

CITY OF DANUBE  
DANUBE, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2015

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SECTION I

INTRODUCTORY SECTION

CITY OF DANUBE  
DANUBE, MINNESOTA  
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

MAYOR	Gene Allex
COUNCIL MEMBER	Sharon Krogman
COUNCIL MEMBER	Dave Maurice
COUNCIL MEMBER	Phil Standfuss
COUNCIL MEMBER	Al Strunc
CITY CLERK-TREASURER	Dotty Schnobrich
CITY ATTORNEY	Aaron Walton

SECTION II

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Danube, Minnesota, which comprise the statement of cash and unencumbered cash balances as of December 31, 2015, and the related statement of receipts received and disbursements paid for the year then ended, 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 financial reporting provisions of the Office of the State Auditor, State of Minnesota. Management is also responsible for 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from 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**

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the cash and unencumbered cash balances of City of Danube, Minnesota as of December 31, 2015, and the receipts it received and disbursements it paid for the year then ended, in accordance with the financial reporting provisions of the Office of the State Auditor, State of Minnesota described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Office of the State Auditor, State of Minnesota, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Office of the State Auditor, State of Minnesota. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Required Supplementary Information*

The regulatory basis of accounting require that the budgetary comparison information on pages 21 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Danube, Minnesota's regulatory basis financial statements. The statements and schedules on pages 24 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 24 through 28 is the responsibility of management and were derived from and relate 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 basic 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 24 through 28 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules on pages 29 and 30 noted as unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2016 on our consideration of the City of Danube, Minnesota's internal control over financial reporting and on 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.

**Restrictions on Use**

This report is intended solely for the information and use of management, City Council, others within 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.

March 9, 2016

CITY OF DANUBE, MINNESOTA  
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015

	<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>399,171</u>	\$ <u>242,584</u>	\$ <u>253,465</u>	\$ <u>10,325</u>	\$ <u>905,545</u>
Total Assets	\$ <u><u>399,171</u></u>	\$ <u><u>242,584</u></u>	\$ <u><u>253,465</u></u>	\$ <u><u>10,325</u></u>	\$ <u><u>905,545</u></u>
<b>LIABILITIES</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<b>CASH FUND BALANCES</b>					
Restricted	-	-	-	10,325	10,325
Assigned	-	242,584	253,465	-	496,049
Unassigned	<u>399,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,171</u>
Total Cash Fund Balances	<u>399,171</u>	<u>242,584</u>	<u>253,465</u>	<u>10,325</u>	<u>905,545</u>
Total Liabilities and Cash Fund Balances	\$ <u><u>399,171</u></u>	\$ <u><u>242,584</u></u>	\$ <u><u>253,465</u></u>	\$ <u><u>10,325</u></u>	\$ <u><u>905,545</u></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, 2015

	General Fund	School Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
<b>RECEIPTS</b>					
Taxes	\$ 212,042	\$ -	\$ -	\$ 25	\$ 212,067
Licenses and Permits	2,545	-	-	-	2,545
Intergovernmental Revenue	171,394	-	12,339	-	183,733
Charges for Services	37,007	70,490	-	-	107,497
Fines and Forfeits	3,030	-	-	-	3,030
Interest Income	6,777	684	460	1	7,922
Miscellaneous	6,424	9,034	-	-	15,458
<b>Total Receipts</b>	<u>439,219</u>	<u>80,208</u>	<u>12,799</u>	<u>26</u>	<u>532,252</u>
<b>DISBURSEMENTS</b>					
Current Operations:					
General Government	62,229	-	-	-	62,229
Public Safety	143,353	-	-	-	143,353
Public Works	96,306	-	345	-	96,651
Culture and Recreation	4,107	-	-	-	4,107
Miscellaneous	10,675	69,504	-	-	80,179
<b>Total Disbursements</b>	<u>316,670</u>	<u>69,504</u>	<u>345</u>	<u>-</u>	<u>386,519</u>
<b>EXCESS RECEIPTS OVER DISBURSEMENTS</b>	122,549	10,704	12,454	26	145,733
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	-	-	38,500	-	38,500
Transfer Out	(38,500)	-	-	-	(38,500)
<b>NET CHANGE IN CASH FUND BALANCES</b>	84,049	10,704	50,954	26	145,733
<b>CASH FUND BALANCES - January 1</b>	<u>315,122</u>	<u>231,880</u>	<u>202,511</u>	<u>10,299</u>	<u>759,812</u>
<b>CASH FUND BALANCES - December 31</b>	<u>\$ 399,171</u>	<u>\$ 242,584</u>	<u>\$ 253,465</u>	<u>\$ 10,325</u>	<u>\$ 905,545</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, 2015

