

CITY OF DANUBE
DANUBE, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF DANUBE, MINNESOTA
CONTENTS

PAGE

SECTION I
INTRODUCTORY SECTION

Elected and Appointed Officials 1

SECTION II
FINANCIAL SECTION

Independent Auditor's Report 2 - 4

Governmental Funds

Statement of Balances Arising from Cash Transactions 5

Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances 6

Proprietary Funds

Statement of Balances Arising from Cash Transactions 7

Statement of Cash Receipts, Disbursements and Changes in Fund Net Cash Position 8

Statement of Cash Flows - Cash Basis 9

Notes to Financial Statements 10 - 21

SECTION III
SUPPLEMENTAL SECTION

General Fund

Budgetary Comparison Schedule - Cash Basis 22 - 24

Proprietary Funds

Statement of Net Position 25

Statement of Revenues, Expenses and Changes in Fund Net Position 26

Statement of Cash Flows 27

Schedule of City Indebtedness 28

Summary Financial Report

Receipts and Disbursements for General Operations - Governmental Funds 29

Schedule of Accounts Receivable (Unaudited) 30

Schedule of Accounts Payable and Contingent Liabilities (Unaudited) 31

SECTION IV
ADDITIONAL INFORMATION

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* 32 - 33

Schedule of Findings and Responses 34 - 35

Auditor's Report on Legal Compliance 36

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	Phil Standfuss
COUNCIL MEMBER	Al Strunc
CITY CLERK	Sara Wilson
CITY ATTORNEY	Blair Younger

SECTION II

FINANCIAL SECTION

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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, 2012, 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, 2012, and the receipts it received and disbursements it paid for the year then ended, on the basis of accounting described in Note 1.

Other Matters

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 22 through 31 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 22 through 29 is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements and schedules on pages 22 through 29 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules on pages 30 and 31 noted as unaudited have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of 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* in considering City of Danube, Minnesota's internal control over financial reporting and compliance.

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.

Dennis E. Oberloh, Ltd.
Dennis E. Oberloh, Ltd.

April 10, 2013

CITY OF DANUBE, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General Fund</u>	<u>School Fund</u>	<u>Capital Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Investments	\$ 285,146	\$ 173,453	\$ 157,962	\$ 76,946	\$ 693,507
Total Assets	<u>\$ 285,146</u>	<u>\$ 173,453</u>	<u>\$ 157,962</u>	<u>\$ 76,946</u>	<u>\$ 693,507</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CASH FUND BALANCES					
Restricted	-	-	-	76,946	76,946
Assigned	-	173,453	157,962	-	331,415
Unassigned	<u>285,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,146</u>
Total Cash Fund Balances	<u>285,146</u>	<u>173,453</u>	<u>157,962</u>	<u>76,946</u>	<u>693,507</u>
Total Liabilities and Cash Fund Balances	<u>\$ 285,146</u>	<u>\$ 173,453</u>	<u>\$ 157,962</u>	<u>\$ 76,946</u>	<u>\$ 693,507</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, 2012

	General Fund	School Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
RECEIPTS					
Taxes	\$ 147,615	\$ -	\$ -	\$ 16,552	\$ 164,167
Licenses and Permits	2,750	-	-	-	2,750
Intergovernmental Revenue	157,674	-	-	-	157,674
Charges for Services	25,898	95,422	-	-	121,320
Fines and Forfeits	1,670	-	-	-	1,670
Interest Income	7,465	1,098	1,118	541	10,222
Miscellaneous	<u>3,782</u>	<u>7,041</u>	<u>-</u>	<u>-</u>	<u>10,823</u>
Total Receipts	<u>346,854</u>	<u>103,561</u>	<u>1,118</u>	<u>17,093</u>	<u>468,626</u>
DISBURSEMENTS					
Current Operations:					
General Government	60,245	-	-	-	60,245
Public Safety	129,628	-	-	-	129,628
Public Works	92,892	-	-	-	92,892
Culture and Recreation	470	-	-	-	470
Miscellaneous	25,435	65,517	-	-	90,952
Debt Service:					
Principal Payments	-	-	-	11,000	11,000
Interest Payments	-	-	-	4,450	4,450
Capital Outlay	<u>57,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,197</u>
Total Disbursements	<u>365,867</u>	<u>65,517</u>	<u>-</u>	<u>15,450</u>	<u>446,834</u>
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	(19,013)	38,044	1,118	1,643	21,792
CASH FUND BALANCES -					
January 1	<u>304,159</u>	<u>135,409</u>	<u>156,844</u>	<u>75,303</u>	<u>671,715</u>
CASH FUND BALANCES -					
December 31	<u>\$ 285,146</u>	<u>\$ 173,453</u>	<u>\$ 157,962</u>	<u>\$ 76,946</u>	<u>\$ 693,507</u>

