

CITY OF DANUBE
DANUBE, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

CITY OF DANUBE, MINNESOTA
CONTENTS

	<u>PAGE</u>
<u>SECTION I</u> <u>INTRODUCTORY SECTION</u>	
Elected and Appointed Officials	1
<u>SECTION II</u> <u>FINANCIAL SECTION</u>	
Independent Auditors' Report	2 - 4
Governmental Funds	
Statement of Balances Arising from Cash Transactions	5
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	6
Proprietary Funds	
Statement of Balances Arising from Cash Transactions	7
Statement of Cash Receipts, Disbursements and Changes in Fund Net Cash Position	8
Statement of Cash Flows - Cash Basis	9
Notes to Financial Statements	10 - 22
<u>SECTION III</u> <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
General Fund	
Budgetary Comparison Schedule - Cash Basis	23 - 25
<u>SECTION IV</u> <u>SUPPLEMENTAL SECTION</u>	
Proprietary Funds	
Statement of Net Position	26
Statement of Revenues, Expenses and Changes in Fund Net Position	27
Statement of Cash Flows	28
Schedule of City Indebtedness	29
Summary Financial Report	
Receipts and Disbursements for General Operations - Governmental Funds	30
Schedule of Accounts Receivable (Unaudited)	31
Schedule of Accounts Payable and Contingent Liabilities (Unaudited)	32

CITY OF DANUBE, MINNESOTA
CONTENTS

PAGE

SECTION IV
ADDITIONAL INFORMATION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33 - 34
Schedule of Findings and Responses	35
Independent Auditors' Report on Legal Compliance	36

SECTION I

INTRODUCTORY SECTION

CITY OF DANUBE
DANUBE, MINNESOTA
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

MAYOR	Gene Alex
COUNCIL MEMBER	Sharon Krogman
COUNCIL MEMBER	Carrie Garza
COUNCIL MEMBER	Phil Standfuss
COUNCIL MEMBER	Cathy Malvin
CITY CLERK-TREASURER	Dotty Schnobrich
CITY ATTORNEY	Aaron Walton

SECTION II

FINANCIAL SECTION

Dennis E. Oberloh, CPA
Sara J. Oberloh, CPA



P.O. Box 186
530 West Park Road
Redwood Falls, MN 56283
507-644-6400
www.oberlohcpa.com

INDEPENDENT AUDITORS' 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, 2019, 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 as described in Note 1. 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.

Auditors' 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 auditors' 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the City of Danube, Minnesota, 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 meet the requirements of the Office of the State Auditor, State of Minnesota.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of City of Danube, Minnesota as of December 31, 2019, or changes in net position, or cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

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, 2019, 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.

Other Matters

Required Supplementary Information

The regulatory basis of accounting require that the budgetary comparison information on pages 23 through 25 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 26 through 32 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 26 through 30 are 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 26 through 30 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules on pages 31 and 32 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 11, 2020 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.

Oberloh & Oberloh, Ltd.
Oberloh & Oberloh, Ltd.

March 11, 2020

CITY OF DANUBE, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>General Fund</u>	<u>School Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Investments	\$ <u>468,012</u>	\$ <u>152,887</u>	\$ <u>473,788</u>	\$ <u>1,094,687</u>
Total Assets	\$ <u><u>468,012</u></u>	\$ <u><u>152,887</u></u>	\$ <u><u>473,788</u></u>	\$ <u><u>1,094,687</u></u>
LIABILITIES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
CASH FUND BALANCES				
Assigned	-	152,887	473,788	626,675
Unassigned	<u>468,012</u>	<u>-</u>	<u>-</u>	<u>468,012</u>
Total Cash Fund Balances	<u><u>468,012</u></u>	<u><u>152,887</u></u>	<u><u>473,788</u></u>	<u><u>1,094,687</u></u>
Total Liabilities and Cash Fund Balances	\$ <u><u>468,012</u></u>	\$ <u><u>152,887</u></u>	\$ <u><u>473,788</u></u>	\$ <u><u>1,094,687</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, 2019