	<u>Primary Government Enterprise Funds</u>			<u>Totals</u>	<u>Component Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
ASSETS					
Cash and Cash Investments	\$ <u>64,008</u>	\$ <u>114,015</u>	\$ <u>80,148</u>	\$ <u>258,171</u>	\$ <u>23,324</u>
Total Assets	\$ <u>64,008</u>	\$ <u>114,015</u>	\$ <u>80,148</u>	\$ <u>258,171</u>	\$ <u>23,324</u>
LIABILITIES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,300</u>
NET CASH POSITION					
Unrestricted	<u>64,008</u>	<u>114,015</u>	<u>80,148</u>	<u>258,171</u>	<u>21,024</u>
Total Net Cash Position	<u>64,008</u>	<u>114,015</u>	<u>80,148</u>	<u>258,171</u>	<u>21,024</u>
Total Liabilities and Net Cash Position	\$ <u>64,008</u>	\$ <u>114,015</u>	\$ <u>80,148</u>	\$ <u>258,171</u>	\$ <u>23,324</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, 2015

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Totals</u>	<u>Component</u> <u>Unit</u>
	<u>Garbage</u>				<u>EDA 4-Plex</u>
	<u>Water Fund</u>	<u>Fund</u>	<u>Sewer Fund</u>		
<b>OPERATING RECEIPTS</b>					
Charges for Services	\$ 46,013	\$ 30,066	\$ 24,988	\$ 101,067	\$ -
Rental Income	-	-	-	-	24,405
Total Operating Receipts	<u>46,013</u>	<u>30,066</u>	<u>24,988</u>	<u>101,067</u>	<u>24,405</u>
<b>OPERATING DISBURSEMENTS</b>					
Salaries	3,894	1,505	3,894	9,293	-
Contracted Services	-	22,215	-	22,215	-
Insurance	445	-	1,025	1,470	2,368
Permits, Testing and Fees	1,990	-	2,779	4,769	-
Repairs and Maintenance	15,199	-	2,020	17,219	2,374
Supplies	3,794	120	1,352	5,266	-
Utilities	6,053	-	1,206	7,259	-
Miscellaneous	1,851	2,415	247	4,513	1,271
Total Operating Disbursements	<u>33,226</u>	<u>26,255</u>	<u>12,523</u>	<u>72,004</u>	<u>6,013</u>
<b>NET OPERATING INCOME</b>	<u>12,787</u>	<u>3,811</u>	<u>12,465</u>	<u>29,063</u>	<u>18,392</u>
<b>NON OPERATING RECEIPTS (DISBURSEMENTS):</b>					
Interest Income	161	324	215	700	-
Miscellaneous Income	2,601	-	-	2,601	1,161
Debt Principal	-	-	-	-	(6,347)
Interest Expense	-	-	-	-	(6,721)
Total Non Operating Receipts (Disbursements)	<u>2,762</u>	<u>324</u>	<u>215</u>	<u>3,301</u>	<u>(11,907)</u>
<b>CHANGE IN NET CASH POSITION</b>	15,549	4,135	12,680	32,364	6,485
<b>NET CASH POSITION - January 1</b>	<u>48,459</u>	<u>109,880</u>	<u>67,468</u>	<u>225,807</u>	<u>14,539</u>
<b>NET CASH POSITION - December 31</b>	<u>\$ 64,008</u>	<u>\$ 114,015</u>	<u>\$ 80,148</u>	<u>\$ 258,171</u>	<u>\$ 21,024</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, 2015

