



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 18, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Durant, Iowa.

The City's receipts totaled \$2,781,915 for the year ended June 30, 2012. The receipts included \$1,062,552 in property tax, \$164,098 from tax increment financing, \$822,248 from charges for service, \$410,502 from operating grants, contributions and restricted interest, \$116,268 from local option sales tax, \$24,158 from unrestricted interest on investments, \$143,910 from bond proceeds and \$38,179 from other general receipts.

Disbursements for the year totaled \$2,659,810, and included \$614,094 for debt service, \$349,451 for culture and recreation and \$289,373 for public works. Also, disbursements for business type activities totaled \$741,400.

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/1221-0137-B00F.pdf>.

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

JUNE 30, 2012

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City of Durant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Dawn Smith	Mayor	Jan 2014
Bill Miller	Mayor Pro tem	Jan 2012
Dean Maiers	Council Member	Jan 2012
Chris Gilroy	Council Member	Jan 2014
Ken Pennock	Council Member	Jan 2014
Scott Spengler	Council Member	Jan 2014
Deana Cavin	City Clerk	Indefinite
Kathy Keese	Deputy City Clerk	Indefinite
Gerald F. Denning	Attorney	Indefinite
(After January 2012)		
Dawn Smith	Mayor	Jan 2014
Chris Gilroy	Mayor Pro tem	Jan 2014
Ken Pennock	Council Member	Jan 2014
Scott Spengler	Council Member	Jan 2014
Douglas Beland	Council Member	Jan 2016
Brian Utter	Council Member	Jan 2016
Deana Cavin	City Clerk	Indefinite
Kathy Keese	Deputy City Clerk	Indefinite
Gerald F. Denning	Attorney	Indefinite

City of Durant



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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 Durant, Iowa, as of and for the year ended June 30, 2012, 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 Durant's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the condensed financial information included in Note 10 for the discretely presented component unit, is based on the report of the other auditor.

Except as discussed in the following paragraphs, 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, 2011.

As described in Note 10, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated July 8, 2012, expressed an unqualified opinion on the financial statements.

The financial statements do not include financial data for a legally separate component unit of the City. U.S. generally accepted accounting principles require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The receipts, disbursements and cash balance of the omitted component unit that should be blended with the governmental activities and aggregate remaining fund information are not included because the Durant Volunteer Fire Fighters, Inc. declined to make the financial data available to the City.

In our opinion, because of the effects of omitting a blended component unit, as discussed in the preceding paragraph, the financial statements referred to above do not present fairly the respective cash basis financial position of the governmental activities and the aggregate remaining fund information of the City of Durant as of June 30, 2012, 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.

Further, 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, 2011, as discussed above, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Durant as of June 30, 2012, 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 December 5, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durant's basic financial statements. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2011 and the effects of omitting a blended component unit, as discussed above, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durant's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has 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 it.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Durant 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, 2012. 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.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's government activities increased approximately \$33,000, due primarily to receipts exceeding disbursements in the Special Revenue Funds which offset disbursements exceeding receipts in the General and Debt Service Funds.
- The cash basis net assets of the City's business type activities increased approximately \$89,000, due primarily to the City increasing residential water and sewer rates beginning July 1, 2011.

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 financial 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.

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

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 and the sanitary sewer 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, 3) the Debt Service Fund and 4) the Capital Projects 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 two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

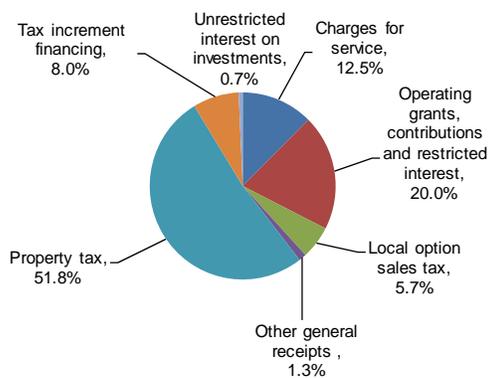
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

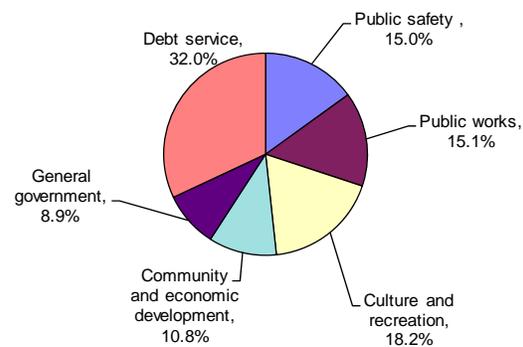
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased 4.25% from a year ago, increasing from approximately \$769,000 to approximately \$802,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 257,231
Operating grants, contributions and restricted interest	410,502
Property tax	1,062,552
Tax increment financing	164,098
Unrestricted interest on investments	14,508
Other general receipts	25,933
Total receipts	<u>2,051,092</u>
Disbursements:	
Public safety	288,515
Public works	289,373
Culture and recreation	349,451
Community and economic development	207,086
General government	169,891
Debt service	614,094
Total disbursements	<u>1,918,410</u>
Change in cash basis net assets before transfers	132,682
Transfers, net	<u>(100,000)</u>
Change in cash basis net assets	32,682
Cash basis net assets beginning of year	769,123
Cash basis net assets end of year	<u>\$ 801,805</u>