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, 2012

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Totals</u>	<u>Component</u> <u>Unit</u>
	<u>Water Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
ASSETS					
Cash and Cash Investments	\$ <u>46,951</u>	\$ <u>99,522</u>	\$ <u>66,836</u>	\$ <u>213,309</u>	\$ <u>17,746</u>
Total Assets	\$ <u>46,951</u>	\$ <u>99,522</u>	\$ <u>66,836</u>	\$ <u>213,309</u>	\$ <u>17,746</u>
LIABILITIES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,260</u>
NET CASH POSITION					
Unrestricted	<u>46,951</u>	<u>99,522</u>	<u>66,836</u>	<u>213,309</u>	<u>15,486</u>
Total Net Cash Position	<u>46,951</u>	<u>99,522</u>	<u>66,836</u>	<u>213,309</u>	<u>15,486</u>
Total Liabilities and Net Cash Position	\$ <u>46,951</u>	\$ <u>99,522</u>	\$ <u>66,836</u>	\$ <u>213,309</u>	\$ <u>17,746</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 FUND NET CASH POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Primary Government</u>			<u>Totals</u>	<u>Component</u>
	<u>Enterprise Funds</u>				<u>Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
OPERATING RECEIPTS					
Charges for Services	\$ 30,054	\$ 30,290	\$ 20,648	\$ 80,992	\$ -
Rental Income	-	-	-	-	25,235
Connection Fees	-	-	250	250	-
Total Operating Receipts	<u>30,054</u>	<u>30,290</u>	<u>20,898</u>	<u>81,242</u>	<u>25,235</u>
OPERATING DISBURSEMENTS					
Salaries	3,656	1,359	3,558	8,573	-
Contracted Services	-	20,465	-	20,465	-
Permits, Testing and Fees	2,012	-	1,437	3,449	-
Repairs and Maintenance	27,350	-	6,702	34,052	3,531
Supplies	296	171	712	1,179	-
Utilities	5,087	-	1,204	6,291	-
Miscellaneous	1,262	2,069	260	3,591	1,766
Total Operating Disbursements	<u>39,663</u>	<u>24,064</u>	<u>13,873</u>	<u>77,600</u>	<u>5,297</u>
NET OPERATING INCOME (LOSS)	<u>(9,609)</u>	<u>6,226</u>	<u>7,025</u>	<u>3,642</u>	<u>19,938</u>
NON OPERATING RECEIPTS (DISBURSEMENTS):					
Interest Income	359	683	451	1,493	-
Insurance Proceeds	-	-	-	-	2,971
Miscellaneous Income	2,192	-	-	2,192	2,431
Debt Principal	-	-	-	-	(5,611)
Interest Expense	-	-	-	-	(7,457)
Total Non Operating Receipts (Disbursements)	<u>2,551</u>	<u>683</u>	<u>451</u>	<u>3,685</u>	<u>(7,666)</u>
CHANGE IN NET CASH POSITION	<u>(7,058)</u>	<u>6,909</u>	<u>7,476</u>	<u>7,327</u>	<u>12,272</u>
NET CASH POSITION - January 1	<u>54,009</u>	<u>92,613</u>	<u>59,360</u>	<u>205,982</u>	<u>3,214</u>
NET CASH POSITION - December 31	<u>\$ 46,951</u>	<u>\$ 99,522</u>	<u>\$ 66,836</u>	<u>\$ 213,309</u>	<u>\$ 15,486</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, 2012