	<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	\$ 46,013	\$ 30,066	\$ 24,988	\$ 101,067	\$ 24,405
Payments to Vendors	(29,332)	(24,750)	(8,629)	(62,711)	(6,013)
Payments to Employees	(3,894)	(1,505)	(3,894)	(9,293)	-
Other Receipts and Payments	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>2,601</u>	<u>1,161</u>
Net Cash Provided By Operating Activities	<u>15,388</u>	<u>3,811</u>	<u>12,465</u>	<u>31,664</u>	<u>19,553</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Change in Customer Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40</u>
Net Cash Provided By Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,347)</u>
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,721)</u>
Net Cash Used By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,068)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest Received	<u>161</u>	<u>324</u>	<u>215</u>	<u>700</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>161</u>	<u>324</u>	<u>215</u>	<u>700</u>	<u>-</u>
NET INCREASE IN CASH	15,549	4,135	12,680	32,364	6,525
BALANCES - January 1	<u>48,459</u>	<u>109,880</u>	<u>67,469</u>	<u>225,808</u>	<u>16,799</u>
BALANCES - December 31	<u>\$ 64,008</u>	<u>\$ 114,015</u>	<u>\$ 80,148</u>	<u>\$ 258,172</u>	<u>\$ 23,324</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, includes 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

I. 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 judgments 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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Proprietary Fund Types (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. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or non current), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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.

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.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 Fund Net Position.

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 Position and only interest expense is reported as an expense in the Statement of Revenues, Expenses and Changes in Fund Net Position.

I. Fund Balance

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.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Fund Balance (Cont.)

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.

J. 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. Net Investment in Capital Assets - 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-Treasurer 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.

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, 2015.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 138,411	\$ 143,353	\$ (4,942)

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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 \$1,187,040 and the bank balance was \$1,189,261, including certificates of deposit of \$566,343. All of the bank balance was covered by federal depository insurance.

B. Investments

The City maintains no investment accounts other than certificates of deposit reported above.

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	\$ 905,545
Enterprise Funds	258,171
Component Unit	<u>23,324</u>
Total Cash and Cash Investments	<u>\$ 1,187,040</u>

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.

CITY OF DANUBE, MINNESOTA  
NOTES TO 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, 2015.

	<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	\$ 12,617	\$ -	\$ -	\$ 12,617
Subtotal	<u>12,617</u>	<u>-</u>	<u>-</u>	<u>12,617</u>
Other Capital Assets:				
Plant and Equipment	<u>1,117,453</u>	<u>-</u>	<u>-</u>	<u>1,117,453</u>
Subtotal	<u>1,117,453</u>	<u>-</u>	<u>-</u>	<u>1,117,453</u>
Less: Accumulated Depreciation				
Plant and Equipment	<u>892,760</u>	<u>23,664</u>	<u>-</u>	<u>916,424</u>
Subtotal	<u>892,760</u>	<u>23,664</u>	<u>-</u>	<u>916,424</u>
Net Other Capital Assets	<u>224,693</u>	<u>(23,664)</u>	<u>-</u>	<u>201,029</u>
Net Capital Assets	<u>\$ 237,310</u>	<u>\$ (23,664)</u>	<u>\$ -</u>	<u>\$ 213,646</u>

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2015.

	<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	<u>239,398</u>	<u>-</u>	<u>-</u>	<u>239,398</u>
Subtotal	<u>239,398</u>	<u>-</u>	<u>-</u>	<u>239,398</u>
Less: Accumulated Depreciation				
Buildings	<u>97,430</u>	<u>5,397</u>	<u>-</u>	<u>102,827</u>
Subtotal	<u>97,430</u>	<u>5,397</u>	<u>-</u>	<u>102,827</u>
Net Other Capital Assets	<u>141,968</u>	<u>(5,397)</u>	<u>-</u>	<u>136,571</u>
Net Capital Assets	<u>\$ 147,138</u>	<u>\$ (5,397)</u>	<u>\$ -</u>	<u>\$ 141,741</u>

