CITY OF DANUBE
DANUBE, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

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SECTION I

INTRODUCTORY SECTION

CITY OF DANUBE
DANUBE, MINNESOTA
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

2016

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

2017

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

SECTION II

FINANCIAL SECTION

DENNIS E. OBERLOH, LTD.
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 186 • 530 WEST PARK ROAD
REDWOOD FALLS, MN 56283

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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, 2016, 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, 2016, 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 22 through 24 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 25 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 25 through 29 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 25 through 29 are 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 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 8, 2017 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 8, 2017

CITY OF DANUBE, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General Fund	School Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Cash Investments	$ 356,935	$ 98,984	$ 264,101	$ 10,325	$ 730,345
Due from Other Funds	100,000	237,940	-	-	337,940
Total Assets	$ 456,935	$ 336,924	$ 264,101	$ 10,325	$ 1,068,285
LIABILITIES	$ -	$ -	$ -	$ -	$ -
CASH FUND BALANCES					
Nonspendable	100,000	237,940	-	-	337,940
Restricted	-	-	-	10,325	10,325
Assigned	-	98,984	264,101	-	363,085
Unassigned	356,935	-	-	-	356,935
Total Cash Fund Balances	456,935	336,924	264,101	10,325	1,068,285
Total Liabilities and Cash Fund Balances	$ 456,935	$ 336,924	$ 264,101	$ 10,325	$ 1,068,285

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, 2016

	General Fund	School Fund	Capital Improvement Fund	Debt Service Fund	Total Governmental Funds
RECEIPTS					
Taxes	$ 222,629	$ -	$ -	$ -	$ 222,629
Licenses and Permits	2,525	-	-	-	2,525
Intergovernmental Revenue	183,463	-	-	-	183,463
Charges for Services	28,919	142,998	-	-	171,917
Fines and Forfeits	3,253	-	-	-	3,253
Interest Income	11,244	1,273	1,136	-	13,653
Miscellaneous	10,229	13,603	-	-	23,832
Total Receipts	462,262	157,874	1,136	-	621,272
DISBURSEMENTS					
Current Operations:					
General Government	65,243	-	-	-	65,243
Public Safety	154,881	-	-	-	154,881
Public Works	122,533	-	-	-	122,533
Culture and Recreation	3,581	-	-	-	3,581
Miscellaneous	13,760	63,534	-	-	77,294
Capital Outlay			35,000		35,000
Total Disbursements	359,998	63,534	35,000	-	458,532
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	102,264	94,340	(33,864)	-	162,740
OTHER FINANCING SOURCES (USES)					
Transfer In	-	-	44,500	-	44,500
Transfer Out	(44,500)	-	-	-	(44,500)
NET CHANGE IN CASH FUND BALANCES	57,764	94,340	10,636	-	162,740
CASH FUND BALANCES - January 1	399,171	242,584	253,465	10,325	905,545
CASH FUND BALANCES - December 31	$ 456,935	$ 336,924	$ 264,101	$ 10,325	$ 1,068,285

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, 2016

	Primary Government Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Totals	EDA 4-Plex
ASSETS					
Cash and Cash Investments	$ -	$ 101,524	$ 101,010	$ 202,534	$ 29,562
Total Assets	$ -	$ 101,524	$ 101,010	$ 202,534	$ 29,562
LIABILITIES					
Due to Other Funds	$ 337,940	$ -	$ -	$ 337,940	$ -
NET CASH POSITION					
Unrestricted (Deficit)	(337,940)	101,524	101,010	(135,406)	27,262
Total Net Cash Position (Deficit)	(337,940)	101,524	101,010	(135,406)	27,262
Total Liabilities and Net Cash Position	$ -	$ 101,524	$ 101,010	$ 202,534	$ 29,562