Receipts by Source



Disbursements by Function



The cash basis net assets for the City's governmental funds increased \$32,682, due primarily to receipts exceeding disbursements in the Special Revenue Funds which offset disbursements exceeding receipts in the General and Debt Service Funds.

The City's cash balance for business type activities increased from \$872,600 to \$962,023. The increase is due primarily to an increase in residential water and sewer rates beginning July 1, 2011.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 219,361
Sewer	345,656
General receipts:	
Unrestricted interest on investments	9,650
Bond proceeds	143,910
Other general receipts	12,246
Total receipts	<u>730,823</u>
Disbursements:	
Water	154,548
Sewer	586,852
Total disbursements	<u>741,400</u>
Change in cash basis net assets before transfers	(10,577)
Transfers, net	<u>100,000</u>
Change in cash basis net assets	89,423
Cash basis net assets beginning of year	<u>872,600</u>
Cash basis net assets end of year	<u><u>\$ 962,023</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Durant completed the year, its governmental funds reported a combined fund balance of \$801,805, an increase of \$32,682 above last year's total of \$769,123. 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 \$116,462 from the prior year to \$106,348 at June 30, 2012. This change is attributable to disbursements and transfers out exceeding General Fund receipts during the year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$101,207 to \$233,489 at June 30, 2012. This increase is primarily attributable to approximately \$188,000 of road use tax received this fiscal year. The City intends to use these funds to upgrade the condition of all City roads.
- The Special Revenue, Fire Department Fund cash balance increased \$28,118 to \$401,199 at June 30, 2012. This increase is primarily attributable to approximately \$57,000 in township contributions.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$79,034 to \$166,861 at June 30, 2012. This increase is attributable to approximately \$79,000 in local option sales tax received this fiscal year.

- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$3,005 to \$170,717 at June 30, 2012. The increase is due primarily to the City collecting approximately \$164,000 in tax increment financing and approximately \$5,000 in interest during fiscal year 2012 and spending approximately \$166,000 on community and economic development.
- The Debt Service Fund cash balance decreased \$75,721 to \$32,325. This decrease is due to bond and note principal and interest payments of approximately \$614,000 during fiscal year 2012 and the City receiving approximately \$552,000 in property tax and \$29,469 from special assessments.
- The Capital Projects Fund cash balance increased \$18,997 to \$(314,083) at June 30, 2012. This increase is attributable to \$18,997 in transfers in from the Debt Service Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$324,244 to \$542,789, due primarily to the City increasing residential water rates beginning July 1, 2011.
- The Enterprise, Sewer Fund cash balance decreased \$234,821 to \$419,234, due primarily to disbursements for the Yankee Avenue Lift Station project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 26, 2012 and resulted in an increase in operating disbursements, primarily related to a cost overrun of approximately \$145,000 on various maintenance projects involving City Hall. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$820,856 less than budgeted. This was primarily due to the City expecting to receive grants during the fiscal year for the new museum. Community meetings for the museum started in fiscal year 2013 rather than fiscal year 2012. Also, the City estimated it would receive a loan for the wastewater treatment facility project. However, the City still needs to obtain property waivers before receiving the loan. The City Council was unaware of the waiver requirement when it approved the budget amendment.

Total disbursements were \$619,956 less than the amended budget, primarily due to the City anticipating increased disbursements for community and economic development which did not occur in fiscal year 2012.

The City exceeded the amounts budgeted in the public works and debt service functions for the year ended June 30, 2012, due primarily to the reclassification of the garbage expenses and payments made on a loan which was not anticipated to be accessed until fiscal year 2013.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$2,411,310 of bonds and notes outstanding, compared to \$2,867,000 last year, as shown below. The State Revolving Fund Loan for the water treatment plant has not yet been finalized.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation bonds	\$ 1,030,000	1,335,000
General obligation notes	905,000	1,135,000
Revenue bonds	476,310	397,000
Total	\$ 2,411,310	2,867,000

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 \$1,935,000 plus tax increment financing rebate agreements of \$163,771, net of cash of \$170,717 on hand to service this debt, is significantly below the City's constitutional debt limit of approximately \$6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Durant's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 4.6%. This compares with the State's unemployment rate of 5.1% and the national rate of 8.2%.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$2,900,000, a decrease of 17% from the final fiscal year 2012 budget. Budgeted disbursements are expected to decrease approximately \$400,000 from the final fiscal year 2012 budget. If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$19,000 by the close of fiscal year 2013.