	General Fund	School Fund	Capital Improvement Fund	Total Governmental Funds
RECEIPTS				
Taxes	\$ 332,488	\$ -	\$ -	\$ 332,488
Licenses and Permits	4,369	-	-	4,369
Intergovernmental Revenue	177,954	-	83,352	261,306
Charges for Services	29,205	102,735	-	131,940
Fines and Forfeits	1,338	-	-	1,338
Interest Income	7,840	1,894	6,713	16,447
Miscellaneous	<u>37,486</u>	<u>15,664</u>	<u>98,821</u>	<u>151,971</u>
Total Receipts	<u>590,680</u>	<u>120,293</u>	<u>188,886</u>	<u>899,859</u>
DISBURSEMENTS				
Current Operations:				
General Government	91,784	-	-	91,784
Public Safety	161,363	-	-	161,363
Public Works	144,944	-	-	144,944
Culture and Recreation	1,886	-	-	1,886
Miscellaneous	15,804	60,321	-	76,125
Capital Outlay	<u>22,000</u>	<u> </u>	<u>219,115</u>	<u>241,115</u>
Total Disbursements	<u>437,781</u>	<u>60,321</u>	<u>219,115</u>	<u>717,217</u>
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	152,899	59,972	(30,229)	182,642
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	107,300	107,300
Transfer Out	<u>(107,300)</u>	<u> </u>	<u> </u>	<u>(107,300)</u>
NET CHANGE IN CASH FUND BALANCES	45,599	59,972	77,071	182,642
CASH FUND BALANCES - January 1	<u>422,413</u>	<u>92,915</u>	<u>396,717</u>	<u>912,045</u>
CASH FUND BALANCES - December 31	<u>\$ 468,012</u>	<u>\$ 152,887</u>	<u>\$ 473,788</u>	<u>\$ 1,094,687</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, 2019

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Totals</u>	<u>Component</u> <u>Unit</u>
	<u>Water Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
ASSETS					
Cash and Cash Investments	\$ <u>35,054</u>	\$ <u>15,383</u>	\$ <u>116,201</u>	\$ <u>166,638</u>	\$ <u>47,539</u>
Total Assets	\$ <u><u>35,054</u></u>	\$ <u><u>15,383</u></u>	\$ <u><u>116,201</u></u>	\$ <u><u>166,638</u></u>	\$ <u><u>47,539</u></u>
LIABILITIES					
	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,300</u>
NET CASH POSITION					
Unrestricted	<u>35,054</u>	<u>15,383</u>	<u>116,201</u>	<u>166,638</u>	<u>45,239</u>
Total Net Cash Position	<u><u>35,054</u></u>	<u><u>15,383</u></u>	<u><u>116,201</u></u>	<u><u>166,638</u></u>	<u><u>45,239</u></u>
Total Liabilities and Net Cash Position	\$ <u><u>35,054</u></u>	\$ <u><u>15,383</u></u>	\$ <u><u>116,201</u></u>	\$ <u><u>166,638</u></u>	\$ <u><u>47,539</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 FUND NET CASH POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Primary Government</u>			<u>Totals</u>	<u>Component</u>
	<u>Enterprise Funds</u>				<u>Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>EDA 4-Plex</u>
OPERATING RECEIPTS					
Charges for Services	\$ 67,379	\$ 32,794	\$ 39,769	\$ 139,942	\$ -
Rental Income	-	-	-	-	25,920
Total Operating Receipts	<u>67,379</u>	<u>32,794</u>	<u>39,769</u>	<u>139,942</u>	<u>25,920</u>
OPERATING DISBURSEMENTS					
Salaries	4,493	1,761	4,493	10,747	-
Contracted Services	-	24,765	-	24,765	-
Insurance	506	-	768	1,274	2,265
Permits, Testing and Fees	2,662	-	2,479	5,141	-
Repairs and Maintenance	9,038	-	13,459	22,497	10,104
Supplies	2,370	140	726	3,236	-
Utilities	11,955	-	1,817	13,772	-
Miscellaneous	<u>2,028</u>	<u>2,822</u>	<u>125</u>	<u>4,975</u>	<u>2,122</u>
Total Operating Disbursements	<u>33,052</u>	<u>29,488</u>	<u>23,867</u>	<u>86,407</u>	<u>14,491</u>
NET OPERATING INCOME	<u>34,327</u>	<u>3,306</u>	<u>15,902</u>	<u>53,535</u>	<u>11,429</u>
NON OPERATING RECEIPTS (DISBURSEMENTS):					
Interest Income	525	210	1,927	2,662	-
Grant Income	-	-	25,635	25,635	-
Miscellaneous Income	2,553	-	-	2,553	-
Debt Principal	-	-	-	-	(10,727)
Interest Expense	-	-	-	-	(2,930)
Capital Outlay	<u>(35,394)</u>	<u>-</u>	<u>(60,879)</u>	<u>(96,273)</u>	<u>(1,168)</u>
Total Non Operating Receipts (Disbursements)	<u>(32,316)</u>	<u>210</u>	<u>(33,317)</u>	<u>(65,423)</u>	<u>(14,825)</u>
CHANGE IN NET CASH POSITION	2,011	3,516	(17,415)	(11,888)	(3,396)
NET CASH POSITION - January 1	<u>33,043</u>	<u>11,867</u>	<u>133,616</u>	<u>178,526</u>	<u>48,635</u>
NET CASH POSITION - December 31	<u>\$ 35,054</u>	<u>\$ 15,383</u>	<u>\$ 116,201</u>	<u>\$ 166,638</u>	<u>\$ 45,239</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, 2019