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, 2016

	Primary Government Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Totals	EDA 4-Plex
OPERATING RECEIPTS					
Charges for Services	$ 53,414	$ 29,560	$ 29,934	$ 112,908	$ -
Rental Income	-	-	-	-	25,920
Total Operating Receipts	53,414	29,560	29,934	112,908	25,920
OPERATING DISBURSEMENTS					
Salaries	4,046	1,583	4,056	9,685	-
Contracted Services	45	21,238	-	21,283	-
Insurance	427	-	945	1,372	2,312
Permits, Testing and Fees	2,000	-	1,805	3,805	-
Repairs and Maintenance	34,553	-	2,180	36,733	4,076
Supplies	735	-	276	1,011	-
Telephone	470	-	-	470	-
Utilities	3,616	-	-	3,616	-
Miscellaneous	2,051	19,741	207	21,999	1,332
Total Operating Disbursements	47,943	42,562	9,469	99,974	7,720
NET OPERATING INCOME (LOSS)	5,471	(13,002)	20,465	12,934	18,200
NON OPERATING RECEIPTS (DISBURSEMENTS):					
Interest Income	-	511	397	908	-
Miscellaneous Income	2,374	-	-	2,374	1,106
Debt Principal	-	-	-	-	(7,629)
Interest Expense	-	-	-	-	(5,439)
Capital Outlay	(409,793)	-	-	(409,793)	-
Total Non Operating Receipts (Disbursements)	(407,419)	511	397	(406,511)	(11,962)
CHANGE IN NET CASH POSITION	(401,948)	(12,491)	20,862	(393,577)	6,238
NET CASH POSITION - January 1	64,008	114,015	80,148	258,171	21,024
NET CASH POSITION (DEFICIT) - December 31	$ (337,940)	$ 101,524	$ 101,010	$ (135,406)	$ 27,262

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, 2016

	Primary Government Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Total	EDA 4-Plex
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	$ 53,414	$ 29,560	$ 29,934	$ 112,908	$ 25,920
Payments to Vendors	(43,897)	(40,979)	(5,413)	(90,289)	(7,720)
Payments to Employees	(4,046)	(1,583)	(4,056)	(9,685)	-
Other Receipts and Payments	2,374	-	-	2,374	1,106
Net Cash Provided (Used) By Operating Activities	7,845	(13,002)	20,465	15,308	19,306
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to Other Funds	337,940	-	-	337,940	-
Net Cash Provided By Noncapital Financing Activities	337,940	-	-	337,940	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchases of Capital Outlay	(409,793)	-	-	(409,793)	-
Principal Paid on Capital Debt	-	-	-	-	(7,629)
Interest Paid on Capital Debt	-	-	-	-	(5,439)
Net Cash Used By Capital and Related Financing Activities	(409,793)	-	-	(409,793)	(13,068)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	-	511	397	908	-
Net Cash Provided By Investing Activities	-	511	397	908	-
NET INCREASE (DECREASE) IN CASH	(64,008)	(12,491)	20,862	(55,637)	6,238
BALANCES - January 1	64,008	114,015	80,148	258,171	23,324
BALANCES - December 31	$ -	$ 101,524	$ 101,010	$ 202,534	$ 29,562

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 position 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

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 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.

1. 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.

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, 2016.

Function Area	Budget	Actual	Variance
Public Safety	$ 138,920	$ 154,881	$ (15,961)
Miscellaneous	$ 12,775	$ 13,760	$ (985)

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 $962,441 and the bank balance was $970,468, including certificates of deposit of $180,000. 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	$ 730,345
Enterprise Funds	202,534
Component Unit	29,562
Total Cash and Cash Investments	$ 962,441

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, 2016.

	Balance January 1	Additions	Transfers/ Retirements	Balance December 31
Not Being Depreciated:				
Land	$ 12,617	$ -	$ -	$ 12,617
Construction In Progress	-	409,793	-	409,793
Subtotal	12,617	409,793	-	422,410
Other Capital Assets:				
Plant and Equipment	1,117,453	-	-	1,117,453
Subtotal	1,117,453	-	-	1,117,453
Less: Accumulated Depreciation				
Plant and Equipment	916,424	23,099	-	939,523
Subtotal	916,424	23,099	-	892,760
Net Other Capital Assets	201,029	(23,099)	-	224,693
Net Capital Assets	$ 213,646	$ 386,694	$ -	$ 237,310

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2016.

