



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 25, 2011

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Dunlap, Iowa.

The City's receipts totaled \$1,060,595 for the year ended June 30, 2010. The receipts included \$286,540 in property tax, \$95,143 from tax increment financing, \$337,029 from charges for service, \$241,063 from operating grants, contributions and restricted interest, \$60,824 from local option sales tax, \$4,849 from unrestricted interest on investments, \$20,000 from note proceeds and \$15,147 from other general receipts.

Disbursements for the year totaled \$1,074,887, and included \$313,938 for public safety, \$137,618 for public works and \$130,664 for general government. Also, disbursements for business type activities totaled \$306,159.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1021-0400-B00F.pdf>.

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CITY OF DUNLAP
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

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City of Dunlap

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Fonley Allen	Mayor	Jan 2012
Rich Cline	Council Member	Jan 2010
Nick Gambs	Council Member	Jan 2010
Robert Steele	Council Member	Jan 2010
Carol Gall	Council Member	Jan 2012
Jay Schaben	Council Member	Jan 2012
Nancy Baker	Clerk	Indefinite
Allen Nepper	Attorney	Indefinite
(After January 2010)		
Fonley Allen	Mayor	Jan 2012
Carol Gall	Council Member	Jan 2012
Jay Schaben	Council Member	Jan 2012
Maria Davie	Council Member	Jan 2014
Pete Seuntjens	Council Member	Jan 2014
Robert Steele	Council Member	Jan 2014
Nancy Baker	Clerk	Indefinite
Allen Nepper	Attorney	Indefinite

City of Dunlap



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunlap, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Dunlap's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunlap as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2011 on our consideration of the City of Dunlap's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunlap's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 10, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dunlap provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The City's governmental activities cash basis net assets increased 13%, or approximately \$47,800, from June 30, 2009 to June 30, 2010.
- The cash basis net assets of the City's business type activities decreased 114%, or approximately \$62,100, from June 30, 2009 to June 30, 2010.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the City sewer system and the sanitation system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sanitation operations. The Water, Sewer and Sanitation Funds are considered to be major funds of the City.

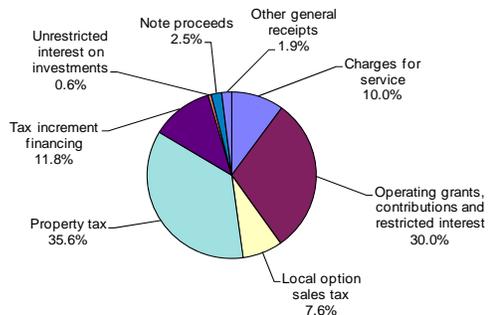
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

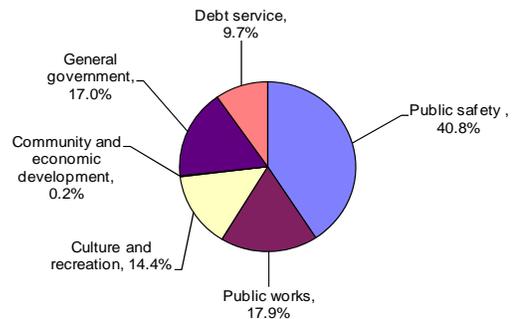
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$361,471 to \$409,278. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 80,497
Operating grants, contributions and restricted interest	241,063
General receipts:	
Property tax	286,540
Local option sales tax	60,824
Tax increment financing	95,143
Unrestricted interest on investments	4,821
Note proceeds	20,000
Other general receipts	15,147
Total receipts	<u>804,035</u>
Disbursements:	
Public safety	313,938
Public works	137,618
Culture and recreation	110,734
Community and economic development	1,281
General government	130,664
Debt service	74,493
Total disbursements	<u>768,728</u>
Change in cash basis net assets before transfers	35,307
Transfers, net	<u>12,500</u>
Change in cash basis net assets	47,807
Cash basis net assets beginning of year	<u>361,471</u>
Cash basis net assets end of year	<u>\$ 409,278</u>