	<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>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 30,054	\$ 30,290	\$ 20,898	\$ 81,242	\$ 25,235
Payments to Vendors	(36,007)	(22,705)	(10,315)	(69,027)	(5,297)
Payments to Employees	(3,656)	(1,359)	(3,558)	(8,573)	-
Other Receipts and Payments	<u>2,192</u>	<u>-</u>	<u>-</u>	<u>2,192</u>	<u>2,431</u>
Net Cash Provided (Used) By Operating Activities	<u>(7,417)</u>	<u>6,226</u>	<u>7,025</u>	<u>5,834</u>	<u>22,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Insurance	-	-	-	-	2,971
Principal Paid on Capital Debt	-	-	-	-	(5,611)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,457)</u>
Net Cash Used By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,097)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>359</u>	<u>683</u>	<u>451</u>	<u>1,493</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>359</u>	<u>683</u>	<u>451</u>	<u>1,493</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(7,058)	6,909	7,476	7,327	12,272
BALANCES - January 1	<u>54,009</u>	<u>92,613</u>	<u>59,360</u>	<u>205,982</u>	<u>5,474</u>
BALANCES - December 31	<u>\$ 46,951</u>	<u>\$ 99,522</u>	<u>\$ 66,836</u>	<u>\$ 213,309</u>	<u>\$ 17,746</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.

F. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. Special assessments are recognized as revenue when they are paid.

G. 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.

H. 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.

I. 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.)

K. 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.

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.

L. Net Position

Net position represent the difference between assets and deferred outflows, and liabilities and deferred inflows. Net positions are displayed in three components:

1. **Invested in Capital Assets, Net of Related Debt** - Consists of net position invested in capital assets less the related debt obligations issued to fund the capital assets.
2. **Restricted** - Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
3. **Unrestricted** - All other net position 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.

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, 2012.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 112,406	\$ 139,621	\$ (27,215)
Public Works	\$ 103,327	\$ 140,096	\$ (36,769)

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 \$924,562 and the bank balance was \$930,154, including certificates of deposit of \$152,752. Of the bank balance \$610,027 was covered by federal depository insurance. Of the remaining balance, \$78,556 was collateralized with securities held by the pledging financial institution's trust department in the City's name, and \$241,571 was uncollateralized.

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	\$ 693,507
Enterprise Funds	213,309
Component Unit	<u>17,746</u>
Total Cash and Cash Investments	<u>\$ 924,562</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. 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, 2012.

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	\$ 12,617	\$ -	\$ -	\$ 12,617
Subtotal	12,617	-	-	12,617
Other Capital Assets:				
Plant and Equipment	1,110,162	-	-	1,110,162
Subtotal	1,110,163	-	-	1,110,162
Less: Accumulated Depreciation				
Plant and Equipment	819,905	24,673	-	844,578
Subtotal	819,905	24,673	-	844,578
Net Other Capital Assets	290,258	(24,673)	-	265,584
Net Capital Assets	\$ 302,875	\$ (24,673)	\$ -	\$ 278,201

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2012.

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	\$ 5,170	\$ -	\$ -	\$ 5,170
Subtotal	5,170	-	-	5,170
Other Capital Assets:				
Buildings	228,748	-	-	228,748
Subtotal	228,748	-	-	228,748
Less: Accumulated Depreciation				
Buildings	80,564	5,635	-	86,199
Subtotal	80,564	5,635	-	86,199
Net Other Capital Assets	148,184	(5,635)	-	142,549
Net Capital Assets	\$ 153,354	\$ (5,635)	\$ -	\$ 147,719

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (Cont.)

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2012.

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Not Being Depreciated:				
Land	\$ 5,170	\$ -	\$ -	\$ 5,170
Subtotal	<u>5,170</u>	<u>-</u>	<u>-</u>	<u>5,170</u>
Other Capital Assets:				
Buildings	228,748	-	-	228,748
Subtotal	<u>228,748</u>	<u>-</u>	<u>-</u>	<u>228,748</u>
Less: Accumulated Depreciation				
Buildings	80,564	5,635	-	86,199
Subtotal	<u>80,564</u>	<u>5,635</u>	<u>-</u>	<u>86,199</u>
Net Other Capital Assets	<u>148,184</u>	<u>(5,635)</u>	<u>-</u>	<u>142,549</u>
Net Capital Assets	<u>\$ 153,354</u>	<u>\$ (5,635)</u>	<u>\$ -</u>	<u>\$ 147,719</u>

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

Enterprise Funds:		
Water Fund		\$ 10,187
Sewer Fund		<u>14,486</u>
Total Depreciation Expense - Enterprise Funds		<u>\$ 24,673</u>
Component Unit		
EDA 4-Plex		<u>\$ 5,635</u>
Total Depreciation Expense - Component Unit		<u>\$ 5,635</u>