	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	239,398	-	-	239,398
Subtotal	239,398	-	-	239,398
Less: Accumulated Depreciation				
Buildings	102,826	5,397	-	108,223
Subtotal	102,826	5,397	-	97,430
Net Other Capital Assets	136,572	(5,397)	-	141,968
Net Capital Assets	$ 141,742	$ (5,397)	$ -	$ 147,138

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

Enterprise Funds:	
Water Fund	$ 8,901
Sewer Fund	14,198
Total Depreciation Expense - Enterprise Funds	$ 23,099
Component Unit	
EDA 4-Plex	$ 5,397
Total Depreciation Expense - Component Unit	$ 5,397

7. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2016, follows:

	Due from Other Funds	Due to Other Funds
General Fund	$ 100,000	$ -
School Fund	237,940	-
Water Fund	-	337,940
	$ 337,940	$ 337,940

The Water fund borrowed $337,940 from the General Fund and the School Fund to cover the costs of the construction of a new water tower. The interfund payable is expected to be repaid at project completion through a transfer from available City funds.

8. TRANSFERS

Transfers to and from other funds at December 31, 2016, follows:

	Transfers to Other Funds	Transfers from Other Funds
General Fund	$ 44,500	$ -
Capital Improvement Fund	-	44,500
	$ 44,500	$ 44,500

- The General Fund transferred $44,500 to the Capital Improvement Fund for future capital purchases of the City.

9. FUND BALANCE

A. Classifications

	General Fund	School Fund	Debt Service Fund	Capital Improvement Fund	Total
Nonspendable:					
Interfund Receivable	$ 100,000	$ 237,940	$ -	$ -	$ 337,940
Total Nonspendable	100,000	237,940	-	-	337,940
Restricted for:					
Debt Service	-	-	10,325	-	10,325
Total Restricted	-	-	10,325	-	10,325
Assigned to:					
School Building Disbursements	-	98,984	-	-	98,984
Capital Improvements	-	-	-	264,101	264,101
Total Assigned	-	98,984	-	264,101	363,085
Unassigned	356,935	-	-	-	356,935
Total	$ 456,935	$ 336,924	$ 10,325	$ 264,101	$ 1,068,285

9. FUND BALANCE (Cont.)

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, 2016, the unassigned fund balance of the General Fund was 89.2% of the subsequent year's budgeted disbursements.

10. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2016.

	Balance January 1	Debt Issued	Debt Retired	Balance December 31	Current Amount
EDA Bonds	$ 164,455	$ -	$ 7,629	$ 156,826	$ 9,330
Totals	$ 164,455	$ -	$ 7,629	$ 156,826	$ 9,330

Bonds outstanding at December 31, 2016 are comprised of the following issues:

General Obligation Essential Function Housing Bonds, due in monthly installments of $1,220 through May, 2031 including interest at 2.45%.	$ 156,826
Total Long-Term Debt	$ 156,826

	EDA Bonds Component Unit		
	Principal	Interest	Total
2017	$ 9,330	$ 3,738	$ 13,068
2018	9,561	3,507	13,068
2019	9,798	3,270	13,068
2020	10,041	3,027	13,068
2021	10,290	2,778	13,068
2022-2026	55,402	9,938	65,340
2027-2031	52,404	2,813	55,217
Total	$ 156,826	$ 29,071	$ 185,897

11. 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 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

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

A. Plan Description (Cont.)

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; 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 statues 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 2016. PEPFF members were required to contribute 10.80% of their annual covered salary in 2016. In 2016, 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, 2016, 2015 and 2014 were $6,000, $5,743 and $4,491, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2016, 2015, 2014 were $10,875, $10,220, and $10,311, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

12. 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.

13. OTHER POST EMPLOYMENT BENEFITS

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

14. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2016.

15. 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.

C. Construction Contracts

The City has entered into water tower construction contracts totaling $467,000. This project will be financed through current City funds. As of December 31, 2016 the construction costs incurred totaled $354,230.