	<u>Primary Government</u> <u>Enterprise Funds</u>			<u>Total</u>	<u>Component</u> <u>Unit</u>
	<u>Water</u> <u>Fund</u>	<u>Garbage</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>		<u>EDA 4-Plex</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 67,379	\$ 32,794	\$ 39,769	\$ 139,942	\$ 25,920
Payments to Vendors	(28,559)	(27,727)	(19,374)	(75,660)	(14,491)
Payments to Employees	(4,493)	(1,761)	(4,493)	(10,747)	-
Other Receipts and Payments	<u>2,553</u>	<u>-</u>	<u>-</u>	<u>2,553</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>36,880</u>	<u>3,306</u>	<u>15,902</u>	<u>56,088</u>	<u>11,429</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchases of Capital Outlay	(35,394)	-	(60,879)	(96,273)	(1,168)
Grant Income	-	-	25,635	25,635	-
Principal Paid on Capital Debt	-	-	-	-	(10,727)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,930)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(35,394)</u>	<u>-</u>	<u>(35,244)</u>	<u>(70,638)</u>	<u>(14,825)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>525</u>	<u>210</u>	<u>1,927</u>	<u>2,662</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>525</u>	<u>210</u>	<u>1,927</u>	<u>2,662</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	2,011	3,516	(17,415)	(11,888)	(3,396)
BALANCES - January 1	<u>33,043</u>	<u>11,867</u>	<u>133,616</u>	<u>178,526</u>	<u>50,935</u>
BALANCES - December 31	<u>\$ 35,054</u>	<u>\$ 15,383</u>	<u>\$ 116,201</u>	<u>\$ 166,638</u>	<u>\$ 47,539</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 Auditors' 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, include property taxes, grants, entitlements and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The City has the following fund types:

Governmental Fund Types

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

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.

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

Proprietary Fund Types

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

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Proprietary 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.)

D. Deposits and Investments (Cont.)

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota, or any of its municipalities.
4. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States bank corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories

Investments for the City are reported at fair value.

The City has not adopted a formal investment policy as of December 31, 2019.

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.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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."

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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, 2019.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 141,345	\$ 183,363	\$ (42,018)
Culture and Recreation	\$ 20	\$ 1,886	\$ (1,866)
Miscellaneous	\$ 14,900	\$ 15,804	\$ (904)

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.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Cont.)

A. Cash and Cash Investments (Cont.)

At year end, the City's carrying amount of deposits was \$1,222,278 and the bank balance was \$1,313,257, including certificates of deposit of \$500,000. Of the bank balance \$1,233,854 was covered by federal depository insurance. Of the remaining balance, \$79,403 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

B. Investments

As of December 31, 2019, the City had the following pooled investments that are insured or registered, or securities held by the City or its agent in the City's name.

<u>Type of Investment</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Edward Jones Brokerage Account	\$ <u>86,586</u>	\$ <u>-</u>	\$ <u>86,586</u>	\$ <u>-</u>
Total	\$ <u>86,586</u>	\$ <u>-</u>	\$ <u>86,586</u>	\$ <u>-</u>

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related assets. Level 3 inputs are unobservable inputs related to the asset.

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	\$ 1,094,687
Enterprise Funds	166,638
Component Unit	<u>47,539</u>
Total Cash and Cash Investments	\$ <u>1,308,864</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, 2019.

	<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	\$ <u>12,617</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>12,617</u>
Subtotal	<u>12,617</u>	<u>-</u>	<u>-</u>	<u>12,617</u>
Other Capital Assets:				
Plant and Equipment	<u>1,693,941</u>	<u>96,273</u>	<u>-</u>	<u>1,790,214</u>
Subtotal	<u>1,693,941</u>	<u>96,273</u>	<u>-</u>	<u>1,790,214</u>
Less: Accumulated Depreciation				
Plant and Equipment	<u>1,000,470</u>	<u>35,867</u>	<u>-</u>	<u>1,036,337</u>
Subtotal	<u>1,000,470</u>	<u>35,867</u>	<u>-</u>	<u>967,310</u>
Net Other Capital Assets	<u>693,471</u>	<u>60,406</u>	<u>-</u>	<u>726,631</u>
Net Capital Assets	<u>\$ 706,088</u>	<u>\$ 60,406</u>	<u>\$ -</u>	<u>\$ 739,248</u>

Component Unit Capital Assets - The following is a summary of component unit type capital assets at December 31, 2019.