Receipts by Source



Disbursements by Function



The cost of all governmental activities this year was approximately \$769,000. However, as shown in the Statement of Activities and Net Assets on pages 14-15 the amount taxpayers ultimately financed for these activities was only \$447,168 because some of the cost was paid by those directly benefited from the programs (\$80,497) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$241,063). The City paid for the remaining “public benefit” portion of governmental activities (\$447,168) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 123,643
Sewer	53,937
Sanitation	78,952
General receipts:	
Unrestricted interest on investments	28
Total receipts	<u>256,560</u>
Disbursements:	
Water	142,305
Sewer	85,266
Sanitation	78,588
Total disbursements	<u>306,159</u>
Change in cash basis net assets before transfers	(49,599)
Transfers, net	<u>(12,500)</u>
Change in cash basis net assets	(62,099)
Cash basis net assets beginning of year	<u>54,344</u>
Cash basis net assets end of year	<u>\$ (7,755)</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Dunlap completed the year, its governmental funds reported a combined fund balance of \$409,278, an increase of \$47,807 over last year’s total of \$361,471. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$35,626 from the prior year to \$112,546. The decrease was due, in part, to the purchase of a truck.
- The Special Revenue, Road Use Tax Fund cash balance increased \$1,601 to \$18,552. The increase was due to an increase in the amount of road use tax received from the State.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$31,452 to \$71,442. The increase was due to fewer disbursements than expected.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$74,323 to \$87,797. The increase was due to an increase of approximately \$48,000 of tax increment financing (TIF) received while TIF debt disbursements remained consistent with the prior fiscal year.
- The Special Revenue, Emergency Unit Fund cash balance decreased \$27,958 to \$47,758 due to the purchase of a new ambulance.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$28,662 to \$20,958 during the fiscal year, due in part to increased payroll costs.
- The Enterprise, Sewer Fund cash balance decreased \$33,829 to a deficit of \$35,167 during the fiscal year, due in part to principal and interest paid of \$29,250 on sewer debt and increased payroll costs.
- The Enterprise, Sanitation Fund cash balance remained fairly consistent from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved February 15, 2010 and resulted in an increase in operating receipts and disbursements due to a \$20,000 loan taken out for the purchase of a GMC Truck.

The City's receipts were \$58,511 more than budgeted, even after the amendment. This was primarily due to the City not budgeting for the Emergency Unit while receiving less in sewer and water charges for service than anticipated.

Actual disbursements for the culture and recreation, general government, debt service and business type activities functions were \$8,761, \$53,836, \$36,890 and \$67,391, respectively, less than the amended budget. This was primarily due to other governmental activities and operation of the water and sewer systems costing less than expected.

The City exceeded the amounts budgeted in the public safety, public works and community and economic development functions for the year ended June 30, 2010. This was due, in part, to the City not budgeting for the Emergency Unit Fund or the community and economic development function.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$441,435 in long-term debt outstanding, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation notes	\$ 208,258	268,265
Revenue bond	132,000	138,000
Urban renewal tax increment financing loan	25,000	37,500
Sewer loan	76,177	81,243
Total	\$ 441,435	525,008

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$233,528 is significantly below its constitutional debt limit of approximately \$1.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The fiscal year 2011 budget contains total receipts of \$1,035,371 and disbursements of \$1,110,540. Budgeted receipts are higher than the fiscal year 2010 budget which contained total receipts of \$982,084. Budgeted disbursements are less than the fiscal year 2010 budget which contained total disbursements of \$1,122,628. The increase in receipts is due, in part, to a 7% increase in the property tax levy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy Baker, City Clerk, 716 Iowa Ave, Dunlap, IA 51529.

Basic Financial Statements

City of Dunlap

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 313,938	3,969	119,366
Public works	137,618	-	100,681
Culture and recreation	110,734	48,813	21,016
Community and economic development	1,281	-	-
General government	130,664	27,715	-
Debt service	74,493	-	-
Total governmental activities	768,728	80,497	241,063
Business type activities			
Water	142,305	123,643	-
Sewer	85,266	53,937	-
Sanitation	78,588	78,952	-
Total business type activities	306,159	256,532	-
Total	\$ 1,074,887	337,029	241,063
General Receipts and Transfers:			
Property and other city tax levied for			
General purposes			
Debt service			
Employee benefits			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Note proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Expendable:			
Streets			
Local option sales tax			
Urban renewal purposes			
Emergency unit			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(190,603)	-	(190,603)
(36,937)	-	(36,937)
(40,905)	-	(40,905)
(1,281)	-	(1,281)
(102,949)	-	(102,949)
(74,493)	-	(74,493)
(447,168)	-	(447,168)

-	(18,662)	(18,662)
-	(31,329)	(31,329)
-	364	364
-	(49,627)	(49,627)
(447,168)	(49,627)	(496,795)

202,654	-	202,654
8,201	-	8,201
75,685	-	75,685
95,143	-	95,143
60,824	-	60,824
4,821	28	4,849
20,000	-	20,000
15,147	-	15,147
12,500	(12,500)	-
494,975	(12,472)	482,503
47,807	(62,099)	(14,292)
361,471	54,344	415,815
\$ 409,278	(7,755)	401,523

