	<u>\$ 573,702</u>	<u>\$ 362,183</u>	<u>58.40 %</u>
Per Capita	<u>1,085</u>	<u>685</u>	
<b>DISBURSEMENTS:</b>			
<b>Current</b>			
General Government	\$ 62,884	\$ 64,820	(2.99)%
Public Safety	113,654	126,372	(10.06)%
Public Works	112,860	91,760	22.99 %
Culture and Recreation	2,782	509	446.56 %
Miscellaneous	97,265	143,204	(32.08)%
<b>Debt Service:</b>			
Principal Payments	11,000	10,000	10.00 %
Interest Payments	5,000	5,500	(9.09)%
Capital Outlay	337,828	22,034	1,433.21 %
Transfer Out	<u>16,061</u>	<u>-</u>	<u>100.00 %</u>
Total Disbursements	<u>\$ 759,334</u>	<u>\$ 442,166</u>	<u>71.73 %</u>
Per Capita	<u>1,435</u>	<u>836</u>	
Governmental Long-term Indebtedness	<u>\$ 89,000</u>	<u>\$ 100,000</u>	<u>(11.00)%</u>
Per Capita	<u>168</u>	<u>189</u>	
General Fund Cash Balance - December 31	<u>\$ 304,159</u>	<u>\$ 546,570</u>	<u>(44.35)%</u>
Per Capita	<u>575</u>	<u>1,033</u>	

CITY OF DANUBE, MINNESOTA  
SCHEDULE OF ACCOUNTS RECEIVABLE (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
General	Renville County - Property Taxes	\$ 5,488
General	Renville County - Special Assessments	674
General	Danube EDA - Insurance	7,323
General	Rembrandt Enterprises - Community Center Rent	130
General	Wood Dale Nursing Home - Reimbursements	87
General	Renville County Hwy Dept - Snow Removal	2,050
Water	Residents - Customer User Charge	7,571
Sewer	Residents - Customer User Charge	4,892
Garbage	Residents - Customer User Charge	<u>7,887</u>
		<u>\$ 36,102</u>

CITY OF DANUBE, MINNESOTA  
SCHEDULE OF ACCOUNTS PAYABLE (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
General	Danube Fire Relief Association	Reimburse state aid	\$ 7,855
General, Water	TDS Telecom	Telephone	271
General	Quill	Supplies	211
General	NCPERS	Insurance	16
General, School	Great Plains	Utilities	4,935
School	Torkelson's Lock Service	Repairs and Maintenance	154
Sewer	Gopher State One Call	Locates	4
General, School	Olivia Hardware	Supplies	113
General	Two Way Communication	Capital Outlay	9,993
General	Lang's Automotive Center	Repairs and Maintenance	111
General	Schmolts Welding	Repairs and Maintenance	891
General, School	Menards	Supplies	92
General	Chappel Central	Repairs and Maintenance	382
General	Farmer's Coop Oil	Motor Fuel	410
Water	Hawkins	Supplies	601
Garbage	Renville County Solid Waste	Landfill	840
General	Younger & Walton PLLP	Legal	<u>81</u>
Total Accounts Payable			<u>\$ 26,960</u>

SECTION IV

ADDITIONAL INFORMATION

**OBERLOH & ASSOCIATES, LTD.**

**CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 186 • 530 WEST PARK ROAD  
REDWOOD FALLS, MN 56283**

**Telephone: (507) 644-6400  
Fax: (507) 644-6401**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the Council  
City of Danube  
Danube, Minnesota

We have audited the financial statements of each major fund and the discretely presented component units of City of Danube, Minnesota, as of and for the year ended December 31, 2011 and have issued our report thereon dated March 14, 2012. The City prepares its financial statements in accordance with the regulatory basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. As a result, we issued an adverse opinion on U.S. generally accepted accounting principles but an unqualified opinion on the regulatory basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies..

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be material weaknesses. Item 11-03.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. Items 11-01 and 11-02.

Compliance and Other Matters

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

City of Danube, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Danube, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body and management of City of Danube, Minnesota, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Oberloh & Associates, Ltd.*  
Oberloh & Associates, Ltd.

March 14, 2012

CITY OF DANUBE  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2011

INTERNAL CONTROL FINDINGS

Audit Finding 11-01

*Criteria:* The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with the regulatory basis of accounting.

*Condition:* The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by the regulatory basis of accounting for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

*Cause:* The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

*Effect:* The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

*Recommendations:* For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.

Audit Finding 11-02

*Criteria:* Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:* The City does not have adequate segregation of accounting duties.

*Cause:* There are a limited number of office employees.

*Effect:* The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

*Recommendations:* For entities of the City's size, it generally is not practical to obtain the internal control that supports the adequate segregation of duties.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the City to maintain proper segregation of duties.

CITY OF DANUBE  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2011

Audit Finding 11-03

*Criteria:* The Danube Economic Development Authority did not have internal controls in place to protect its assets against fraud, theft or misappropriation.

*Condition:* The City Council transferred the transaction processing and record keeping activities of the Danube Economic Development Authority from the City Clerk to the EDA board president in August of 2009.

*Cause:* When the transfer of responsibilities was made the proper controls were not put in place to monitor the activities of the EDA. Also, the EDA transactions were not reported to the EDA board or the City Council.

*Effect:* During the period September 2009 to January 2011 the Danube EDA experienced misappropriation of assets in excess of \$20,000.

*Recommendations:* We recommend the processing of transactions and recordkeeping for the EDA remains with the City Clerk. We also recommend that the transactions of the EDA are reported to the board and City Council on a monthly basis.

*Managements Response:* In January 2011, the City transferred the transaction processing and record keeping activities of the EDA to the City Clerk. In addition, monthly reports on the transactions of the EDA are presented to the EDA board and the City Council.

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**AUDITOR'S REPORT ON LEGAL COMPLIANCE**

Honorable Mayor and Members of the Council  
City of Danube  
Danube, Minnesota

We have audited the basic financial statements of City of Danube, Minnesota, as of and for the year ended December 31, 2011 and have issued our report thereon dated March 14, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, City miscellaneous provisions, and tax increment financing. Our study included all of the listed categories except tax increment financing because the City does not maintain any tax increment financing districts.

The results of our tests indicate that for the items tested, City of Danube, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the governing body and management of City of Danube, Minnesota, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Oberloh & Associates, Ltd.*  
Oberloh & Associates, Ltd.

March 14, 2012