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 Deana Cavin, City Clerk, 402 6th Street, Durant, Iowa 52747.

Basic Financial Statements

City of Durant

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 288,515	9,007	57,637
Public works	289,373	137,289	188,096
Culture and recreation	349,451	-	150,906
Community and economic development	207,086	-	-
General government	169,891	81,466	13,863
Debt service	614,094	29,469	-
Total governmental activities	1,918,410	257,231	410,502
Business type activities:			
Water	154,548	219,361	-
Sewer	586,852	345,656	-
Total business type activities	741,400	565,017	-
Total	\$ 2,659,810	822,248	410,502
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Sale of capital assets			
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:			
Streets			
Urban renewal purposes			
Fire department			
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
(221,871)	-	(221,871)
36,012	-	36,012
(198,545)	-	(198,545)
(207,086)	-	(207,086)
(74,562)	-	(74,562)
(584,625)	-	(584,625)
(1,250,677)	-	(1,250,677)
-	64,813	64,813
-	(241,196)	(241,196)
-	(176,383)	(176,383)
(1,250,677)	(176,383)	(1,427,060)
540,448	-	540,448
522,104	-	522,104
164,098	-	164,098
116,268	-	116,268
14,508	9,650	24,158
-	143,910	143,910
23,545	12,246	35,791
2,388	-	2,388
(100,000)	100,000	-
1,283,359	265,806	1,549,165
32,682	89,423	122,105
769,123	872,600	1,641,723
\$ 801,805	962,023	1,763,828
\$ 233,489	-	233,489
170,717	-	170,717
401,199	-	401,199
32,325	89,898	122,223
177,092	-	177,092
(213,017)	872,125	659,108
\$ 801,805	962,023	1,763,828

City of Durant

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

As of and for the year ended June 30, 2012

	General	Special	
		Road Use Tax	Fire Department
Receipts:			
Property tax	\$ 525,714	-	-
Tax increment financing	-	-	-
Other city tax	37,234	-	-
Licenses and permits	61,517	-	-
Use of money and property	34,538	-	-
Intergovernmental	22,586	188,096	56,976
Charges for service	137,289	-	-
Special assessments	-	-	-
Miscellaneous	164,222	-	153
Total receipts	983,100	188,096	57,129
Disbursements:			
Operating:			
Public safety	199,543	-	32,460
Public works	173,301	95,801	-
Culture and recreation	339,237	-	-
Community and economic development	40,850	-	-
General government	152,071	-	-
Debt service	-	-	-
Total disbursements	905,002	95,801	32,460
Excess (deficiency) of receipts over (under) disbursements	78,098	92,295	24,669
Other financing sources (uses):			
Sale of capital assets	-	-	2,388
Operating transfers in	-	8,912	101,061
Operating transfers out	(194,560)	-	(100,000)
Total other financing sources (uses)	(194,560)	8,912	3,449
Net change in cash balances	(116,462)	101,207	28,118
Cash balances beginning of year	222,810	132,282	373,081
Cash balances end of year	\$ 106,348	233,489	401,199
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	233,489	-
Urban renewal purposes	-	-	-
Fire department	-	-	401,199
Debt service	-	-	-
Other purposes	10,231	-	-
Unassigned	96,117	-	-
Total cash basis fund balances	\$ 106,348	233,489	401,199

See notes to financial statements.

Revenue						
Local Option Sales Tax	Urban Renewal Tax Increment	Debt Service	Capital Projects	Nonmajor	Total	
-	-	522,104	-	14,734	1,062,552	
-	164,098	-	-	-	164,098	
79,034	-	-	-	-	116,268	
-	-	-	-	-	61,517	
-	5,143	5,797	-	-	45,478	
-	-	-	-	-	267,658	
-	-	-	-	-	137,289	
-	-	29,469	-	-	29,469	
-	-	-	-	-	164,375	
79,034	169,241	557,370	-	14,734	2,048,704	
-	-	-	-	56,512	288,515	
-	-	-	-	20,271	289,373	
-	-	-	-	10,214	349,451	
-	166,236	-	-	-	207,086	
-	-	-	-	17,820	169,891	
-	-	614,094	-	-	614,094	
-	166,236	614,094	-	104,817	1,918,410	
79,034	3,005	(56,724)	-	(90,083)	130,294	
-	-	-	-	-	2,388	
-	-	-	18,997	93,499	222,469	
-	-	(18,997)	-	(8,912)	(322,469)	
-	-	(18,997)	18,997	84,587	(97,612)	
79,034	3,005	(75,721)	18,997	(5,496)	32,682	
87,827	167,712	108,046	(333,080)	10,445	769,123	
166,861	170,717	32,325	(314,083)	4,949	801,805	
-	-	-	-	-	233,489	
-	170,717	-	-	-	170,717	
-	-	-	-	-	401,199	
-	-	32,325	-	-	32,325	
166,861	-	-	-	-	177,092	
-	-	-	(314,083)	4,949	(213,017)	
166,861	170,717	32,325	(314,083)	4,949	801,805	