	<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	\$ <u>5,170</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,170</u>
Subtotal	<u>5,170</u>	<u>-</u>	<u>-</u>	<u>5,170</u>
Other Capital Assets:				
Buildings	<u>240,782</u>	<u>1,168</u>	<u>-</u>	<u>241,950</u>
Subtotal	<u>240,782</u>	<u>1,168</u>	<u>-</u>	<u>241,950</u>
Less: Accumulated Depreciation				
Buildings	<u>119,132</u>	<u>5,678</u>	<u>-</u>	<u>124,810</u>
Subtotal	<u>119,132</u>	<u>5,678</u>	<u>-</u>	<u>113,620</u>
Net Other Capital Assets	<u>121,650</u>	<u>(4,510)</u>	<u>-</u>	<u>125,778</u>
Net Capital Assets	<u>\$ 126,820</u>	<u>\$ (4,510)</u>	<u>\$ -</u>	<u>\$ 130,948</u>

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

Enterprise Funds:

Water Fund	\$ 20,830
Sewer Fund	<u>15,037</u>
Total Depreciation Expense - Enterprise Funds	<u>\$ 35,867</u>

Component Unit

EDA 4-Plex	<u>\$ 5,678</u>
Total Depreciation Expense - Component Unit	<u>\$ 5,678</u>

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. TRANSFERS

Transfers to and from other funds at December 31, 2019, follows:

	Transfers to Other Funds	Transfers from Other Funds
General Fund	\$ 107,300	\$ -
Capital Improvement Fund	-	107,300
	<u>\$ 107,300</u>	<u>\$ 107,300</u>

- The General Fund transferred \$107,300 to the Capital Improvement Fund for future capital outlay purchases.

8. FUND BALANCE

A. Classifications

	General Fund	School Fund	Capital Improvement Fund	Total
Assigned to:				
School Building Disbursements	\$ -	\$ 152,887	\$ -	\$ 152,887
Capital Improvements	-	-	473,788	473,788
Total Assigned	<u>-</u>	<u>152,887</u>	<u>473,788</u>	<u>626,675</u>
Unassigned	<u>468,012</u>	-	-	<u>468,012</u>
Total	<u>\$ 468,012</u>	<u>\$ 152,887</u>	<u>\$ 473,788</u>	<u>\$ 1,094,687</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, 2019, the unassigned fund balance of the General Fund was 89.1% 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, 2019.

	Balance <u>January 1</u>	Debt Issued	Debt <u>Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
EDA Bonds	\$ <u>137,943</u>	\$ -	\$ <u>10,727</u>	\$ <u>127,216</u>	\$ <u>12,259</u>
Totals	<u>\$ 137,943</u>	<u>\$ -</u>	<u>\$ 10,727</u>	<u>\$ 127,216</u>	<u>\$ 12,259</u>

Bonds outstanding at December 31, 2019 are comprised of the following issues:

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

General Obligation Essential Function Housing Bonds, due in monthly installments of \$1,207 through July 2029 including interest at 1.83%.	\$ <u>127,216</u>
Total Long-Term Debt	\$ <u>127,216</u>

The annual requirements to maturity for long-term debt are as follows:

	<u>EDA Bonds</u>		
	<u>Component Unit</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 12,259	\$ 2,223	\$ 14,482
2021	12,483	1,999	14,482
2022	12,713	1,769	14,482
2023	12,948	1,534	14,482
2024	13,187	1,295	14,482
2025-2029	<u>63,626</u>	<u>2,750</u>	<u>66,376</u>
Total	<u>\$ 127,216</u>	<u>\$ 11,570</u>	<u>\$ 138,786</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 (accounted for in the General Employees Fund), the Public Employees Police and Fire Fund (accounted for in the Police and Fire Fund), and the Local Government Correction Service Retirement Fund (accounted for in the Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

General Employees Plan 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 Police and Fire Plan. 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, officers, or 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 Correctional Plan.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefit are established by state statute. Benefits for members of the General Employees Plan vest after five years of credited service. Benefits for the Police and Fire Plan vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years. In the Correctional Plan, benefits vest on a prorated basis from 50 percent after 5 years to 100 percent after 10 years. The defined benefit retirement plan benefits are based on a members' highest average salary for any 5 years of allowable service, age, and years of credit at termination of service.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

A. Plan Description (Cont.)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. The rates are 2.2 percent and 2.7 percent respectively, for Basic Members. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service, and 2.7 percent for Basic members. The accrual rates for former MERF members is 2.0 percent for each of the first 10 years of service and 2.5 percent for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

For all General Employee Plan 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. Method 2 provides for unreduced retirement benefits at age 65 for members first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

Normal retirement age is 55 for Police and Fire and Correctional plan 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 with an actuarial reduction in the member's benefit.

A full unreduced pension is earned when Police and Fire and Correctional plan members meet the following conditions: age 55 and vested or age plus years of service total at least 90 if first hired prior to July 1, 1989.

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 for the General Employees, Police and Fire, and Correction plans. That report may be obtained on the PERA's website at www.mnpera.org/about/financial/.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City of Danube, Minnesota makes annual contributions to the pension plans equal to the amount required by the state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2019. Police and Fire Plan members were required to contribute 11.30% of their annual covered salary in 2019. In 2019, 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 16.95% for Police and Fire Plan members.