SECTION III

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning Budgetary Fund Balance - January 1	$ 399,171	$ 399,171	$ 399,171	$ -
RECEIPTS:				
TAXES:				
General Property Taxes	207,414	207,414	210,733	3,319
Special Assessments	-	-	11,896	11,896
Total Taxes	207,414	207,414	222,629	15,215
LICENSES AND PERMITS	2,500	2,500	2,525	25
INTERGOVERNMENTAL REVENUE:				
Local Government Aid	148,933	148,933	148,933	-
Market Value Credit	-	-	68	68
PERA Rate Increase Aid	354	354	354	-
State Police Aid	8,000	8,000	8,269	269
State Fire Aid	2,000	2,000	12,839	10,839
Other State Grants	-	-	13,000	13,000
Total Intergovernmental Revenue	159,287	159,287	183,463	24,176
CHARGES FOR SERVICES:				
General Government	1,500	1,500	2,600	1,100
Public Safety	17,250	17,250	26,319	9,069
Public Works	5,000	5,000	-	(5,000)
Total Charges for Services	23,750	23,750	28,919	5,169
FINES AND FORFEITS	3,000	3,000	3,253	253
INTEREST INCOME	1,500	1,000	11,244	10,244
MISCELLANEOUS:				
Donations	250	250	260	10
Miscellaneous Income	2,700	2,700	9,969	7,269
Total Miscellaneous	2,950	2,950	10,229	7,279
TOTAL RECEIPTS	400,401	399,901	462,262	62,361
AMOUNT AVAILABLE FOR APPROPRIATION	$ 799,572	$ 799,072	$ 861,433	$ 62,361

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
DISBURSEMENTS:				
GENERAL GOVERNMENT:				
Mayor and Council:				
Personnel Services	$ 8,365	$ 8,365	$ 8,031	$ 334
Other Current Expenditures	50	50	30	20
Election:				
Personnel Services	1,500	1,500	1,475	25
Other Current Expenditures	500	500	308	192
Administrative and Finance:				
Personnel Services	26,510	26,510	28,113	(1,603)
Other Current Expenditures	726	726	310	416
Other General Government:				
Personnel Services	4,310	4,310	3,669	641
Other Current Expenditures	22,700	22,700	16,267	6,433
Assessor Fees:				
Current Expenditures	3,000	3,000	2,940	60
Independent Auditing:				
Current Expenditures	4,100	4,100	4,100	-
Total General Government	71,761	71,761	65,243	6,518
PUBLIC SAFETY:				
Police Protection:				
Personnel Services	82,450	82,450	76,136	6,314
Other Current Expenditures	24,245	24,245	29,918	(5,673)
First Responders:				
Personnel Services	2,975	2,975	5,998	(3,023)
Other Current Expenditures	3,050	3,050	1,181	1,869
Fire Protection:				
Personnel Services	8,700	8,700	17,596	(8,896)
Other Current Expenditures	17,500	17,500	24,052	(6,552)
Total Public Safety	138,920	138,920	154,881	(15,961)
PUBLIC WORKS:				
Highways and Streets:				
Personnel Services	53,750	53,750	51,983	1,767
Other Current Expenditures	55,125	55,125	55,006	119
Ice and Snow Removal:				
Personnel Services	1,550	1,550	286	1,264
Other Current Expenditures	6,950	6,950	1,753	5,197
Street Lighting:				
Current Expenditures	15,000	15,000	13,505	1,495
Total Public Works	132,375	132,375	122,533	9,842

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
DISBURSEMENTS:				
CULTURE AND RECREATION:				
Parks:				
Current Expenditures	$ 4,570	$ 4,570	$ 3,581	$ 989
Total Culture and Recreation	4,570	4,570	3,581	989
MISCELLANEOUS:				
Insurance	9,775	9,775	9,240	535
Other Current Expenditures	3,000	3,000	4,520	(1,520)
Total Miscellaneous	12,775	12,775	13,760	(985)
TOTAL DISBURSEMENTS	360,401	360,401	359,998	403
OTHER FINANCING USES:				
Transfer to Capital Projects Fund	39,500	39,500	44,500	(5,000)
TOTAL DISBURSEMENTS AND OTHER FINANCING USES	399,901	399,901	404,498	(4,597)
Ending Budgetary Fund Balance - December 31	$ 399,671	$ 399,171	$ 456,935	$ 57,764