City of Durant

Exhibit C

City of Durant

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

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 219,361	345,656	565,017
Miscellaneous	10,696	1,550	12,246
Total operating receipts	230,057	347,206	577,263
Operating disbursements:			
Business type activities	154,548	233,584	388,132
Excess of operating receipts over operating disbursements	75,509	113,622	189,131
Non-operating receipts (disbursements):			
Interest on investments	4,825	4,825	9,650
Bond proceeds	143,910	-	143,910
Debt service	-	(72,108)	(72,108)
Capital projects	-	(281,160)	(281,160)
Net non-operating receipts (disbursements)	148,735	(348,443)	(199,708)
Excess (deficiency) of receipts over (under) disbursements	224,244	(234,821)	(10,577)
Transfers in	100,000	-	100,000
Net change in cash balances	324,244	(234,821)	89,423
Cash balances beginning of year	218,545	654,055	872,600
Cash balances end of year	\$ 542,789	419,234	962,023
Cash Basis Fund Balances			
Restricted for debt service	\$ -	89,898	89,898
Unrestricted	542,789	329,336	872,125
Total cash basis fund balances	\$ 542,789	419,234	962,023

See notes to financial statements.

City of Durant

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Durant is a political subdivision of the State of Iowa located in Cedar, Scott and Muscatine Counties. It was first incorporated in 1867 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, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Durant 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 of Durant (the primary government) and its discretely presented component unit. The discretely presented 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.

An additional component unit discussed below has been omitted from the financial statements even though its operational or financial relationship with the City is significant.

Discretely Presented Component Unit

The Durant Municipal Electric Plant was established under Chapter 388 of the Code of Iowa. It is legally separate from the City but has the potential to provide specific benefits to or impose specific burdens on the City. The Plant is governed by a three-member board appointed by the Mayor and approved by the City Council. The Durant Municipal Electric Plant meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 10 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements can be obtained from the Durant Municipal Electric Plant, 601 4th Street, Durant, Iowa 52747.

Omitted Component Unit

The Durant Volunteer Fire Fighters, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Durant Fire Department. The organization is governed by a five-member board elected by the voting, active members. The Durant Volunteer Fire Fighters, Inc. meets the definition of a component unit which should be blended but has declined to make its financial data available to the City. As a result, the component unit has been omitted from the financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations which 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: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board, Cedar County Solid Waste Commission and Cedar County Economic Development Commission.

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 categories/components:

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 category. 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 from general and emergency levies 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:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Fire Department Fund is used to account for revenues from the township contributions for fire protection and used for operating expenses of the Fire Department.

The Local Option Sales Tax Fund is used to account for revenues from the tax authorized by referendum and used for maintenance and improvements to the City's sewer and street systems.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

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

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 310,000	27,623	240,000	34,463	62,000	10,110	612,000	72,196
2014	120,000	21,012	100,000	26,182	65,000	8,250	285,000	55,444
2015	120,000	18,138	105,000	22,583	67,000	6,300	292,000	47,021
2016	125,000	15,262	110,000	18,645	70,000	4,290	305,000	38,197
2017	130,000	11,638	115,000	14,355	73,000	2,190	318,000	28,183
2018-2021	225,000	19,950	235,000	14,795	-	-	460,000	34,745
Total	\$ 1,030,000	113,623	905,000	131,023	337,000	31,140	2,272,000	275,786

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,000,000 of sewer revenue bonds issued in June 1997. Proceeds from the bonds provided financing for the construction of improvements and extensions to the Utility. The bonds are payable solely from sewer customer net receipts and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 65% of net receipts. The total principal and interest remaining to be paid on the bonds is \$368,140. For the current year, principal and interest paid and total customer net receipts were \$71,910 and \$113,622, respectively.

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

- (a) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility, including the City, to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Utility and to leave a balance of net operating revenues at least sufficient to pay the principal and interest on the bonds as they come due.
- (b) The bonds will only be redeemed from the future earnings of the sanitary sewer system of the City and the bond holders hold a lien on the future earnings of the funds.
- (c) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (d) Additional monthly transfers to a separate sewer revenue bond reserve fund shall be made until specific minimum balances have been accumulated. The fund is to be used solely for the purpose of paying principal and interest of the bonds.