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

Enterprise Funds:	
Water Fund	\$ 9,000
Sewer Fund	<u>14,664</u>
Total Depreciation Expense - Enterprise Funds	<u>\$ 23,664</u>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

7. TRANSFERS

Transfers to and from other funds at December 31, 2015, follows:

	Transfers to <u>Other Funds</u>	Transfers from <u>Other Funds</u>
General Fund	\$ 38,500	\$ -
Capital Improvement Fund	<u>-</u>	<u>38,500</u>
	<u>\$ 38,500</u>	<u>\$ 38,500</u>

- The General Fund transferred \$38,500 to the Capital Improvement Fund for future capital purchases.

8. FUND BALANCE

A. Classifications

	General Fund	School Fund	Debt Service Fund	Capital Improvement Fund	Total
Restricted for:					
Debt Service	\$ -	\$ -	\$ 10,325	\$ -	\$ 10,325
Total Restricted	<u>-</u>	<u>-</u>	<u>10,325</u>	<u>-</u>	<u>10,325</u>
Assigned to:					
School Building					
Disbursements	-	242,584	-	-	242,584
Capital Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,465</u>	<u>253,465</u>
Total Assigned	<u>-</u>	<u>242,584</u>	<u>-</u>	<u>253,465</u>	<u>496,049</u>
Unassigned	<u>399,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,171</u>
Total	<u>\$ 399,171</u>	<u>\$ 242,584</u>	<u>\$ 10,325</u>	<u>\$ 253,465</u>	<u>\$ 905,545</u>

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 disbursements. At December 31, 2015, the unassigned fund balance of the General Fund was 113.9% of the subsequent year's budgeted disbursements.

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, 2015.

	Balance <u>January 1</u>	Debt <u>Issued</u>	Debt <u>Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
EDA Bonds	\$ 170,802	\$ -	\$ 6,347	\$ 164,455	\$ 6,610
Totals	<u>\$ 170,802</u>	<u>\$ -</u>	<u>\$ 6,347</u>	<u>\$ 164,455</u>	<u>\$ 6,610</u>

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

9. CHANGES IN LONG-TERM DEBT (Cont.)

Bonds outstanding at December 31, 2015 are comprised of the following issues:

General Obligation Essential Function Housing Bonds, due in monthly installments of \$1,220 through May, 2033 including interest at 4.0%.	<u>\$ 164,455</u>
Total Long-Term Debt	<u>\$ 164,455</u>

	EDA Bonds		Total
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 6,610	\$ 6,458	\$ 13,068
2017	6,880	6,188	13,068
2018	7,160	5,908	13,068
2019	7,452	5,616	13,068
2020	7,755	5,313	13,068
2021-2025	43,780	21,560	65,340
2026-2030	53,456	11,884	65,340
2031-2035	<u>31,362</u>	<u>1,662</u>	<u>33,024</u>
Total	<u>\$ 164,455</u>	<u>\$ 64,589</u>	<u>\$ 229,044</u>

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 plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correction Service Retirement Fund, called the Public Employees Correctional Fund (PECF), 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. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefit are established by state statute, and vest after five 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

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

A. Plan Description (Cont.)

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. 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 members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.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 6.50%, respectively, of their annual covered salary in 2015. PEPFF members were required to contribute 10.80% of their annual covered salary in 2015. In 2015, the City of Danube, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.50% for Coordinated Plan members, and 16.20% for PEPFF members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2015, 2014 and 2013 were \$5,743, \$4,491 and \$5,116, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2015, 2014, 2013 were \$10,220, \$10,311, and \$9,413, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF DANUBE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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 2015.

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.