SECTION IV

SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Total	EDA 4-Plex
ASSETS					
Current Assets:					
Cash and Cash Investments	$ -	$ 101,524	$ 101,010	$ 202,535	$ 29,562
Accounts Receivable	13,273	8,062	8,179	29,514	-
Total Current Assets	13,273	109,586	109,190	232,049	29,562
NONCURRENT ASSETS					
Capital Assets:					
Land	11,184	-	1,433	12,617	5,170
Buildings	-	-	-	-	239,398
Plant	477,744	-	639,709	1,117,453	-
Construction in Progress	409,793	-	-	409,793	-
Total Capital Assets	898,721	-	641,142	1,539,863	244,568
Less: Accumulated Depreciation	427,140	-	512,383	939,523	108,223
Total Noncurrent Assets	471,581	-	128,759	600,340	136,345
Total Assets	$ 484,854	$ 109,586	$ 237,949	$ 832,389	$ 165,907
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 2	$ 1,957	$ 69	$ 2,028	$ -
Due to Other Funds	337,940	-	-	337,940	-
Deposits	825	-	-	825	2,300
Current Amount of Long-Term Debt	-	-	-	-	9,330
Total Current Liabilities	338,767	1,957	69	340,793	11,630
LONG-TERM LIABILITIES					
Bonds and Notes Payable	-	-	-	-	147,496
Total Liabilities	338,767	1,957	69	340,793	159,126
NET POSITION					
Net Investment in Capital Assets (Deficit)	133,641	-	128,759	262,400	(20,481)
Unrestricted	12,446	107,629	109,121	229,196	27,262
Total Net Position	146,087	107,629	237,880	491,596	6,781
Total Liabilities and Net Position	$ 484,854	$ 109,586	$ 237,949	$ 832,389	$ 165,907

CITY OF DANUBE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Total	EDA 4-Plex
OPERATING REVENUES					
Charges for Services	$ 55,890	$ 29,669	$ 31,678	$ 117,237	$ -
Rental Income	-	-	-	-	25,920
Total Operating Revenues	55,890	29,669	31,678	117,237	25,920
OPERATING EXPENSES					
Salaries	4,046	1,583	4,056	9,685	-
Depreciation and Amortization	8,901	-	14,198	23,099	5,397
Contracted Services	45	21,861	-	21,906	-
Insurance	427	-	945	1,372	2,312
Permits, Testing and Fees	2,000	-	1,874	3,874	-
Repairs and Maintenance	34,553	-	1,728	36,281	4,076
Supplies	737	-	276	1,013	-
Telephone	470	-	-	470	-
Utilities	3,578	-	-	3,578	-
Miscellaneous	2,051	19,744	204	21,999	1,332
Total Operating Expenses	56,808	43,188	23,281	123,277	13,117
Net Operating Income (Loss)	(918)	(13,519)	8,397	(6,040)	12,803
NON OPERATING REVENUE (EXPENSE)					
Interest Income	-	512	399	911	-
Miscellaneous Income	2,374	-	-	2,374	1,105
Interest Expense	-	-	-	-	(5,439)
Total Non Operating Revenue (Expense)	2,374	512	399	3,285	(4,334)
CHANGE IN NET POSITION	1,456	(13,007)	8,796	(2,755)	8,469
NET POSITION (DEFICIT) - January 1	144,631	120,636	229,084	494,351	(1,690)
NET POSITION - December 31	$ 146,087	$ 107,629	$ 237,880	$ 491,596	$ 6,781

CITY OF DANUBE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Total	EDA 4-Plex
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	$ 53,414	$ 29,560	$ 29,934	$ 112,908	$ 25,920
Payments to Vendors	(43,897)	(40,979)	(5,413)	(90,289)	(7,720)
Payments to Employees	(4,046)	(1,583)	(4,056)	(9,685)	-
Other Receipts and Payments	2,374	-	-	2,374	1,106
Net Cash Provided (Used) By Operating Activities	7,845	(13,002)	20,465	15,308	19,306
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to Other Funds	337,940	-	-	337,940	-
Net Cash Provided By Noncapital Financing Activities	337,940	-	-	337,940	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	(409,793)	-	-	(409,793)	-
Principal Paid on Capital Debt	-	-	-	-	(7,629)
Interest Paid on Capital Debt	-	-	-	-	(5,439)
Net Cash Used By Capital and Related Financing Activities	(409,793)	-	-	(409,793)	(13,068)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	-	511	397	908	-
Net Cash Provided By Investing Activities	-	511	397	908	-
NET INCREASE (DECREASE) IN CASH	(64,008)	(12,491)	20,862	(55,637)	6,238
CASH AND CASH EQUIVALENTS - January 1	64,008	114,015	80,148	258,171	23,324
CASH AND CASH EQUIVALENTS - December 31	$ -	$ 101,524	$ 101,010	$ 202,534	$ 29,562
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities					
Net Operating Income (Loss)	$ (918)	$ (13,519)	$ 8,397	$ (6,040)	$ 12,803
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities					
Depreciation	8,901	-	14,198	23,099	5,397
Changes in Assets and Liabilities					
Accounts Receivable	(2,476)	(109)	(1,744)	(4,329)	-
Accounts Payable	(36)	626	(386)	204	-
Other Receipts and Payments	2,374	-	-	2,374	1,106
Net Cash Provided (Used) By Operating Activities	$ 7,845	$ (13,002)	$ 20,465	$ 15,308	$ 19,306