On August 12, 2011, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$182,000 of water revenue bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of the new meter program. The

City will draw down funds to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn down \$143,910 of the authorized amount. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue bonds drawn by the City. After all draw downs are complete, 20% of the final disbursed amount will be forgiven. A final repayment schedule has not yet been adopted. However, during fiscal year 2012, the City began making principal and interest payments under the preliminary repayment schedule. During the year ended June 30, 2012, the City paid \$4,600 of principal and \$3,510 of interest on the water revenue bonds.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$182,000 of water revenue bonds issued in August 2011. The bonds are payable solely from water customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 14% of net receipts. According to the preliminary repayment schedule, the total principal and interest remaining to be paid on the bonds is \$198,540. In the current year, principal and interest paid and total customer net receipts were \$8,110 and \$75,509, respectively.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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 contribution to IPERS for the year ended June 30, 2012 was \$32,041, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

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

The medical/prescription drug benefits are provided through a fully-insured plan with Blue Cross/Blue Shield of Illinois. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

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 weekly premium for the City and plan members is \$265 for both single and family coverage. For the year ended June 30, 2012, the City contributed \$87,153 and plan members eligible for benefits contributed \$8,774 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave 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. The City's approximate liability for earned vacation and personal leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 44,000
Personal leave	<u>10,000</u>
Total	<u>\$ 54,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Road Use Tax	Special Revenue: IJOBS	\$ 8,912
Employee Benefits	General	92,554
CDBG	General	945
Fire Department	General	<u>101,061</u>
		<u>194,560</u>
Capital Projects	Debt Service	18,997
Enterprise: Water	Special Revenue: Fire Department	<u>100,000</u>
Total		<u>\$ 322,469</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 exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Capital Projects Fund had a deficit balance of \$314,083 at June 30, 2012. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated by the collection of special assessments over the next ten years.

(10) Durant Municipal Electric Plant

The Durant Municipal Electric Plant provides electric service for the City. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following is the condensed financial information for the Plant for the year ended December 31, 2011.

Condensed Statement of Net Assets	
Assets	
Current assets	\$ 1,405,491
Capital assets, net of accumulated depreciation	2,201,529
Total assets	<u>3,607,020</u>
Liabilities	
Current liabilities	210,399
Noncurrent liabilities	600,274
Total liabilities	<u>810,673</u>
Net Assets	
Invested in capital assets, net of related debt	1,556,808
Unrestricted	1,239,539
Total net assets	<u>\$ 2,796,347</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues:		
Electric sales		\$ 1,783,815
Other		1,327
Total operating revenues		<u>1,785,142</u>
Operating expenses:		
Production	\$ 1,091,546	
Distribution	200,314	
General and administrative	305,992	
Depreciation	238,811	1,836,663
Operating loss		<u>(51,521)</u>
Non-operating revenues (expenses):		
Interest income		9,295
Other income		27,766
Interest expense		(22,164)
Other expenses		(3,451)
Total non-operating revenues (expenses)		<u>11,446</u>
Net loss		(40,075)
Net assets beginning of year		<u>2,836,422</u>
Net assets end of year		<u>\$ 2,796,347</u>

(11) Urban Development and Rebate Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of incremental property tax paid by the developer in exchange for infrastructure improvements, rehabilitation and development of commercial projects by the developer. The total to be paid by the City under the agreements is not to exceed \$2,275,000 at June 30, 2012.

During the year ended June 30, 2012, the City rebated \$163,771 of incremental property tax to developers. The total cumulative principal amount rebated on the agreements is \$407,558 at June 30, 2012. The outstanding balance on the agreements at June 30, 2012 was approximately \$1,867,000.

The agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City.

The agreements include an annual appropriation clause and, accordingly, only the \$163,771 payable in the succeeding year on the agreements is subject to the City's constitutional debt limitation.

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 1,062,552	-	1,062,552
Tax increment financing	164,098	-	164,098
Other city tax	116,268	-	116,268
Licenses and permits	61,517	-	61,517
Use of money and property	45,478	9,650	55,128
Intergovernmental	267,658	-	267,658
Charges for service	137,289	565,017	702,306
Special assessments	29,469	-	29,469
Miscellaneous	164,375	12,246	176,621
Total receipts	2,048,704	586,913	2,635,617
Disbursements:			
Public safety	288,515	-	288,515
Public works	289,373	-	289,373
Culture and recreation	349,451	-	349,451
Community and economic development	207,086	-	207,086
General government	169,891	-	169,891
Debt service	614,094	-	614,094
Capital projects	-	-	-
Business type activities	-	741,400	741,400
Total disbursements	1,918,410	741,400	2,659,810
Excess (deficiency) of receipts over (under) disbursements	130,294	(154,487)	(24,193)
Other financing sources (uses), net	(97,612)	243,910	146,298
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	32,682	89,423	122,105
Balances beginning of year	769,123	872,600	1,641,723
Balances end of year	\$ 801,805	962,023	1,763,828