SECTION III

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Beginning Budgetary Fund Balance - January 1	\$ <u>315,122</u>	\$ <u>315,122</u>	\$ <u>315,122</u>	\$ <u>-</u>
<b>RECEIPTS:</b>				
<b>TAXES:</b>				
General Property Taxes	196,280	196,280	197,536	1,256
Special Assessments	<u>-</u>	<u>-</u>	<u>14,506</u>	<u>14,506</u>
Total Taxes	<u>196,280</u>	<u>196,280</u>	<u>212,042</u>	<u>15,762</u>
LICENSES AND PERMITS	<u>2,600</u>	<u>2,600</u>	<u>2,545</u>	<u>(55)</u>
<b>INTERGOVERNMENTAL REVENUE:</b>				
Local Government Aid	148,652	148,652	148,652	-
Market Value Credit	-	-	88	88
PERA Rate Increase Aid	354	354	354	-
State Police Aid	8,000	8,000	7,976	(24)
State Fire Aid	<u>2,000</u>	<u>2,000</u>	<u>14,324</u>	<u>12,324</u>
Total Intergovernmental Revenue	<u>159,006</u>	<u>159,006</u>	<u>171,394</u>	<u>12,388</u>
<b>CHARGES FOR SERVICES:</b>				
General Government	1,500	1,500	1,850	350
Public Safety	17,246	17,246	30,717	13,471
Public Works	<u>5,000</u>	<u>5,000</u>	<u>4,440</u>	<u>(560)</u>
Total Charges for Services	<u>23,746</u>	<u>23,746</u>	<u>37,007</u>	<u>13,261</u>
FINES AND FORFEITS	<u>3,000</u>	<u>3,000</u>	<u>3,030</u>	<u>30</u>
INTEREST INCOME	<u>1,500</u>	<u>1,500</u>	<u>6,777</u>	<u>5,277</u>
<b>MISCELLANEOUS:</b>				
Donations	250	250	3,750	3,500
Miscellaneous Income	<u>2,600</u>	<u>2,600</u>	<u>2,674</u>	<u>74</u>
Total Miscellaneous	<u>2,850</u>	<u>2,850</u>	<u>6,424</u>	<u>3,574</u>
<b>TOTAL RECEIPTS</b>	<u>388,982</u>	<u>388,982</u>	<u>439,219</u>	<u>50,237</u>
<b>AMOUNT AVAILABLE FOR APPROPRIATION</b>	\$ <u>704,104</u>	\$ <u>704,104</u>	\$ <u>754,341</u>	\$ <u>50,237</u>

CITY OF DANUBE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>DISBURSEMENTS:</b>				
<b>GENERAL GOVERNMENT:</b>				
Mayor and Council:				
Personnel Services	\$ 8,365	\$ 8,365	\$ 7,223	\$ 1,142
Other Current Expenditures	50	50	30	20
Election:				
Other Current Expenditures	275	275	405	(130)
Administrative and Finance:				
Personnel Services	24,284	24,284	26,746	(2,462)
Other Current Expenditures	726	726	420	306
Other General Government:				
Personnel Services	4,310	4,310	3,940	370
Other Current Expenditures	19,050	19,050	16,580	2,470
Assessor Fees:				
Current Expenditures	2,740	2,740	2,785	(45)
Independent Auditing:				
Current Expenditures	<u>3,800</u>	<u>3,800</u>	<u>4,100</u>	<u>(300)</u>
Total General Government	<u>63,600</u>	<u>63,600</u>	<u>62,229</u>	<u>1,371</u>
<b>PUBLIC SAFETY:</b>				
Police Protection:				
Personnel Services	83,325	83,325	72,763	10,562
Other Current Expenditures	22,345	22,345	20,278	2,067
First Responders:				
Personnel Services	2,700	2,700	5,384	(2,684)
Other Current Expenditures	3,550	3,550	2,654	896
Fire Protection:				
Personnel Services	7,916	7,916	17,655	(9,739)
Other Current Expenditures	<u>18,575</u>	<u>18,575</u>	<u>24,619</u>	<u>(6,044)</u>
Total Public Safety	<u>138,411</u>	<u>138,411</u>	<u>143,353</u>	<u>(4,942)</u>
<b>PUBLIC WORKS:</b>				
Highways and Streets:				
Personnel Services	49,400	49,400	48,598	802
Other Current Expenditures	55,725	55,725	31,166	24,559
Ice and Snow Removal:				
Personnel Services	1,550	1,550	839	711
Other Current Expenditures	6,950	6,950	1,994	4,956
Street Lighting:				
Current Expenditures	<u>18,000</u>	<u>18,000</u>	<u>13,709</u>	<u>4,291</u>
Total Public Works	<u>131,625</u>	<u>131,625</u>	<u>96,306</u>	<u>35,319</u>