7. FUND BALANCE

A. Classifications

	<u>General</u> <u>Fund</u>	<u>School</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Capital</u> <u>Improvement</u> <u>Fund</u>	<u>Total</u>
Restricted for:					
Debt Service	\$ -	\$ -	\$ 76,946	\$ -	\$ 76,946
Total Restricted	<u>-</u>	<u>-</u>	<u>76,946</u>	<u>-</u>	<u>76,946</u>
Assigned to:					
School Building					
Disbursements	-	173,453	-	-	173,453
Capital Improvements	-	-	-	157,962	157,962
Total Assigned	<u>-</u>	<u>173,453</u>	<u>-</u>	<u>157,962</u>	<u>331,415</u>
Unassigned	<u>285,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,146</u>
Total	<u>\$ 285,146</u>	<u>\$ 173,453</u>	<u>\$ 76,946</u>	<u>\$ 157,962</u>	<u>\$ 693,507</u>

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

8. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2012.

	<u>Balance</u> <u>January 1</u>	<u>Debt Issued</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current</u> <u>Amount</u>
G.O. Bonds	\$ 89,000	\$ -	\$ 11,000	\$ 78,000	\$ 12,000
EDA Bonds	188,372	-	5,611	182,761	5,853
Totals	<u>\$ 277,372</u>	<u>\$ -</u>	<u>\$ 16,611</u>	<u>\$ 260,761</u>	<u>\$ 17,853</u>

Bonds outstanding at December 31, 2012 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%.	\$ 78,000
General Obligation Essential Function Housing Bonds, due in monthly installments of \$1,220 through May, 2020 including interest at 4.0%.	<u>182,761</u>
Total Long-Term Debt	<u>\$ 260,761</u>

	<u>G.O. Improvement Bonds</u>			<u>EDA Bonds</u>		
	<u>Governmental Funds</u>			<u>Component Unit</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	14,000	1,400	15,400	6,869	6,199	13,068
2018-2022	14,000	700	14,700	39,035	26,647	65,682
2023-2027	-	-	-	47,371	17,969	65,340
2028-2032	-	-	-	57,857	7,504	65,361
2033-2037	-	-	-	6,744	210	6,954
Total	<u>\$ 78,000</u>	<u>\$ 14,050</u>	<u>\$ 92,050</u>	<u>\$ 182,761</u>	<u>\$ 85,916</u>	<u>\$ 268,677</u>

9. 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.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

A. Plan Description (Cont.)

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.

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.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

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 2012. PEPFF members were required to contribute 9.60% of their annual covered salary in 2012. In 2012, 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, 2012, 2011 and 2010 were \$5,052, \$4,465 and \$4,344, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, 2010 were \$9,927, \$10,298, and \$10,239, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

10. 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.

11. OTHER POST EMPLOYMENT BENEFITS

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

12. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2012.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

13. 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.

14. SUBSEQUENT EVENTS

Management evaluated all activity of City of Danube through April 10, 2013 (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.

SECTION III

SUPPLEMENTAL SECTION

CITY OF DANUBE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning Budgetary Fund Balance - January 1	\$ <u>304,159</u>	\$ <u>304,159</u>	\$ <u>304,159</u>	\$ <u>-</u>
RECEIPTS:				
TAXES:				
General Property Taxes	150,644	150,644	136,286	(14,358)
Special Assessments	<u>1,504</u>	<u>1,504</u>	<u>11,329</u>	<u>9,825</u>
Total Taxes	<u>152,148</u>	<u>152,148</u>	<u>147,615</u>	<u>(4,533)</u>
 LICENSES AND PERMITS	 <u>2,700</u>	 <u>2,700</u>	 <u>2,750</u>	 <u>50</u>
 INTERGOVERNMENTAL REVENUE:				
FEMA Grants	-	-	8,778	8,778
Local Government Aid	133,480	133,480	133,480	-
Market Value Credit	-	-	55	55
PERA Rate Increase Aid	354	354	354	-
State Police Aid	8,000	8,000	8,133	133
State Fire Aid	<u>7,000</u>	<u>7,000</u>	<u>6,874</u>	<u>(126)</u>
Total Intergovernmental Revenue	<u>148,834</u>	<u>148,834</u>	<u>157,674</u>	<u>8,840</u>
 CHARGES FOR SERVICES:				
General Government	2,500	2,500	2,960	460
Public Safety	12,151	12,151	20,888	8,737
Public Works	<u>-</u>	<u>-</u>	<u>2,050</u>	<u>2,050</u>
Total Charges for Services	<u>14,651</u>	<u>14,651</u>	<u>25,898</u>	<u>11,247</u>
 FINES AND FORFEITS	 <u>3,000</u>	 <u>3,000</u>	 <u>1,670</u>	 <u>(1,330)</u>
 INTEREST INCOME	 <u>6,000</u>	 <u>6,000</u>	 <u>7,465</u>	 <u>1,465</u>
 MISCELLANEOUS:				
Donations	750	750	407	(343)
Miscellaneous Income	<u>7,500</u>	<u>7,500</u>	<u>3,375</u>	<u>(4,125)</u>
Total Miscellaneous	<u>8,250</u>	<u>8,250</u>	<u>3,782</u>	<u>(4,468)</u>
 TOTAL RECEIPTS	 <u>335,583</u>	 <u>335,583</u>	 <u>346,854</u>	 <u>11,271</u>
 AMOUNT AVAILABLE FOR APPROPRIATION	 \$ <u>639,742</u>	 \$ <u>639,742</u>	 \$ <u>651,013</u>	 \$ <u>11,271</u>