\$ 18,552	-	18,552
71,442	-	71,442
87,797	-	87,797
47,758	-	47,758
13,460	520	13,980
57,723	-	57,723
112,546	(8,275)	104,271
\$ 409,278	(7,755)	401,523

City of Dunlap

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2010

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 202,654	-	-	-
Tax increment financing	-	-	-	95,143
Local option sales tax	-	-	60,824	-
Licenses and permits	5,802	-	-	-
Use of money and property	4,305	-	-	-
Intergovernmental	20,161	100,681	-	-
Charges for service	14,711	-	-	-
Miscellaneous	67,723	-	-	-
Total receipts	315,356	100,681	60,824	95,143
Disbursements:				
Operating:				
Public safety	158,675	-	-	-
Public works	20,000	99,080	-	-
Culture and recreation	91,054	-	-	-
Community and economic development	1,281	-	-	-
General government	109,972	-	-	-
Debt service	-	-	29,372	20,820
Total disbursements	380,982	99,080	29,372	20,820
Excess (deficiency) of receipts over (under) disbursements	(65,626)	1,601	31,452	74,323
Other financing sources:				
Note proceeds	20,000	-	-	-
Operating transfers in	10,000	-	-	-
Total other financing sources	30,000	-	-	-
Net change in cash balances	(35,626)	1,601	31,452	74,323
Cash balances beginning of year	148,172	16,951	39,990	13,474
Cash balances end of year	\$ 112,546	18,552	71,442	87,797
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	112,546	-	-	-
Special revenue funds	-	18,552	71,442	87,797
Total cash basis fund balances	\$ 112,546	18,552	71,442	87,797

See notes to financial statements.

Emergency Unit	Nonmajor	Total
-	83,886	286,540
-	-	95,143
-	-	60,824
-	-	5,802
432	859	5,596
-	13,297	134,139
-	15,141	29,852
98,416	-	166,139
98,848	113,183	784,035
126,806	28,457	313,938
-	18,538	137,618
-	19,680	110,734
-	-	1,281
-	20,692	130,664
-	24,301	74,493
126,806	111,668	768,728
(27,958)	1,515	15,307
-	-	20,000
-	2,500	12,500
-	2,500	32,500
(27,958)	4,015	47,807
75,716	67,168	361,471
47,758	71,183	409,278
-	13,460	13,460
-	-	112,546
47,758	57,723	283,272
47,758	71,183	409,278

City of Dunlap

City of Dunlap

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise			Total
	Water	Sewer	Sanitation	
Operating receipts:				
Charges for service	\$ 123,643	53,937	78,952	256,532
Operating disbursements:				
Business type activities	124,180	56,016	78,588	258,784
Excess (deficiency) of operating receipts over (under) operating disbursements	(537)	(2,079)	364	(2,252)
Non-operating receipts (disbursements):				
Interest on investments	-	-	28	28
Debt service	(18,125)	(29,250)	-	(47,375)
Total non-operating receipts (disbursements)	(18,125)	(29,250)	28	(47,347)
Excess (deficiency) of receipts over (under) disbursements	(18,662)	(31,329)	392	(49,599)
Operating transfers out	(10,000)	(2,500)	-	(12,500)
Net change in cash balances	(28,662)	(33,829)	392	(62,099)
Cash balances beginning of year	49,620	(1,338)	6,062	54,344
Cash balances end of year	\$ 20,958	(35,167)	6,454	(7,755)
Cash Basis Fund Balances				
Reserved for debt service	\$ 520	-	-	520
Unreserved	20,438	(35,167)	6,454	(8,275)
Total cash basis fund balances	\$ 20,958	(35,167)	6,454	(7,755)

See notes to financial statements.

City of Dunlap

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Dunlap is a political subdivision of the State of Iowa located in Harrison County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and sanitation utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Dunlap has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component 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 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 City 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 City.

These financial statements present the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit – The Dunlap Public Library Friends is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Harrison County Assessor's Conference Board, City Assessor's Conference Board, Harrison County Emergency Management Commission, Harrison County Landfill Commission and Harrison County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following two categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue Funds:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is to account for local option sales tax receipts and disbursements.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the payment of debt for urban renewal projects.