CITY OF DANUBE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
DISBURSEMENTS:				
CULTURE AND RECREATION:				
Parks:				
Current Expenditures	\$ 5,070	\$ 5,070	\$ 4,107	\$ 963
Total Culture and Recreation	5,070	5,070	4,107	963
MISCELLANEOUS:				
Insurance	9,775	9,775	9,116	659
Other Current Expenditures	2,000	2,000	1,559	441
Total Miscellaneous	11,775	11,775	10,675	1,100
TOTAL DISBURSEMENTS	350,481	350,481	316,670	33,811
OTHER FINANCING USES:				
Transfer to Capital Projects Fund	38,500	38,500	38,500	-
Ending Budgetary Fund Balance - December 31	\$ 315,123	\$ 315,123	\$ 399,171	\$ 84,048

SECTION IV

SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015

	<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>ASSETS</b>					
Current Assets:					
Cash and Cash Investments	\$ 64,008	\$ 114,015	\$ 80,148	\$ 258,171	\$ 23,324
Accounts Receivable	<u>10,797</u>	<u>7,952</u>	<u>6,434</u>	<u>25,183</u>	<u>-</u>
Total Current Assets	<u>74,805</u>	<u>121,967</u>	<u>86,582</u>	<u>283,354</u>	<u>23,324</u>
<b>NONCURRENT ASSETS</b>					
Capital Assets:					
Land	11,184	-	1,433	12,617	5,170
Buildings	-	-	-	-	239,398
Plant	<u>477,744</u>	<u>-</u>	<u>639,709</u>	<u>1,117,453</u>	<u>-</u>
Total Capital Assets	488,928	-	641,142	1,130,070	244,568
Less: Accumulated Depreciation	<u>418,239</u>	<u>-</u>	<u>498,185</u>	<u>916,424</u>	<u>102,827</u>
Total Noncurrent Assets	<u>70,689</u>	<u>-</u>	<u>142,957</u>	<u>213,646</u>	<u>141,741</u>
Total Assets	<u>\$ 145,494</u>	<u>\$ 121,967</u>	<u>\$ 229,539</u>	<u>\$ 497,000</u>	<u>\$ 165,065</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable	\$ 38	\$ 1,331	\$ 455	\$ 1,824	\$ -
Deposits	825	-	-	825	2,300
Current Amount of Long-Term Debt	-	-	-	-	6,610
Total Current Liabilities	<u>863</u>	<u>1,331</u>	<u>455</u>	<u>2,649</u>	<u>8,910</u>
<b>LONG-TERM LIABILITIES</b>					
Bonds and Notes Payable	-	-	-	-	157,845
Total Liabilities	<u>863</u>	<u>1,331</u>	<u>455</u>	<u>2,649</u>	<u>166,755</u>
<b>NET POSITION</b>					
Invested in Capital Assets, Net of Related Debt (Deficit)	70,689	-	142,956	213,645	(22,713)
Unrestricted	<u>73,942</u>	<u>120,636</u>	<u>86,128</u>	<u>280,706</u>	<u>21,024</u>
Total Net Position (Deficit)	<u>144,631</u>	<u>120,636</u>	<u>229,084</u>	<u>494,351</u>	<u>(1,690)</u>
Total Liabilities and Net Position	<u>\$ 145,494</u>	<u>\$ 121,967</u>	<u>\$ 229,539</u>	<u>\$ 497,000</u>	<u>\$ 165,065</u>