The City of Danube, Minnesota's contributions to the General Employees Fund for the years ending December 31, 2019, 2018 and 2017 were \$6,662, \$6,942 and \$5,766, respectively. The City of Danube, Minnesota's contributions to the Police and Fire Fund for the years ending December 31, 2019, 2018, 2017 were \$12,723, \$11,235, and \$10,796, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

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

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

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

12. OTHER POST EMPLOYMENT BENEFITS

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

13. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2019.

CITY OF DANUBE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

14. COMMITMENTS AND CONTINGENCIES

A. Risk Management

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

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

B. Claims and Judgments

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

15. SUBSEQUENT EVENTS

Management evaluated all activity of City of Danube through March 11, 2020 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SECTION III

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning Budgetary Fund Balance - January 1	\$ <u>418,832</u>	\$ <u>418,832</u>	\$ <u>422,413</u>	\$ <u>3,581</u>
RECEIPTS:				
TAXES:				
General Property Taxes	324,509	324,509	320,389	(4,120)
Special Assessments	-	-	8,926	8,926
Cable Franchise Tax	<u>2,400</u>	<u>2,400</u>	<u>3,173</u>	<u>773</u>
Total Taxes	<u>326,909</u>	<u>326,909</u>	<u>332,488</u>	<u>5,579</u>
 LICENSES AND PERMITS	 <u>2,600</u>	 <u>2,600</u>	 <u>4,369</u>	 <u>1,769</u>
 INTERGOVERNMENTAL REVENUE:				
Local Government Aid	149,952	149,952	149,952	-
Market Value Credit	-	-	69	69
PERA Rate Increase Aid	354	354	354	-
State Police Aid	8,000	8,000	9,160	1,160
State Fire Aid	2,000	2,000	11,330	9,330
Other State Grants	<u>-</u>	<u>-</u>	<u>7,089</u>	<u>7,089</u>
Total Intergovernmental Revenue	<u>160,306</u>	<u>160,306</u>	<u>177,954</u>	<u>17,648</u>
 CHARGES FOR SERVICES:				
General Government	1,500	1,500	2,500	1,000
Public Safety	20,000	20,000	21,725	1,725
Public Works	<u>5,000</u>	<u>5,000</u>	<u>4,980</u>	<u>(20)</u>
Total Charges for Services	<u>26,500</u>	<u>26,500</u>	<u>29,205</u>	<u>2,705</u>
 FINES AND FORFEITS	 <u>2,500</u>	 <u>2,500</u>	 <u>1,338</u>	 <u>(1,162)</u>
 INTEREST INCOME	 <u>1,000</u>	 <u>1,000</u>	 <u>7,840</u>	 <u>6,840</u>
 MISCELLANEOUS:				
Donations	250	250	600	350
Miscellaneous Income	<u>300</u>	<u>300</u>	<u>36,886</u>	<u>36,586</u>
Total Miscellaneous	<u>550</u>	<u>550</u>	<u>37,486</u>	<u>36,936</u>
 TOTAL RECEIPTS	 <u>520,365</u>	 <u>520,365</u>	 <u>590,680</u>	 <u>70,315</u>
 AMOUNT AVAILABLE FOR APPROPRIATION	 \$ <u>939,197</u>	 \$ <u>939,197</u>	 \$ <u>1,013,093</u>	 \$ <u>73,896</u>

CITY OF DANUBE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
DISBURSEMENTS:				
GENERAL GOVERNMENT:				
Mayor and Council:				
Personnel Services	\$ 8,365	\$ 8,365	\$ 7,794	\$ 571
Other Current Expenditures	50	50	30	20
Election:				
Other Current Expenditures	500	500	314	186
Administrative and Finance:				
Personnel Services	36,575	36,575	37,783	(1,208)
Other Current Expenditures	450	450	236	214
Other General Government:				
Personnel Services	4,310	4,310	4,256	54
Other Current Expenditures	33,950	33,950	33,551	399
Assessor Fees:				
Current Expenditures	3,000	3,000	2,720	280
Independent Auditing:				
Current Expenditures	<u>6,000</u>	<u>6,000</u>	<u>5,100</u>	<u>900</u>
Total General Government	<u>93,200</u>	<u>93,200</u>	<u>91,784</u>	<u>1,416</u>
PUBLIC SAFETY:				
Police Protection:				
Personnel Services	92,000	92,000	94,967	(2,967)
Other Current Expenditures	21,445	21,445	23,827	(2,382)
First Responders:				
Personnel Services	2,750	2,750	1,819	931
Other Current Expenditures	3,450	3,450	3,630	(180)
Fire Protection:				
Personnel Services	7,600	7,600	8,638	(1,038)
Other Current Expenditures	14,100	14,100	28,482	(14,382)
Capital Outlay	<u>-</u>	<u>-</u>	<u>22,000</u>	<u>(22,000)</u>
Total Public Safety	<u>141,345</u>	<u>141,345</u>	<u>183,363</u>	<u>(42,018)</u>
PUBLIC WORKS:				
Highways and Streets:				
Personnel Services	62,775	62,775	66,446	(3,671)
Other Current Expenditures	77,650	77,650	39,016	38,634
Ice and Snow Removal:				
Personnel Services	925	925	1,509	(584)
Other Current Expenditures	7,250	7,250	11,578	(4,328)
Street Lighting:				
Current Expenditures	<u>15,000</u>	<u>15,000</u>	<u>26,395</u>	<u>(11,395)</u>
Total Public Works	<u>163,600</u>	<u>163,600</u>	<u>144,944</u>	<u>18,656</u>