The Emergency Unit Fund is used to account for donations received and purchases made for the benefit of the City's Emergency Unit.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund accounts for receipts and disbursements for the City's solid waste collection system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating 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. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works and community and economic development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long Term Debt

Bond and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bond are as follows:

Year Ending June 30,	General Obligation		Revenue Bond		Total	
	Notes		Principal	Interest	Principal	Interest
	Principal	Interest				
2011	\$ 72,851	7,728	6,000	3,960	78,851	11,688
2012	46,395	4,492	7,000	3,780	53,395	8,272
2013	47,298	2,954	7,000	3,570	54,298	6,524
2014	25,424	1,472	7,000	3,360	32,424	4,832
2015	5,430	839	7,000	3,150	12,430	3,989
2016-2020	10,860	839	41,000	12,300	51,860	13,139
2021-2025	-	-	47,000	5,820	47,000	5,820
2026	-	-	10,000	300	10,000	300
Total	\$ 208,258	18,324	132,000	36,240	340,258	54,564

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, general obligation note principal and interest of \$8,320 was paid from the Special Revenue, Urban Renewal Tax Increment Fund, \$29,372 was paid from the Special Revenue, Local Option Sales Tax Fund, \$7,640 was paid from the Enterprise, Water Fund and \$20,000 was paid from the Enterprise, Sewer Fund during the year ended June 30, 2010.

Water Revenue Bond

On March 15, 2007, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of a \$160,000 water revenue bond with interest at 3.0% per annum. The total drawn down by the City was \$156,000. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$156,000 water revenue bond issued in March 2007. Proceeds from the bond provided financing for the construction of improvements and extensions to the municipal waterworks system. The bond is payable solely from water customer net receipts and is payable through 2026. Annual principal and interest payments on the water revenue bond are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bond is \$168,240. For the current year, principal and interest paid and total customer net receipts were \$10,140 and (\$537), respectively.

The resolution providing for the issuance of the water revenue bond includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) User rates shall be established at a level which produces and maintains net revenues at a level net less than 110% the amount of principal and interest on the bond falling due in the same year.

Urban Renewal Tax Increment Financing Loan

On July 16, 2002, the City entered into an agreement with Harrison County Rural Electric (Harrison) (the lender) to guarantee a \$200,000 loan from the lender to the Dunlap Community Development Corporation to finance construction of a speculative building.

The \$200,000 loan consisted of (a) \$100,000 USDA REDL & GP loan, 10 year term with 0% interest, (b) \$50,000 Harrison loan, 5 year term with 0% interest and (c) \$50,000 Harrison loan, 10 year term with 4% interest. The City has guaranteed repayment of the loans. The two Harrison loans of \$50,000 each were repaid prior to fiscal year 2010. The loan agreement and guarantees are payable from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund for the Dunlap Urban Renewal Area.

During the year ended June 30, 2010, the City paid \$12,500 to Dunlap Community Development Corporation. The remaining loan balance at June 30, 2010 of \$25,000 is due in two annual installments of \$12,500 each on June 1, 2011 and June 1, 2012.

Sewer Loan

On May 24, 2006, the City entered into a loan agreement with the local bank for \$95,000. The funds were used to purchase aerators for the sewer lagoon. The loan bears interest at 5.15% per annum and is payable from revenue from the City's sewer system.

The City has pledged future sewer customer receipts to repay the sewer loan. The loan is payable from sewer customer net receipts and is payable through 2021. Annual principal and interest payments on the notes are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the loan is \$101,923. For the current year, principal and interest paid and total customer net receipts were \$9,250 and (\$2,079), respectively.

Annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	5,327	3,923	9,250
2012	5,601	3,649	9,250
2013	5,890	3,630	9,520
2014	6,193	3,057	9,250
2015	6,512	2,738	9,250
2016-2020	37,949	8,301	46,250
2021	8,705	448	9,153
Total	\$ 76,177	25,746	101,923

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2010 was \$16,986, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses through a fully-insured plan with Wellmark. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$422 for single coverage and \$1,066 for family coverage. For the year ended June 30, 2010, the City contributed \$60,249 and plan members contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and holiday hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave hours accumulate but are not payable upon termination. The City's approximate liability for earned vacation, compensatory time and holiday hours payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 12,300
Compensatory time	3,800
Holiday	<u>3,500</u>
Total	<u>\$ 19,600</u>

These liabilities have been computed based on rates of pay in effect at June 30, 2010.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer from	Transfer to	Amount
Enterprise:		
Water	General	\$ 10,000
Sewer	Special Revenue:	
	Street Equipment	2,500
Total		<u>\$ 12,500</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annually casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$29,358.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Enterprise, Sewer Fund had a deficit balance of \$35,167 at June 30, 2010. The City is currently investigating alternatives to eliminate this deficit to return the fund to a sound financial position.