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
1,052,508	1,052,508	10,044
163,771	163,771	327
111,951	145,951	(29,683)
22,450	8,950	52,567
38,200	38,200	16,928
298,614	673,837	(406,179)
633,600	1,109,500	(407,194)
16,706	16,706	12,763
37,900	247,050	(70,429)
<u>2,375,700</u>	<u>3,456,473</u>	<u>(820,856)</u>
290,707	319,952	31,437
179,667	208,761	(80,612)
356,015	357,294	7,843
167,431	590,931	383,845
160,872	177,011	7,120
609,460	549,460	(64,634)
30,000	-	-
862,571	1,076,357	334,957
<u>2,656,723</u>	<u>3,279,766</u>	<u>619,956</u>
(281,023)	176,707	(200,900)
-	-	146,298
(281,023)	176,707	(54,602)
1,625,255	1,818,429	(176,706)
<u>1,344,232</u>	<u>1,995,136</u>	<u>(231,308)</u>

City of Durant

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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, the Capital Projects 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 \$623,043. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works and debt service functions.

Supplementary Information

City of Durant

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

As of and for the year ended June 30, 2012

	IJOBS	Employee Benefit Levy	Special CDBG
Receipts:			
Property tax	\$ -	14,734	-
Disbursements:			
Operating:			
Public safety	-	56,512	-
Public works	-	20,271	-
Culture and recreation	-	10,214	-
General government	-	17,820	-
Total disbursements	-	104,817	-
Deficiency of receipts under disbursements	-	(90,083)	-
Other financing sources (uses):			
Operating transfers in	-	92,554	945
Operating transfers out	(8,912)	-	-
Total other financing sources (uses)	(8,912)	92,554	945
Net change in cash balances	(8,912)	2,471	945
Cash balances beginning of year	8,912	-	(945)
Cash balances end of year	\$ -	2,471	-
Cash Basis Fund Balances			
Unassigned	\$ -	2,471	-

See accompanying independent auditor's report.

Revenue		
Public Safety	Feldham Flowers Memorial	Total
-	-	14,734
-	-	56,512
-	-	20,271
-	-	10,214
-	-	17,820
-	-	104,817
-	-	(90,083)
-	-	93,499
-	-	(8,912)
-	-	84,587
-	-	(5,496)
1,337	1,141	10,445
1,337	1,141	4,949
1,337	1,141	4,949

City of Durant
 Schedule of Indebtedness
 Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Jun 13, 1997	3.92%	\$ 1,113,000
Refunding	Sep 1, 2009	1.30-2.15	875,000
Corporate purpose	Apr 15, 2011	0.85-3.50	530,000
Total			
General obligation notes:			
Corporate purpose	Jul 15, 2008	2.90-4.20%	\$ 1,600,000
Revenue bonds:			
Sewer	Jun 13, 1997	3.00%	\$ 1,000,000
Water	Aug 12, 2011	3.00	182,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
430,000	-	70,000	360,000	12,900
375,000		185,000	190,000	7,508
530,000		50,000	480,000	14,844
<u>\$ 1,335,000</u>	<u>-</u>	<u>305,000</u>	<u>1,030,000</u>	<u>35,252</u>
<u>1,135,000</u>	<u>-</u>	<u>230,000</u>	<u>905,000</u>	<u>42,053</u>
397,000	-	60,000	337,000	11,910
-	143,910	4,600	139,310	3,510
<u>\$ 397,000</u>	<u>143,910</u>	<u>64,600</u>	<u>476,310</u>	<u>15,420</u>

City of Durant
Bond and Note Maturities
June 30, 2012

General Obligation Bonds							
Year Ending June 30,	Sewer Improvement		Refunding		Corporate Purpose		Total
	Issued Jun 13, 1997		Issued Sep 1, 2009		Issued Apr 15, 2011		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	3.92%	\$ 70,000	2.15%	\$ 190,000	0.85%	\$ 50,000	310,000
2014	3.92	70,000		-	1.55	50,000	120,000
2015	3.92	70,000		-	1.55	50,000	120,000
2016	3.92	75,000		-	2.75	50,000	125,000
2017	3.92	75,000		-	2.75	55,000	130,000
2018		-		-	3.50	55,000	55,000
2019		-		-	3.50	55,000	55,000
2020		-		-	3.50	55,000	55,000
2021		-		-	3.50	60,000	60,000
Total		<u>\$ 360,000</u>		<u>\$ 190,000</u>		<u>\$ 480,000</u>	<u>1,030,000</u>

Year Ending June 30,	General Obligation Notes Corporate Purpose		Revenue Bonds Sewer	
	Issued Jul 15, 2008		Issued Jun 13, 1997	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.45%	\$ 240,000	3.00%	\$ 62,000
2014	3.60	100,000	3.00	65,000
2015	3.75	105,000	3.00	67,000
2016	3.90	110,000	3.00	70,000
2017	4.00	115,000	3.00	73,000
2018	4.10	115,000		-
2019	4.20	120,000		-
Total		<u>\$ 905,000</u>		<u>\$ 337,000</u>

See accompanying independent auditor's report.