CITY OF DANUBE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
DISBURSEMENTS:				
CULTURE AND RECREATION:				
Parks:				
Current Expenditures	\$ <u>20</u>	\$ <u>20</u>	\$ <u>1,886</u>	\$ <u>(1,866)</u>
Total Culture and Recreation	<u>20</u>	<u>20</u>	<u>1,886</u>	<u>(1,866)</u>
MISCELLANEOUS:				
Insurance	11,500	11,500	11,794	(294)
Other Current Expenditures	<u>3,400</u>	<u>3,400</u>	<u>4,010</u>	<u>(610)</u>
Total Miscellaneous	<u>14,900</u>	<u>14,900</u>	<u>15,804</u>	<u>(904)</u>
TOTAL DISBURSEMENTS	<u>413,065</u>	<u>413,065</u>	<u>437,781</u>	<u>(24,716)</u>
OTHER FINANCING USES:				
Transfer to Capital Projects Fund	<u>107,300</u>	<u>107,300</u>	<u>107,300</u>	<u>-</u>
Ending Budgetary Fund Balance - December 31	\$ <u>418,832</u>	\$ <u>418,832</u>	\$ <u>468,012</u>	\$ <u>49,180</u>

SECTION IV

SUPPLEMENTAL INFORMATION

CITY OF DANUBE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Enterprise Funds				Component Unit
	Water Fund	Garbage Fund	Sewer Fund	Total	EDA 4-Plex
ASSETS					
Current Assets:					
Cash and Cash Investments	\$ 35,054	\$ 15,383	\$ 116,201	\$ 166,639	\$ 47,539
Accounts Receivable	<u>15,534</u>	<u>8,950</u>	<u>9,886</u>	<u>34,370</u>	<u>-</u>
Total Current Assets	<u>50,588</u>	<u>24,333</u>	<u>126,088</u>	<u>201,009</u>	<u>47,539</u>
NONCURRENT ASSETS					
Capital Assets:					
Land	11,184	-	1,433	12,617	5,170
Buildings	-	-	-	-	241,950
Plant	<u>1,089,626</u>	<u>-</u>	<u>700,588</u>	<u>1,790,214</u>	<u>-</u>
Total Capital Assets	1,100,810	-	702,021	1,802,831	247,120
Less: Accumulated Depreciation	<u>482,851</u>	<u>-</u>	<u>553,486</u>	<u>1,036,337</u>	<u>124,810</u>
Total Noncurrent Assets	<u>617,959</u>	<u>-</u>	<u>148,535</u>	<u>766,494</u>	<u>122,310</u>
Total Assets	<u>\$ 668,547</u>	<u>\$ 24,333</u>	<u>\$ 274,623</u>	<u>\$ 967,503</u>	<u>\$ 169,849</u>
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 2,793	\$ 3,278	\$ 109	\$ 6,180	\$ -
Deposits	825	-	-	825	2,300
Current Amount of Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,259</u>
Total Current Liabilities	<u>3,618</u>	<u>3,278</u>	<u>109</u>	<u>7,005</u>	<u>14,559</u>
LONG-TERM LIABILITIES					
Bonds and Notes Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,957</u>
Total Liabilities	<u>3,618</u>	<u>3,278</u>	<u>109</u>	<u>7,005</u>	<u>129,516</u>
NET POSITION					
Net Investment in Capital Assets (Deficit)	617,959	-	148,535	766,494	(4,905)
Unrestricted	<u>46,970</u>	<u>21,055</u>	<u>125,979</u>	<u>194,004</u>	<u>45,239</u>
Total Net Position	<u>664,929</u>	<u>21,055</u>	<u>274,514</u>	<u>960,498</u>	<u>40,334</u>
Total Liabilities and Net Position	<u>\$ 668,547</u>	<u>\$ 24,333</u>	<u>\$ 274,623</u>	<u>\$ 967,503</u>	<u>\$ 169,850</u>