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
DISBURSEMENTS:				
GENERAL GOVERNMENT:				
Mayor and Council:				
Personnel Services	\$ 8,250	\$ 8,250	\$ 7,005	\$ 1,245
Other Current Expenditures	150	150	30	120
Election:				
Personnel Services	1,400	1,400	2,328	(928)
Other Current Expenditures	250	250	1,132	(882)
Administrative and Finance:				
Personnel Services	28,700	28,700	24,075	4,625
Other Current Expenditures	1,235	1,235	1,726	(491)
Other General Government:				
Personnel Services	4,200	4,200	4,161	39
Other Current Expenditures	18,200	18,200	13,518	4,682
Assessor Fees:				
Current Expenditures	2,690	2,690	2,720	(30)
Independent Auditing:				
Current Expenditures	<u>3,800</u>	<u>3,800</u>	<u>3,550</u>	<u>250</u>
Total General Government	<u>68,875</u>	<u>68,875</u>	<u>60,245</u>	<u>8,630</u>
PUBLIC SAFETY:				
Police Protection:				
Personnel Services	79,155	79,155	80,255	(1,100)
Other Current Expenditures	11,500	11,500	13,011	(1,511)
First Responders:				
Personnel Services	2,000	2,000	2,575	(575)
Other Current Expenditures	2,950	2,950	2,871	79
Fire Protection:				
Personnel Services	6,841	6,841	7,779	(938)
Other Current Expenditures	9,960	9,960	23,137	(13,177)
Capital Outlay	-	-	<u>9,993</u>	<u>(9,993)</u>
Total Public Safety	<u>112,406</u>	<u>112,406</u>	<u>139,621</u>	<u>(27,215)</u>

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
DISBURSEMENTS:				
PUBLIC WORKS:				
Highways and Streets:				
Personnel Services	\$ 46,700	\$ 46,700	\$ 45,612	\$ 1,088
Other Current Expenditures	30,127	30,127	32,347	(2,220)
Capital Outlay	6,000	6,000	47,204	(41,204)
Ice and Snow Removal:				
Personnel Services	1,000	1,000	677	323
Other Current Expenditures	4,500	4,500	1,508	2,992
Street Lighting:				
Current Expenditures	<u>15,000</u>	<u>15,000</u>	<u>12,748</u>	<u>2,252</u>
Total Public Works	<u>103,327</u>	<u>103,327</u>	<u>140,096</u>	<u>(36,769)</u>
CULTURE AND RECREATION:				
Parks:				
Current Expenditures	<u>500</u>	<u>500</u>	<u>470</u>	<u>30</u>
Total Culture and Recreation	<u>500</u>	<u>500</u>	<u>470</u>	<u>30</u>
MISCELLANEOUS:				
Insurance	23,000	23,000	20,262	2,738
Other Current Expenditures	<u>3,000</u>	<u>3,000</u>	<u>5,173</u>	<u>(2,173)</u>
Total Miscellaneous	<u>26,000</u>	<u>26,000</u>	<u>25,435</u>	<u>565</u>
TOTAL DISBURSEMENTS	<u>311,108</u>	<u>311,108</u>	<u>365,867</u>	<u>(54,759)</u>
OTHER FINANCING USES:				
Transfer to Capital Projects Fund	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
TOTAL DISBURSEMENTS AND OTHER FINANCING USES	<u>333,108</u>	<u>333,108</u>	<u>365,867</u>	<u>(32,759)</u>
Ending Budgetary Fund Balance - December 31	<u>\$ 306,634</u>	<u>\$ 306,634</u>	<u>\$ 285,146</u>	<u>\$ (21,488)</u>