(10) Subsequent Event

On August 16, 2010, the City issued \$30,000 of Urban Renewal Tax Increment Revenue bonds.

City of Dunlap

Required Supplementary Information

City of Dunlap
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 286,540	-
Tax increment financing	95,143	-
Local option sales tax	60,824	-
Licenses and permits	5,802	-
Use of money and property	5,596	-
Intergovernmental	134,139	-
Charges for service	29,852	256,560
Miscellaneous	166,139	-
Total receipts	<u>784,035</u>	<u>256,560</u>
Disbursements:		
Public safety	313,938	-
Public works	137,618	-
Culture and recreation	110,734	-
Community and economic development	1,281	-
General government	130,664	-
Debt service	74,493	-
Business type activities	-	306,159
Total disbursements	<u>768,728</u>	<u>306,159</u>
Excess (deficiency) of receipts over (under) disbursements	15,307	(49,599)
Other financing sources (uses), net	<u>32,500</u>	<u>(12,500)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	47,807	(62,099)
Balances beginning of year	<u>361,471</u>	<u>54,344</u>
Balances end of year	<u>\$ 409,278</u>	<u>(7,755)</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Original to Total Variance
	Original	Final	
286,540	272,304	272,304	14,236
95,143	46,500	46,500	48,643
60,824	61,980	61,980	(1,156)
5,802	7,850	7,850	(2,048)
5,596	11,500	11,500	(5,904)
134,139	122,000	122,000	12,139
286,412	435,850	455,850	(169,438)
166,139	4,100	4,100	162,039
<u>1,040,595</u>	<u>962,084</u>	<u>982,084</u>	<u>58,511</u>
313,938	187,900	217,900	(96,038)
137,618	115,800	115,800	(21,818)
110,734	119,495	119,495	8,761
1,281	-	-	(1,281)
130,664	179,500	184,500	53,836
74,493	111,383	111,383	36,890
306,159	326,050	373,550	67,391
<u>1,074,887</u>	<u>1,040,128</u>	<u>1,122,628</u>	<u>47,741</u>
(34,292)	(78,044)	(140,544)	106,252
<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
(14,292)	(78,044)	(140,544)	126,252
<u>415,815</u>	<u>359,130</u>	<u>359,130</u>	<u>56,685</u>
<u>401,523</u>	<u>281,086</u>	<u>218,586</u>	<u>182,937</u>

City of Dunlap

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$82,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works and community and economic development functions.

Other Supplementary Information

City of Dunlap

City of Dunlap

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Special Revenue				Total
	Employee Benefits	Street Equipment	Dunlap Public Library Friends	Debt Service	
Receipts:					
Property tax	\$ 75,685	-	-	8,201	83,886
Use of money and property	-	-	859	-	859
Intergovernmental	-	-	-	13,297	13,297
Miscellaneous	-	-	15,141	-	15,141
Total receipts	75,685	-	16,000	21,498	113,183
Disbursements:					
Operating:					
Public safety	28,457	-	-	-	28,457
Public works	18,538	-	-	-	18,538
Culture and recreation	5,080	-	14,600	-	19,680
General government	20,692	-	-	-	20,692
Debt service	-	-	-	24,301	24,301
Total disbursements	72,767	-	14,600	24,301	111,668
Excess (deficiency) of receipts over (under) disbursements	2,918	-	1,400	(2,803)	1,515
Other financing sources:					
Operating transfers in	-	2,500	-	-	2,500
Net change in cash balances	2,918	2,500	1,400	(2,803)	4,015
Cash balances beginning of year	20,820	13,871	16,214	16,263	67,168
Cash balances end of year	\$ 23,738	16,371	17,614	13,460	71,183
Cash Basis Fund Balances					
Reserved for debt service	\$ -	-	-	13,460	13,460
Unreserved:					
Special revenue funds	23,738	16,371	17,614	-	57,723
Total cash basis fund balances	\$ 23,738	16,371	17,614	13,460	71,183

See accompanying independent auditor's report.