CITY OF DANUBE, MINNESOTA
SCHEDULE OF CITY INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2016

Bonded Indebtedness	Interest Rate	Issue Date	Maturity Date	Balance January 1	Issued in 2016	Paid in 2016	Balance December 31	Current Amount Due
Economic Development Authority								
EDA 4-Plex Bonds	2.45%	10/08/98	05/01/33	$ 164,455	$ -	$ 7,629	$ 156,826	$ 9,330
Total City Indebtedness				$ 164,455	$ -	$ 7,629	$ 156,826	$ 9,330

CITY OF DANUBE, MINNESOTA
SUMMARY FINANCIAL REPORT

RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

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 2016	Total 2015	Percent Increase (Decrease)
RECEIPTS:			
Taxes and Assessments	$ 222,629	$ 212,067	4.98 %
Licenses and Permits	2,525	2,545	(0.79)%
Intergovernmental	183,463	183,733	(0.15)%
Charges for Services	171,917	107,497	59.93 %
Fines	3,253	3,030	7.36 %
Investment Earnings	13,653	7,922	72.34 %
Miscellaneous	23,832	15,458	54.17 %
Transfer In	44,500	38,500	15.58 %
Total Receipts	$ 665,772	$ 570,752	16.65 %
Per Capita	1,353	1,160	
DISBURSEMENTS:			
Current			
General Government	$ 65,243	$ 62,229	4.84 %
Public Safety	154,881	143,353	8.04 %
Public Works	122,533	96,651	26.78 %
Culture and Recreation	3,581	4,107	(12.81)%
Miscellaneous	77,294	80,179	(3.60)%
Debt Service:			
Capital Outlay	35,000	22,034	58.85 %
Transfer Out	44,500	38,500	15.58 %
Total Disbursements	$ 503,032	$ 425,019	18.36 %
Per Capita	1,022	864	
General Fund Cash Balance - December 31	$ 456,935	$ 399,171	14.47 %
Per Capita	929	790	

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Fund	Source of Revenue and Purpose	Amount
General	Renville County - Property Taxes	$ 5,562
General	Renville County - Special Assessments	1,668
General	State of Minnesota - Court Fines	191
Water	Residents - Customer User Charge	13,273
Sewer	Residents - Customer User Charge	8,179
Garbage	Residents - Customer User Charge	8,061
		$ 36,934

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Fund	Vendor	Item and Purpose	Amount
Garbage	Renville County Solid Waste	Garbage	$ 329
General	Quill	Office Supplies	22
Garbage	West Central Sanitation	Garbage	1,334
General	Walton Law Group	Legal	124
General	Heiman Inc.	Fire Department Supplies	4,416
Garbage	Redwood/Renville Regional	Landfill	294
General	Steve's Heating & Air	Repairs/Maintenance	1,021
General	Great Plains Natural Gas	Utilities	534
School	Great Plains Natural Gas	Utilities	3,581
School	Sullivan Electric	Repairs/Maintenance	81
General	Macs	Supplies	20
Sewer	MVTL	Testing	69
General	Olivia Hardware	Supplies	38
General	Danube Auto Works	Repairs/Maintenance	427
General	Farmers Coop Oil	Utilities	452
Water	Farmers Coop Oil	Utilities	2
General	Schmolls Welding	Repairs/Maintenance	343
Total Accounts Payable			$ 13,087

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, 2016, 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 8, 2017.

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. 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 16-01 and 16-02.

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 8, 2017

CITY OF DANUBE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

INTERNAL CONTROL FINDINGS

Audit Finding 16-01

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 16-02

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, 2016, 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 8, 2017.

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.
Dennis E. Oberloh, Ltd.

March 8, 2017