CITY OF DANUBE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	<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>
ASSETS					
Current Assets:					
Cash and Cash Investments	\$ 46,951	\$ 99,522	\$ 66,836	\$ 213,309	\$ 17,746
Accounts Receivable	<u>7,955</u>	<u>8,449</u>	<u>5,155</u>	<u>21,559</u>	<u>-</u>
Total Current Assets	<u>54,906</u>	<u>107,971</u>	<u>71,991</u>	<u>234,868</u>	<u>17,746</u>
NONCURRENT ASSETS					
Capital Assets:					
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>389,505</u>	<u>-</u>	<u>455,073</u>	<u>844,578</u>	<u>86,199</u>
Net Capital Assets	99,423	-	178,778	278,201	147,719
Bond Issuance Costs - Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,910</u>
Total Noncurrent Assets	<u>99,423</u>	<u>-</u>	<u>178,778</u>	<u>278,201</u>	<u>151,629</u>
Total Assets	<u>\$ 154,329</u>	<u>\$ 107,971</u>	<u>\$ 250,769</u>	<u>\$ 513,069</u>	<u>\$ 169,375</u>
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 1,094	\$ 2,616	\$ 520	\$ 4,230	\$ 9,964
Deposits	825	-	-	825	2,260
Current Amount of Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,853</u>
Total Current Liabilities	<u>1,919</u>	<u>2,616</u>	<u>520</u>	<u>5,055</u>	<u>18,077</u>
LONG-TERM LIABILITIES					
Bonds and Notes Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,908</u>
Total Liabilities	<u>1,919</u>	<u>2,616</u>	<u>520</u>	<u>5,055</u>	<u>194,985</u>
NET POSITION					
Invested in Capital Assets, Net of Related Debt	99,422	-	178,778	278,200	(35,042)
Unrestricted	<u>52,988</u>	<u>105,355</u>	<u>71,471</u>	<u>229,814</u>	<u>9,431</u>
Total Net Position (Deficit)	<u>152,410</u>	<u>105,355</u>	<u>250,249</u>	<u>508,014</u>	<u>(25,611)</u>
Total Liabilities and Net Position	<u>\$ 154,329</u>	<u>\$ 107,971</u>	<u>\$ 250,769</u>	<u>\$ 513,069</u>	<u>\$ 169,374</u>

CITY OF DANUBE, MINNESOTA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<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>
OPERATING REVENUES					
Charges for Services	\$ 30,438	\$ 30,853	\$ 20,911	\$ 82,202	\$ -
Rental Income	-	-	-	-	25,235
Connection Fees	-	-	250	250	-
Total Operating Revenues	<u>30,438</u>	<u>30,853</u>	<u>21,161</u>	<u>82,452</u>	<u>25,235</u>
OPERATING EXPENSES					
Salaries	3,656	1,359	3,558	8,573	-
Depreciation and Amortization	10,187	-	14,486	24,673	5,876
Contracted Services	-	21,913	-	21,913	-
Insurance	-	-	-	-	2,641
Permits, Testing and Fees	2,012	-	1,437	3,449	-
Repairs and Maintenance	27,834	-	7,211	35,045	3,531
Supplies	304	179	720	1,203	-
Utilities	5,050	-	1,204	6,254	-
Miscellaneous	1,262	2,389	258	3,909	1,766
Total Operating Expenses	<u>50,305</u>	<u>25,840</u>	<u>28,874</u>	<u>105,019</u>	<u>13,814</u>
Net Operating Income (Loss)	<u>(19,867)</u>	<u>5,013</u>	<u>(7,713)</u>	<u>(22,567)</u>	<u>11,421</u>
NON OPERATING REVENUE (EXPENSE)					
Interest Income	359	682	451	1,492	-
Insurance Proceeds	-	-	-	-	2,971
Miscellaneous Income	2,192	-	-	2,192	2,430
Interest Expense	-	-	-	-	(7,457)
Total Non Operating Revenue (Expense)	<u>2,551</u>	<u>682</u>	<u>451</u>	<u>3,684</u>	<u>(2,056)</u>
CHANGE IN NET POSITION	(17,316)	5,695	(7,262)	(18,883)	9,365
NET POSITION (DEFICIT) - January 1	<u>169,726</u>	<u>99,660</u>	<u>257,511</u>	<u>526,897</u>	<u>(34,976)</u>
NET POSITION (DEFICIT) - December 31	<u>\$ 152,410</u>	<u>\$ 105,355</u>	<u>\$ 250,249</u>	<u>\$ 508,014</u>	<u>\$ (25,611)</u>