CITY OF DANUBE, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<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	\$ 45,771	\$ 30,200	\$ 27,018	\$ 102,989	\$ -
Rental Income	-	-	-	-	24,405
Total Operating Revenues	<u>45,771</u>	<u>30,200</u>	<u>27,018</u>	<u>102,989</u>	<u>24,405</u>
<b>OPERATING EXPENSES</b>					
Salaries	3,894	1,505	3,894	9,293	-
Depreciation and Amortization	9,000	-	14,664	23,664	5,397
Contracted Services	-	21,578	-	21,578	-
Insurance	445	-	1,025	1,470	2,368
Permits, Testing and Fees	1,990	-	2,779	4,769	-
Repairs and Maintenance	14,721	-	2,472	17,193	2,374
Supplies	3,754	120	1,352	5,226	-
Utilities	5,212	-	1,086	6,298	-
Miscellaneous	<u>1,851</u>	<u>2,601</u>	<u>250</u>	<u>4,702</u>	<u>1,270</u>
Total Operating Expenses	<u>40,867</u>	<u>25,804</u>	<u>27,522</u>	<u>94,193</u>	<u>11,409</u>
Net Operating Income (Loss)	<u>4,904</u>	<u>4,396</u>	<u>(504)</u>	<u>8,796</u>	<u>12,996</u>
<b>NON OPERATING REVENUE</b>					
<b>(EXPENSE)</b>					
Interest Income	161	323	214	698	-
Miscellaneous Income	2,601	-	-	2,601	1,160
Interest Expense	-	-	-	-	(6,721)
Total Non Operating Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,721)</u>
(Expense)	<u>2,762</u>	<u>323</u>	<u>214</u>	<u>3,299</u>	<u>(5,561)</u>
CHANGE IN NET POSITION	7,666	4,719	(290)	12,095	7,435
NET POSITION (DEFICIT) - January 1	<u>136,965</u>	<u>115,917</u>	<u>229,374</u>	<u>482,256</u>	<u>(9,125)</u>
NET POSITION (DEFICIT) - December 31	<u>\$ 144,631</u>	<u>\$ 120,636</u>	<u>\$ 229,084</u>	<u>\$ 494,351</u>	<u>\$ (1,690)</u>

CITY OF DANUBE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<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	\$ 46,013	\$ 30,066	\$ 24,988	\$ 101,067	\$ 24,405
Payments to Vendors	(29,332)	(24,750)	(8,629)	(62,711)	(6,013)
Payments to Employees	(3,894)	(1,505)	(3,894)	(9,293)	-
Other Receipts and Payments	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>2,601</u>	<u>1,161</u>
Net Cash Provided By Operating Activities	<u>15,388</u>	<u>3,811</u>	<u>12,465</u>	<u>31,664</u>	<u>19,553</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Change in Customer Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40</u>
Net Cash Provided By Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,347)</u>
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,721)</u>
Net Cash Used By Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,068)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>161</u>	<u>324</u>	<u>215</u>	<u>700</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>161</u>	<u>324</u>	<u>215</u>	<u>700</u>	<u>-</u>
NET INCREASE IN CASH	15,549	4,135	12,680	32,364	6,525
CASH AND CASH EQUIVALENTS - January 1	<u>48,459</u>	<u>109,880</u>	<u>67,468</u>	<u>225,807</u>	<u>16,799</u>
CASH AND CASH EQUIVALENTS - December 31	<u>\$ 64,008</u>	<u>\$ 114,015</u>	<u>\$ 80,148</u>	<u>\$ 258,171</u>	<u>\$ 23,324</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities					
Net Operating Income (Loss)	\$ 4,904	\$ 4,396	\$ (504)	\$ 8,796	\$ 12,996
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities					
Depreciation	9,000	-	14,664	23,664	5,396
Changes in Assets and Liabilities					
Accounts Receivable	243	(134)	(2,029)	(1,920)	-
Accounts Payable	(1,360)	(450)	334	(1,476)	-
Other Receipts and Payments	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>2,601</u>	<u>1,161</u>
Net Cash Provided By Operating Activities	<u>\$ 15,388</u>	<u>\$ 3,812</u>	<u>\$ 12,465</u>	<u>\$ 31,665</u>	<u>\$ 19,553</u>



CITY OF DANUBE, MINNESOTA  
SUMMARY FINANCIAL REPORT

RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015

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 Dotty Schnobrich, City Clerk, at 320-826-2563.