City of Dunlap
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
City hall roof	Sep. 1, 1999	5.25%	\$ 60,000
Housing subdivision	Sep. 1, 1999	5.25	65,000
Land for sewer lagoon	Aug. 5, 2002	4.25	130,000
Utility relocation	Jun. 16, 2003	3.00	150,000
Remsen street project	Dec. 1, 2003	3.00	50,000
Library construction	Dec. 1, 2003	3.00	175,000
Sports complex	Aug. 23, 2006	5.15	54,300
Maintenance truck	Oct. 12, 2009	3.42	20,000
Total			
Revenue bond:			
Water	Mar. 15, 2007	3.00%	160,000
Urban renewal tax increment financing loan:			
Industrial site spec building	Jul. 16, 2002	0.00%	200,000
Sewer loan agreement:			
Lagoon aerators	May 24, 2006	5.15%	95,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
13,090	-	6,993	6,097	687
14,181	-	7,576	6,605	744
33,382	-	18,581	14,801	1,419
65,264	-	15,642	49,622	1,958
7,527	-	7,527	-	113
91,381	-	18,259	73,123	2,468
43,440	-	5,430	38,010	2,237
-	20,000	-	20,000	-
<u>\$ 268,265</u>	<u>20,000</u>	<u>80,007</u>	<u>208,258</u>	<u>9,626</u>
<u>\$ 138,000</u>	<u>-</u>	<u>6,000</u>	<u>132,000</u>	<u>4,140</u>
<u>\$ 37,500</u>	<u>-</u>	<u>12,500</u>	<u>25,000</u>	<u>-</u>
<u>\$ 81,243</u>	<u>-</u>	<u>5,066</u>	<u>76,177</u>	<u>4,184</u>

City of Dunlap
 Bond and Note Maturities
 June 30, 2010

Year Ending June 30,	City Hall Roof		Housing Subdivision		Land for Sewer Lagoon		Utility Relocation		General
	Issued Sep. 1, 1999		Issued Sep 1, 1999		Issued Aug. 5, 2002		Issued June. 16, 2003		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2011	5.25%	\$ 6,097	5.25%	\$ 6,605	4.25%	\$ 14,801	3.00%	\$ 16,111	
2012		-		-		-	3.00	16,595	
2013		-		-		-	3.00	16,916	
2014		-		-		-		-	
2015		-		-		-		-	
2016		-		-		-		-	
2017		-		-		-		-	
Total		<u>\$ 6,097</u>		<u>\$ 6,605</u>		<u>\$ 14,801</u>		<u>\$ 49,622</u>	

	Revenue Bond	
	Water	
	Issued Mar 15, 2007	
	Interest	
	Rates	Amount
2011	3.00%	\$ 6,000
2012	3.00	7,000
2013	3.00	7,000
2014	3.00	7,000
2015	3.00	7,000
2016	3.00	8,000
2017	3.00	8,000
2018	3.00	8,000
2019	3.00	8,000
2020	3.00	9,000
2021	3.00	9,000
2022	3.00	9,000
2023	3.00	9,000
2024	3.00	10,000
2025	3.00	10,000
2026	3.00	10,000
Total		<u>\$ 132,000</u>

See accompanying independent auditor's report.

Obligation Notes

<u>Library Construction</u>		<u>Sports Complex</u>		<u>Maintenance Truck</u>		
<u>Issued Dec. 1, 2003</u>		<u>Issued Aug. 23, 2006</u>		<u>Issued Oct. 12, 2009</u>		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	Total
3.00%	\$ 18,806	5.15%	\$ 5,430	3.42%	\$ 5,000	72,850
3.00	19,371	5.15	5,430	3.42	5,000	46,396
3.00	19,952	5.15	5,430	3.42	5,000	47,298
3.00	14,994	5.15	5,430	3.42	5,000	25,424
	-	5.15	5,430		-	5,430
	-	5.15	5,430		-	5,430
	-	5.15	5,430		-	5,430
	<u>\$ 73,123</u>		<u>\$ 38,010</u>		<u>\$ 20,000</u>	<u>208,258</u>

City of Dunlap



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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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunlap, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Dunlap's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D), (E), (F) and (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunlap's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Dunlap's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Dunlap's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dunlap and other parties to whom the City of Dunlap may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dunlap during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 10, 2011

City of Dunlap
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

- (1) Cash – Initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Petty Cash – Custody, reconciling and recording.
- (3) Investments – Detailed record keeping and reconciling earnings.
- (4) Long Term Debt – Recording and reconciling.
- (5) Receipts – Opening mail, collecting, depositing, posting and reconciling.
- (6) Utility Receipts – Billing, collecting, depositing and posting.
- (7) Disbursements – Purchasing, invoice processing, check signing, recording and reconciling.
- (8) Payroll – Preparation and distribution.
- (9) Accounting System – Performing all general accounting functions and having custody of City assets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will try to the best of our ability to segregate our duties, which is very difficult with only two employees.

Conclusion – Response accepted.

(B) Bank Reconciliations – Monthly bank statements are reconciled to the City's monthly financial reports. However, a list of outstanding checks was not always prepared and retained for each month. Also, monthly bank reconciliations were not reviewed and approved by an independent person.