CITY OF DANUBE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<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>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 30,054	\$ 30,290	\$ 20,898	\$ 81,242	\$ 25,235
Payments to Vendors	(36,007)	(22,705)	(10,315)	(69,027)	(5,297)
Payments to Employees	(3,656)	(1,359)	(3,558)	(8,573)	-
Other Receipts and Payments	<u>2,192</u>	<u>-</u>	<u>-</u>	<u>2,192</u>	<u>2,431</u>
Net Cash Provided (Used) By Operating Activities	<u>(7,417)</u>	<u>6,226</u>	<u>7,025</u>	<u>5,834</u>	<u>22,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Insurance	-	-	-	-	2,971
Principal Paid on Capital Debt	-	-	-	-	(5,611)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,457)</u>
Net Cash Used By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,097)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>359</u>	<u>683</u>	<u>451</u>	<u>1,493</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>359</u>	<u>683</u>	<u>451</u>	<u>1,493</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS -	<u>(7,058)</u>	<u>6,909</u>	<u>7,476</u>	<u>7,327</u>	<u>12,272</u>
January 1	<u>54,009</u>	<u>92,613</u>	<u>59,360</u>	<u>205,982</u>	<u>5,474</u>
CASH AND CASH EQUIVALENTS -					
December 31	<u>\$ 46,951</u>	<u>\$ 99,522</u>	<u>\$ 66,836</u>	<u>\$ 213,309</u>	<u>\$ 17,746</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities					
Net Operating Income (Loss)	\$ (19,867)	\$ 5,013	\$ (7,713)	\$ (22,567)	\$ 11,421
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities					
Depreciation	10,187	-	14,486	24,673	5,876
Changes in Assets and Liabilities					
Accounts Receivable	(385)	(563)	(264)	(1,212)	-
Accounts Payable	456	1,776	516	2,748	2,641
Other Receipts and Payments	<u>2,192</u>	<u>-</u>	<u>-</u>	<u>2,192</u>	<u>2,431</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (7,417)</u>	<u>\$ 6,226</u>	<u>\$ 7,025</u>	<u>\$ 5,834</u>	<u>\$ 22,369</u>

CITY OF DANUBE, MINNESOTA
 SCHEDULE OF CITY INDEBTEDNESS
 FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Bonded Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance January 1</u>	<u>Issued in 2012</u>	<u>Paid in 2012</u>	<u>Balance December 31</u>	<u>Current Amount Due</u>
GO Bonds								
Community Center Bond	5.0%	12/13/96	01/01/18	\$ 89,000	-	\$ 11,000	\$ 78,000	\$ 12,000
Economic Development Authority EDA 4-Plex Bonds	4.0%	10/08/98	07/01/29	<u>188,372</u>	-	<u>5,611</u>	<u>182,761</u>	<u>5,853</u>
Total City Indebtedness				\$ <u>277,372</u>	\$ -	\$ <u>16,611</u>	\$ <u>260,761</u>	\$ <u>17,853</u>

CITY OF DANUBE, MINNESOTA
SUMMARY FINANCIAL REPORT

RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

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.