City of Durant

**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**



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STATE OF IOWA

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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 Durant, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 5, 2012. Our report was modified to include a reference to other auditors for the audit of the discretely presented component unit. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed adverse opinions on the governmental activities and the aggregate remaining fund information due to the omission of a component unit which should be blended with the City's financial statements and we expressed qualified opinions on the business type activities and each major fund due to our inability to verify the distribution by fund of the total fund balance at July 1, 2011. 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. The financial statements of the discretely presented component unit were audited by other auditors who have issued complete financial statements under separate cover. This report does not include the results of the discretely presented component unit's auditors' testing of internal control over financial reporting or compliance and other matters which are reported in separately issued financial statements of the discretely presented component unit.

Internal Control Over Financial Reporting

The management of the City of Durant is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Durant'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 an opinion on the effectiveness of the City of Durant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Durant'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 was not designed to 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 a deficiency in internal control over financial reporting we consider to be a material weakness 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 Durant's financial statements will not be

prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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 (B) through (D) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Durant'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 which 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, 2012 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 Durant's responses to the 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 Durant'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 Durant and other parties to whom the City of Durant may report and 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 Durant 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

December 5, 2012

City of Durant

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL 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. A limited number of individuals are responsible for the following areas:
- (1) Accounting system – performing all general accounting functions and custody of assets.
 - (2) Cash – preparing bank account reconciliations, cash receipt and disbursement functions and handling and recording cash.
 - (3) Investments – periodically inspecting, confirming and reconciling.
 - (4) Long-term debt – recording, reconciling and performing cash functions.
 - (5) Receipts – collecting, depositing, journalizing and recording.
 - (6) Utility receipts – billing, collecting, depositing, recording and reconciling.
 - (7) Payroll – entering hourly rates to the payroll system.
 - (8) Computer usage – performing all general accounting functions and controlling all data input and output.
 - (9) Financial reporting – preparing, reconciling and distributing.

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 utilizing currently available personnel, including elected officials. Evidence of various reviews should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – Accounting system - We disagree. The City Clerk and Deputy City Clerk both have the ability to check the bank balances and certificate of deposit balances online. Both Clerks can enter accounts payable, accounts receivable and make deposits on a daily basis. They take turns counting the cash drawer and will cross train this winter on utilities and payroll. The Deputy City Clerk prepares the monthly financial statements, and the City Clerk reconciles these to the software generated reports and provides to the Council for approval on a monthly basis. We will integrate the City Treasurer where possible to compliment the checks and balances. We use pre-numbered receipts and checks and two signatures are required on all checks. The Mayor reviews and initials payroll and accounts payable.

Cash – With only two people available in the office, this task is often done by both Clerks as the need arises. Cash receipts are handled by both Clerks because both have to service the window and handle the mail in the absence of the other. All cash is

City of Durant

Schedule of Findings

Year ended June 30, 2012

recorded on pre-numbered receipts. The bank accounts are reviewed daily online by the City Clerk and the reconciliations are prepared by the Deputy Clerk with review by the City Clerk and reports are given to the City Council for each month. We are not sure without hiring additional people how else to handle the tasks. Even with three people, we feel it is better that more than one person handles the cash. Procedures are in place as to how to record the cash.

Investments – The City’s bank has recently provided the ability to print the certificate of deposit balances on the monthly statements so our City Treasurer can reconcile the report from our software to the statement, thus verifying the certificate of deposit balances are correct.

Long-term debt – Same answer as above for the cash functions. The City Treasurer and City Clerk will attempt to work out a procedure for reconciling the long-term debt.

Receipts – Same answer as above for the cash functions. Both the Deputy Clerk and the City Clerk perform these duties except for actual journal entries. The journal entries are performed by Data Tech support.

Utility receipts – Same answer as above for the cash functions. Both Clerks perform these duties. Without hiring 3-4 more people, there is nothing a City our size can do to make these duties assigned to one per person.

Payroll – The hourly rates are entered by the City Clerk and we will attempt to have either the Mayor or the City Treasurer “watch” the City Clerk input the information. The City disagrees this is a problem because the Mayor reviews all the time sheets and checks before signing the checks. We do not feel we should train City Council members or any other employee how to get on our software program especially payroll.

Computer usage – Same response as above for the cash functions. The City is not big enough to employ more than two people to oversee the day to day functions of the City.

Financial reporting – Same response as above for the cash functions. Both Clerks handle these tasks. The City is not big enough to employ more than two people to oversee the day to day functions of the City.

Conclusion – Response acknowledged. However, segregation of duties can be achieved without hiring additional personnel if elected officials are utilized.

(B) Utility Rates – Utility rates used for billings are not clearly stated.

Recommendation – The City Council should review the ordinance setting utility rates and consult legal counsel for clarification on how billings are calculated.