Recommendation – A listing of outstanding checks should be prepared and retained each month. In addition, a monthly reconciliation of the book and bank balances should be reviewed and approved by an independent person, and their review should be evidenced by signing or initialing the reconciliation.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

Response – We will attempt to print a second copy of the outstanding checks list and place one with the bank statement.

Conclusion – Response acknowledged. In addition, the City should have an independent person review and approve the bank reconciliations.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – A monthly reconciliation showing water billing, collection and delinquent accounts will be initiated and placed in the council packets so the council will have knowledge of where the billing stands.

Conclusion – Response accepted.

- (D) Information Systems – The following weaknesses in the City’s computer based financial systems were noted:

- User name and passwords for computer desktop and software login are shared by certain employees. Therefore, login and passwords do not uniquely identify users.
- Password(s) are not required to be changed at least every 60 to 90 days.
- Passwords are not set to a recommended minimum length of eight characters.
- Software does not require users to change passwords
- The computer system does not deny access after three failed login attempts.
- The City does not have a written policy regarding the personal use of computers and software.
- The City does not have a written policy on use of the internet.
- The City does not have a written disaster recovery plan.

Recommendation – The City should address the above items in order to improve the City’s control over computer based systems. Also, a written disaster recovery plan should be developed and tested periodically.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

Response – The Clerk and Deputy Clerk are the only people who know the passwords to the computers. We can comply and adjust our passwords to the recommended number of characters and we can change them every 90 to 120 days. I will check with our software provider to see if access can be denied after three attempts. An internet policy can be written, and the City is included in a Harrison County Disaster Plan.

Conclusion – Response accepted.

- (E) Separately Maintained Records – The Fire Department Emergency Unit account transactions are maintained as separate accounting records by the Fire Department. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected received or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – The Fire Department will share its accounting/financial records with the City which will be included in the Treasurer's Report.

Conclusion – Response accepted.

- (F) Charge Accounts – The City has charge accounts for use by individuals while on City business. The City has not adopted a formal policy for charge accounts to establish procedures for the proper use of charge accounts.

Recommendation – The City should adopt a formal written policy regulating the use of City charge accounts. The policy, at a minimum, should address who controls charge accounts, who is authorized to use the charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City does not utilize credit cards. We do not have a written policy on charging but each employee who charges items to the City signs the bill and notates what the item purchased is for. This has worked without any issues.

Conclusion – Response acknowledged. The City should adopt a formal written policy to ensure all City employees are aware of their responsibilities when using the City charge accounts.

- (G) Dunlap Public Library Friends – Three checks were pre-signed. In addition, one disbursement selected for testing was not properly supported.

Recommendation – Checks should be signed after items have been purchased and the disbursement has been properly reviewed and approved. All disbursements should be properly supported by an invoice or claim.

Response – The Library will not pre-sign checks. The Library will keep copies of all invoices for document support.

Conclusion – Response accepted.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – This was an error on the Clerk’s part. The information did not get in the appropriate area of the budget so it did not carry forward. This error should not need to happen again.

Conclusion – Response accepted.

- (2) Questionable Expenditures - Certain expenditures which may not meet the requirements of public purpose as defined in Attorney General's opinions dated April 25, 1979 and August 28, 1986 and Chapter 15A of the Code of Iowa since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Pizza A'Mour	3 large pizzas for lifeguard party	\$ 39
Wendt's Pot's	Flowers and wine for Fire Department	69

According to the opinions, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should thoroughly consider and document the public purpose and propriety of these expenses and, if appropriate, request reimbursement. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will recommend neither the City or the Fire Department purchase special items in the future without appropriate consideration.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jay Schaben, Council Member, Owner of Moose's Filling Station	Motor Vehicle Fuel	\$ 5,095

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions with the Council Member were greater than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – According to our interpretation of Iowa Code 362.5 we feel the City of Dunlap has no contract with Moose's Filling Station, the business owned by Councilman Schaben. It has long been the City's policy to support all of our business, thus we alternate motor fuel suppliers on a monthly basis.

Conclusion – Response acknowledged. The City should continue to ensure the appearance of a conflict of interest does not exist when transacting business with City officials. The City should consult legal counsel to determine the disposition of this matter.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Financial Condition – The Enterprise, Sewer Fund had a deficit balance of \$35,167 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response – A large note had been paid out of the Enterprise, Sewer Fund, which was paid in full. With the sewer rates increasing from 50% to 75% of metered water sales, the revenues will increase.

Conclusion – Response accepted.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

- (9) Annual Financial Report – The City’s Annual Financial Report reported beginning and ending fund balances which do not agree with City records.