	<u>Total</u> <u>2012</u>	<u>Total</u> <u>2011</u>	Percent Increase (Decrease)
RECEIPTS:			
Taxes and Assessments	\$ 164,167	\$ 209,633	(21.69)%
Licenses and Permits	2,750	2,550	7.84 %
Intergovernmental	157,674	167,808	(6.04)%
Charges for Services	121,320	100,077	21.23 %
Fines	1,670	2,865	(41.71)%
Investment Earnings	10,222	6,508	57.07 %
Miscellaneous	10,823	68,200	(84.13)%
Transfer In	-	16,061	(100.00)%
Total Receipts	<u>\$ 468,626</u>	<u>\$ 573,702</u>	<u>(18.32)%</u>
Per Capita	<u>928</u>	<u>1,085</u>	
DISBURSEMENTS:			
Current			
General Government	\$ 60,245	\$ 62,884	(4.20)%
Public Safety	129,628	113,654	14.05 %
Public Works	92,892	112,860	(17.69)%
Culture and Recreation	470	2,782	(83.11)%
Miscellaneous	90,952	97,265	(6.49)%
Debt Service:			
Principal Payments	11,000	11,000	- %
Interest Payments	4,450	5,000	(11.00)%
Capital Outlay	57,197	22,034	159.59 %
Transfer Out	-	16,061	(100.00)%
Total Disbursements	<u>\$ 446,834</u>	<u>\$ 759,334</u>	<u>(41.15)%</u>
Per Capita	<u>885</u>	<u>1,435</u>	
Governmental Long-term Indebtedness	<u>\$ 78,000</u>	<u>\$ 89,000</u>	<u>(12.36)%</u>
Per Capita	<u>154</u>	<u>176</u>	
General Fund Cash Balance - December 31	<u>\$ 285,146</u>	<u>\$ 304,159</u>	<u>(6.25)%</u>
Per Capita	<u>565</u>	<u>602</u>	

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
General	Renville County - Property Taxes	\$ 8,133
General	Renville County - Special Assessments	2,001
General	Danube EDA - Insurance	9,964
General	Residents - Billed Services	1,306
Water	Residents - Customer User Charge	7,955
Sewer	Residents - Customer User Charge	5,156
Garbage	Residents - Customer User Charge	<u>8,449</u>
		<u>\$ 42,964</u>

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
General, School	Great Plains Natural Gas	December utilities	\$ 4,440
General	RC Hospital & Clinics	December supplies	20
General, School, Water, Sewer, Garbage	Quill	December supplies	309
General	Danube Auto Works	December repairs	480
General	Marco	December repairs	20
General	Lang's Automotive	December repairs	103
General	Sullivan's Electric	December repairs	350
General	Avenet	December repairs	350
General	Two Way Communications	December supplies	180
General	Farmers Coop Oil	December fuel	696
Sewer	Gopher State One Call	Locates	3
Water	Dakota Pump & Control	December repairs	1,086
Sewer	HD Supply Waterworks	December repairs	209
Sewer	TA Lauritsen	December repairs	300
Garbage	West Central Sanitation	November hauling	1,315
School	Menards	December repairs	62
School	Lonny Davis	December contract labor	280
Garbage	West Central Sanitation	December hauling	1,293
Capital Project	Sullivan's Electric	December repairs	382
Capital Project	Excel Overhead Door	December repairs	<u>4,202</u>
Total Accounts Payable			<u>\$ 16,080</u>

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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, in accordance with the 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 each major fund and the discretely presented component units of City of Danube, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Danube, Minnesota's regulatory basis financial statements, and have issued our report thereon dated April 10, 2013.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. Items 12-01 and 12-02. 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

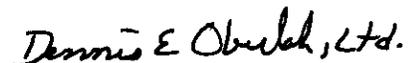
As part of obtaining reasonable assurance about whether City of Danube, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

City of Danube, Minnesota's Response to Findings

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.

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 result 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.


Dennis E. Oberloh, Ltd.

April 10, 2013

CITY OF DANUBE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012

INTERNAL CONTROL FINDINGS

Audit Finding 12-01

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 12-02

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, 2012

MINNESOTA LEGAL COMPLIANCE FINDINGS

Audit Finding 12-03

Criteria: Minnesota Statute 118A.03 requires that all City deposits be secured by collateral of valued at market value or par, whichever is lower, less the amount of FDIC or SPIC insurance coverage. The collateral pledged must be at least ten percent more than the uninsured and unbonded amount on deposit at the close of the banking day.

Condition: During our audit, we noted that the City had insufficient collateral to cover the deposits plus the ten percent at December 31, 2012.

Cause: The City was not aware pledged collateral was insufficient.

Effect: The City is not in compliance with State Statutes.

Recommendations: The City should ensure procedures are implemented to timely monitor compliance with pledged security requirements.

Managements Response: The City established a bank sweep account which transfers excess funds not covered under FDIC to other banks on January 2, 2013.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

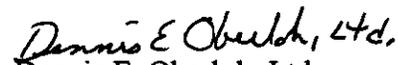
We have audited the basic financial statements of City of Danube, Minnesota, as of and for the year ended December 31, 2012 and have issued our report thereon dated April 10, 2013.

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 except as described in Finding 12-03 on pages 35, Schedule of Findings and Responses.

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.


Dennis E. Oberloh, Ltd.

April 10, 2013