Response – Legal counsel composed the ordinance in question. It is left to interpretation. However, the City Council adopted an amendment to clarify the billing rates in gallons and define a minimum amount per month for water and sewer.

Conclusion – Response accepted.

City of Durant

Schedule of Findings

Year ended June 30, 2012

(C) Computer Systems – During our review of internal control, the existing control activities in the City’s computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with written accounting policies, applicable laws and regulations. The following weaknesses in the City’s computer systems were noted:

- Passwords are not periodically changed every 60 to 90 days. The City’s software does not require the user to periodically change log-ins/passwords.
- User log-ins/passwords do not uniquely identify users and are shared. A computer log is not maintained to document who recorded a transaction.
- Passwords are not required to be 8 characters in length or longer.

The City does not have written policies for:

- Logging off unattended computers.
- Maintaining password privacy and confidentiality

Recommendation – The City should implement procedures and develop written policies addressing the above items in order to improve the City’s control over its computer-based systems.

Response – The City will work with an IT company to set up the ability to change the passwords. The software does not allow us to sign on to each other’s computers under our own passwords. But the machines we each work off of do not prompt a 90 day change. Because our office has only two people, when one is gone, the other needs to be able to access the other person’s e-mail for City business. Mainly, when the City Clerk is gone, the Deputy Clerk or the Mayor needs to be able to check e-mails for important information daily. The City will work on a policy for unattended computers and confidentiality. It should be pointed out no other person from any other department has access to our computer passwords or programs. The Clerk and Deputy Clerk are the only employees who know the passwords for each computer, and therefore, are the only two that can access the computers and software. If one is gone, the data on the computer history can show when the system was accessed and it would have to be one or the other.

Conclusion – Response accepted.

(D) Interest Earned – At June 30, 2012, \$2,615.62 of interest earned was not properly recorded in the City’s financial statements.

Recommendation – The City should ensure all interest earned is properly recorded in the City’s financial statements.

City of Durant

Schedule of Findings

Year ended June 30, 2012

Response – We have since had the software company record the interest for the certificate of deposit. The City also has the bank printing the certificate of deposit balances on the monthly bank statement and the City Treasurer will reconcile the balances monthly. This should ensure all interest is recorded when the bank posts it to the account. The interest accrues monthly but the interest is only posted annually, not monthly, by the bank. The City does not receive the interest in the account until the certificate of deposit is cashed out or renewed.

Conclusion – Response acknowledged. The City constructively receives the interest when the bank posts it to the certificate of deposit. The interest earned should be recorded at that time.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Durant

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public works and debt service 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 sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Per auditor instructions, (when switching from the old software to the new software), the software support tech set up our system per State code. Therefore, they moved the garbage expenditures from proprietary to public works. With that change, they did not reclassify the budgeted amounts. Therefore, the public works disbursements reflected the garbage expenses, but the budgeted amount remained in the proprietary fund. For 2013, a budget amendment has been adopted to correct this. Corrections were made to the government function as well. Again with the change over in September 2011 from the old software to the new software, the budget numbers were not entered correctly. Since this, the software tech has corrected these two areas. The debt service function overage was caused by a State revolving fund loan. It was understood the loan would not be needed until after July 1. However, the loan was accessed and it was too late to do a budget amendment. The State requires all amendments to be certified to the County Auditor by May 31st of every year. If this was discovered in June, there was not enough time to do a proper amendment with the required public protest. Every effort is being made to ensure this does not happen in this fiscal year. It was a matter of timing between the two fiscal years.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (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>
Scott Spengler, Council Member, Owner of Spengler Auto Repair	Parts and supplies	\$ 1,359

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

City of Durant

Schedule of Findings

Year ended June 30, 2012

- (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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – Except the City’s depository resolution does not include a list of depositories or maximum amounts, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Recommendation – The City’s depository resolution should include a list of depositories and maximum amounts as required by Chapter 12C.2 of the Code of Iowa.

Response – The City Council has since adopted a new depository resolution listing the institutions and maximum amounts.

Conclusion – Response accepted.

- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolution were noted.
- (9) Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2012 of \$314,083.

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

Response – The deficit will be eliminated by the collection of special assessments over the next ten years.

Conclusion – Response accepted.

- (10) Late Penalty Rate – The City’s late penalty rate was not established by ordinance.

Recommendation – The City should establish the late penalty rate by ordinance, as required by Chapter 384.84 of the Code of Iowa.

Response – The ordinance designated the late penalty would be set by resolution. However, the City Council did adopt an ordinance amendment to set up the \$5.00 penalty by ordinance.

Conclusion – Response accepted.

City of Durant

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Tiffany M. Ainger, Senior Auditor
Jessica PV. Green, Staff Auditor
Jamie T. Reuter, Staff Auditor
Tyler J. Guffy, Assistant 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