Recommendation – The City should revise the beginning fund balances when filing the next Annual Financial Report.

Response – The City will correct its beginning AFR balances.

Conclusion – Response accepted.

- (10) Payment of General Obligation Debt – Certain general obligation notes were paid from the Special Revenue, Urban Renewal Tax Increment and Local Option Sales Tax Funds and the Enterprise, Water and Sewer Funds. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should transfer funds from the Special Revenue, Urban Renewal Tax Increment and the Local Option Sales Tax Funds and the Enterprise, Water and Sewer Funds to the Debt Service Fund for future funding contributions. Payments of the notes and interest should then be disbursed from the Debt Service Fund.

Response – All general obligation debt will be paid from Debt Service and monies transferred from the appropriate funds into Debt Service.

Conclusion – Response accepted.

- (11) Revenue Bond – The water revenue bond resolution requires the City “to establish, levy and collect rents and other charges for the products and services provided by its Water System, which rents, rates and other charges shall be at least sufficient (A) to meet the operation and maintenance expenses of such Water System, (B) to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond and any other obligations secured by a pledge of the net revenues falling due in the same year.” The City’s fiscal year 2010 deficit of operating receipts under operating disbursements (net operating revenue) of (\$537) is less than 110% of the required debt service payment of \$10,140.

Recommendation – The City should ensure net operating revenues of the Enterprise, Water Fund are sufficient to make required debt service payments and comply with the water revenue bond resolution.

Response – The City increased the water rates at the beginning of 2010 and will continue increasing by 5% for the next two years in hopes of increasing the revenue for the Enterprise, Water Fund.

Conclusion – Response accepted.

- (12) Sewer Loan Agreement – The loan agreement entered into between the City and a local bank requires the collection of sufficient revenues from the operation of the City’s sewer system for the payment of principal and interest on the loan as they become due. The City’s fiscal year 2010 deficit of operating receipts under operating disbursements of \$2,079 is less than the required debt service payment of \$9,250.

City of Dunlap

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should ensure net operating revenues of the sewer system are sufficient to make the required debt service payments and comply with the sewer loan agreement.

Response – An increase in sewer charges will improve the receipts.

Conclusion – Response accepted.

- (13) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of taxes to generate dollars to repay the certified indebtedness. Nothing in Chapter 403.19 of the Code of Iowa allows a municipality to set aside taxes divided for tax increment purposes for current or future urban renewal projects. With only an exception for assistance for low and moderate income family housing discussed in Chapter 403.22 of the Code of Iowa, indebtedness incurred is to be certified to the County Auditor and then the divided taxes are to be used to pay principal and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) requires the City to certify the amount of reductions to the County Auditor resulting from the reduction of debt or for any other reason.

The City has tax increment financing (TIF) debt of \$31,952 outstanding at June 30, 2010. The City has cash on hand of \$87,797 at June 30, 2010 in the Special Revenue, Urban Renewal Tax Increment Fund to pay the outstanding TIF debt. Therefore, the City has \$55,845 more cash on hand than is needed to pay the TIF debt outstanding at June 30, 2010.

In addition to the outstanding TIF debt at June 30, 2010, the City authorized the issuance of \$30,000 of additional TIF debt on July 14, 2010.

Recommendation – On or before December 1, 2010, the City should file a TIF Certification with the County Auditor, including Form 1, to certify the new TIF debt and a Form 3 to reduce TIF indebtedness outstanding for the cash on hand at June 30, 2010 in the Special Revenue, Urban Renewal Tax Increment Fund.

In addition, the City should work with the Harrison County Auditor to reconcile TIF indebtedness outstanding with TIF cash on hand and future TIF tax, if any, to be apportioned. The City should also consult TIF legal counsel to determine the disposition of excess TIF funds.

A copy of this report has been filed with the Harrison County Auditor.

Response – The Clerk worked with the County Auditor and TIF forms #1 and #3 were filed before December 1, 2010, as suggested by the auditor. A new TIF debt of \$30,000 was recorded by December 1, 2010.

Conclusion – Response accepted.

- (14) Cancelled Check images – The back of cancelled checks were not obtained or available electronically for the City's bank account, the Dunlap Public Library Friends Account and the Fire Department Emergency Unit Bank Account.

Recommendation – The back of cancelled check images should be obtained or reviewed electronically to ensure checks are properly endorsed and cancelled.

Response – We will request that the bank supply copies for us.

Conclusion – Response accepted.

City of Dunlap

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Lori M. Dinville, Staff Auditor
Tiffany M. Ainger, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State