CITY OF DANUBE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Component</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		<u>Unit</u>
					<u>EDA 4-Plex</u>
OPERATING REVENUES					
Charges for Services	\$ 68,161	\$ 32,999	\$ 40,470	\$ 141,630	\$ -
Rental Income	-	-	-	-	25,920
Total Operating Revenues	<u>68,161</u>	<u>32,999</u>	<u>40,470</u>	<u>141,630</u>	<u>25,920</u>
OPERATING EXPENSES					
Salaries	4,493	1,761	4,493	10,747	-
Depreciation and Amortization	20,830	-	15,037	35,867	5,678
Contracted Services	-	24,927	-	24,927	-
Insurance	506	-	768	1,274	2,265
Permits, Testing and Fees	2,662	-	2,548	5,210	-
Repairs and Maintenance	11,163	-	13,461	24,624	10,104
Supplies	2,435	140	726	3,301	-
Utilities	11,988	-	1,853	13,841	-
Miscellaneous	2,133	2,827	123	5,083	2,122
Total Operating Expenses	<u>56,210</u>	<u>29,655</u>	<u>39,009</u>	<u>124,874</u>	<u>20,169</u>
Net Operating Income	<u>11,951</u>	<u>3,344</u>	<u>1,461</u>	<u>16,756</u>	<u>5,751</u>
NON OPERATING REVENUE (EXPENSE)					
Interest Income	525	210	1,927	2,662	-
Grant Income	-	-	25,635	25,635	-
Miscellaneous Income	2,553	-	-	2,553	(1)
Interest Expense	-	-	-	-	(2,930)
Total Non Operating Revenue (Expense)	<u>3,078</u>	<u>210</u>	<u>27,562</u>	<u>30,850</u>	<u>(2,931)</u>
CHANGE IN NET POSITION	15,029	3,554	29,023	47,606	2,820
NET POSITION - January 1	<u>649,900</u>	<u>17,501</u>	<u>245,491</u>	<u>912,892</u>	<u>37,512</u>
NET POSITION - December 31	<u>\$ 664,929</u>	<u>\$ 21,055</u>	<u>\$ 274,514</u>	<u>\$ 960,498</u>	<u>\$ 40,334</u>

CITY OF DANUBE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Enterprise Funds</u>			Total	<u>Component Unit</u>
	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Sewer Fund</u>		EDA 4-Plex
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 67,379	\$ 32,794	\$ 39,769	\$ 139,942	\$ 25,920
Payments to Vendors	(28,559)	(27,727)	(19,374)	(75,660)	(14,491)
Payments to Employees	(4,493)	(1,761)	(4,493)	(10,747)	-
Other Receipts and Payments	<u>2,553</u>	<u>-</u>	<u>-</u>	<u>2,553</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>36,880</u>	<u>3,306</u>	<u>15,902</u>	<u>56,088</u>	<u>11,429</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	(35,394)	-	(60,879)	(96,273)	(1,168)
Grant Income	-	-	25,635	25,635	-
Principal Paid on Capital Debt	-	-	-	-	(10,727)
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,930)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(35,394)</u>	<u>-</u>	<u>(35,244)</u>	<u>(70,638)</u>	<u>(14,825)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	<u>525</u>	<u>210</u>	<u>1,927</u>	<u>2,662</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>525</u>	<u>210</u>	<u>1,927</u>	<u>2,662</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS - January 1	<u>2,011</u>	<u>3,516</u>	<u>(17,415)</u>	<u>(11,888)</u>	<u>(3,396)</u>
CASH AND CASH EQUIVALENTS - December 31	<u>33,043</u>	<u>11,867</u>	<u>133,616</u>	<u>178,526</u>	<u>50,935</u>
	<u>\$ 35,054</u>	<u>\$ 15,383</u>	<u>\$ 116,201</u>	<u>\$ 166,638</u>	<u>\$ 47,539</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities					
Net Operating Income	\$ 11,951	\$ 3,344	\$ 1,461	\$ 16,756	\$ 5,751
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities					
Depreciation	20,830	-	15,037	35,867	5,678
Changes in Assets and Liabilities					
Accounts Receivable	(781)	(312)	(701)	(1,794)	-
Accounts Payable	2,327	274	105	2,706	-
Other Receipts and Payments	<u>2,553</u>	<u>-</u>	<u>-</u>	<u>2,553</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 36,880</u>	<u>\$ 3,306</u>	<u>\$ 15,902</u>	<u>\$ 56,088</u>	<u>\$ 11,429</u>

CITY OF DANUBE, MINNESOTA
 SCHEDULE OF CITY INDEBTEDNESS
 FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Bonded Indebtedness</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance January 1</u>	<u>Issued in 2019</u>	<u>Paid in 2019</u>	<u>Balance December 31</u>	<u>Current Amount Due</u>
Economic Development Authority EDA 4-Plex Bonds	2.45%	10/08/98	05/01/33	\$ 137,943	\$ -	\$ 10,727	\$ 127,216	\$ 12,259
Total City Indebtedness				<u>\$ 137,943</u>	<u>\$ -</u>	<u>\$ 10,727</u>	<u>\$ 127,216</u>	<u>\$ 12,259</u>