	Total <u>2015</u>	Total <u>2014</u>	Percent Increase <u>(Decrease)</u>
<b>RECEIPTS:</b>			
Taxes and Assessments	\$ 212,067	\$ 188,584	12.45 %
Licenses and Permits	2,545	2,556	(0.43)%
Intergovernmental	183,733	170,953	7.48 %
Charges for Services	107,497	119,140	(9.77)%
Fines	3,030	4,649	(34.82)%
Investment Earnings	7,922	4,365	81.49 %
Miscellaneous	15,458	31,800	(51.39)%
Transfer In	<u>38,500</u>	<u>56,193</u>	<u>(31.49)%</u>
Total Receipts	\$ <u>570,752</u>	\$ <u>578,240</u>	<u>(1.29)%</u>
Per Capita	<u>1,160</u>	<u>1,175</u>	
<b>DISBURSEMENTS:</b>			
Current			
General Government	\$ 62,229	\$ 60,138	3.48 %
Public Safety	143,353	145,983	(1.80)%
Public Works	96,651	91,443	5.70 %
Culture and Recreation	4,107	1,554	164.29 %
Miscellaneous	80,179	89,951	(10.86)%
Debt Service:			
Capital Outlay	-	22,034	(100.00)%
Transfer Out	<u>38,500</u>	<u>56,193</u>	<u>(31.49)%</u>
Total Disbursements	\$ <u>425,019</u>	\$ <u>447,871</u>	<u>(5.10)%</u>
Per Capita	<u>864</u>	<u>910</u>	
General Fund Cash Balance - December 31	\$ <u>399,171</u>	\$ <u>315,122</u>	<u>26.67 %</u>
Per Capita	<u>811</u>	<u>624</u>	

CITY OF DANUBE, MINNESOTA  
SCHEDULE OF ACCOUNTS RECEIVABLE (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
General		Renville County - Property Taxes	\$ 5,290
General		Renville County - Special Assessments	1,607
General		State of Minnesota-Court Fines	93
Water		Residents- Customer User Charge	10,797
Sewer		Residents- Customer User Charge	6,435
Garbage		Residents- Customer User Charge	<u>7,933</u>
			<u>\$ 32,155</u>

CITY OF DANUBE, MINNESOTA  
SCHEDULE OF ACCOUNTS PAYABLE (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
General, Water	TDS Telecom		\$ 277
General	Olivia Hardware		42
Water	Gopher State One Call		3
School Fund	Chappel Central		309
School Fund	Menards		30
General	Galls		79
Water	William E Young Co		452
General	Marco		28
General, School Fund	Great Plains Natural Gas		3,074
General	Younger and Walton		81
General	Farmers Coop Oil		145
Garbage	West Central Sanitation		<u>1,331</u>
Total Accounts Payable			\$ <u>5,851</u>

SECTION IV

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED 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 the City of Danube, Minnesota, which comprise of the statement of cash and unencumbered cash balances as of December 31, 2015, and the related statement of receipts received and disbursements paid for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2016.

**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 our opinions 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Items 15-01 and 15-02.

### **Compliance and Other Matters**

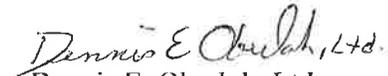
As part of obtaining reasonable assurance about whether City of Danube, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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.

March 9, 2016

CITY OF DANUBE  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2015

INTERNAL CONTROL FINDINGS

Audit Finding 15-01

*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 15-02

*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.

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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, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Danube, Minnesota, which comprise of the statement of cash and unencumbered cash balances as of December 31, 2015, and the related statement of receipts received and disbursements paid for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit included all of the listed categories except tax increment financing because the City does not maintain any tax increment financing districts.

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

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

  
Dennis E. Oberloh, Ltd.

March 9, 2016