CITY OF DANUBE, MINNESOTA
SUMMARY FINANCIAL REPORT

RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

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>2019</u>	Total <u>2018</u>	Percent Increase (Decrease)
RECEIPTS:			
Taxes and Assessments	\$ 332,488	\$ 282,874	17.54 %
Licenses and Permits	4,369	2,790	56.59 %
Intergovernmental	261,306	179,458	45.61 %
Charges for Services	131,940	138,549	(4.77)%
Fines	1,338	2,396	(44.16)%
Investment Earnings	16,447	9,005	82.64 %
Miscellaneous	151,971	76,900	97.62 %
Transfer In	107,300	88,025	21.90 %
Total Receipts	<u>\$ 1,007,159</u>	<u>\$ 779,997</u>	<u>29.12 %</u>
Per Capita	<u>2,047</u>	<u>1,585</u>	
DISBURSEMENTS:			
Current			
General Government	\$ 91,784	\$ 81,374	12.79 %
Public Safety	161,363	158,408	1.87 %
Public Works	144,944	153,581	(5.62)%
Culture and Recreation	1,886	20	9,330.00 %
Miscellaneous	76,125	82,741	(8.00)%
Capital Outlay	241,115	22,034	994.29 %
Transfer Out	107,300	88,025	21.90 %
Total Disbursements	<u>\$ 824,517</u>	<u>\$ 650,801</u>	<u>26.69 %</u>
Per Capita	<u>1,676</u>	<u>1,323</u>	
General Fund Cash Balance - December 31			
Per Capita	<u>\$ 468,012</u>	<u>\$ 422,413</u>	<u>10.79 %</u>
	<u>951</u>	<u>836</u>	

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
General Fund	Renville County - Property Tax	\$ 13,827
General Fund	Renville County - Special Assessments	1,409
General Fund	State of Minnesota - Court Fines	83
School Fund	Tri Valley Opportunity Council - Electric Bill	2,283
General Fund	Edward Jones - Interest Earned	230
General Fund	Mediacom - Franchise Fee	3,112
Water Fund	Residents - Customer User Charge	15,534
Garbage Fund	Residents - Customer User Charge	8,950
Sewer Fund	Residents - Customer User Charge	<u>9,885</u>
		<u>\$ 55,313</u>

CITY OF DANUBE, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
Sewer Fund	MVTL Laboratories Inc	Testing	\$ 69
Water Fund	Renville Sibley Coop	Electricity	64
School Fund	MEI Total Elevator Solutions	Maintenance	1,107
Water Fund	Schmidt Construction Inc	Repairs	2,125
General Fund, School Fund	Menards	Supplies	173
Garbage Fund	RRRSWA	Landfill Fees	895
General Fund	Steve's Heating & Air Cond.	Repairs	519
General Fund, Capital Equip Fund	Heiman Inc	Capital Outlay	5,733
Sewer Fund	Gopher State One Call	Locates	1
General Fund	Elfering & Associates	Engineering	2,415
General Fund	Redwood Falls Auto Value	Supplies	357
General Fund	Galls	Supplies	85
General Fund	Walton Law Group PLLC	Attorney Fees	744
Garbage Fund	West Central Sanitation	December Garbage	1,444
General Fund, Sewer Fund	Farmers Coop Oil	Fuel	399
Water Fund, Garbage Fund	Minnesota Revenue	4th Quarter 2019	<u>1,510</u>
Total Accounts Payable			\$ <u>17,640</u>

SECTION IV

ADDITIONAL INFORMATION

Dennis E. Oberloh, CPA
Sara J. Oberloh, CPA



P.O. Box 186
530 West Park Road
Redwood Falls, MN 56283
507-644-6400
www.oberlohcpa.com

INDEPENDENT AUDITORS' 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, 2019, and the related statement of receipts received and disbursements paid for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Danube, Minnesota's basic financial and have issued our report thereon dated March 11, 2020.

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 2019-001 and 2019-002.

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.

Oberloh & Oberloh, Ltd.
Oberloh & Oberloh, Ltd.

March 11, 2020

CITY OF DANUBE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019

INTERNAL CONTROL FINDINGS

Audit Finding 2019-001

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 2019-002

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.

Dennis E. Oberloh, CPA
Sara J. Oberloh, CPA



P.O. Box 186
530 West Park Road
Redwood Falls, MN 56283
507-644-6400
www.oberlohcpa.com

INDEPENDENT AUDITORS' 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, 2019, 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 11, 2020.

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.

Oberloh & Oberloh, Ltd.
Oberloh & Oberloh, Ltd.

March 11, 2020